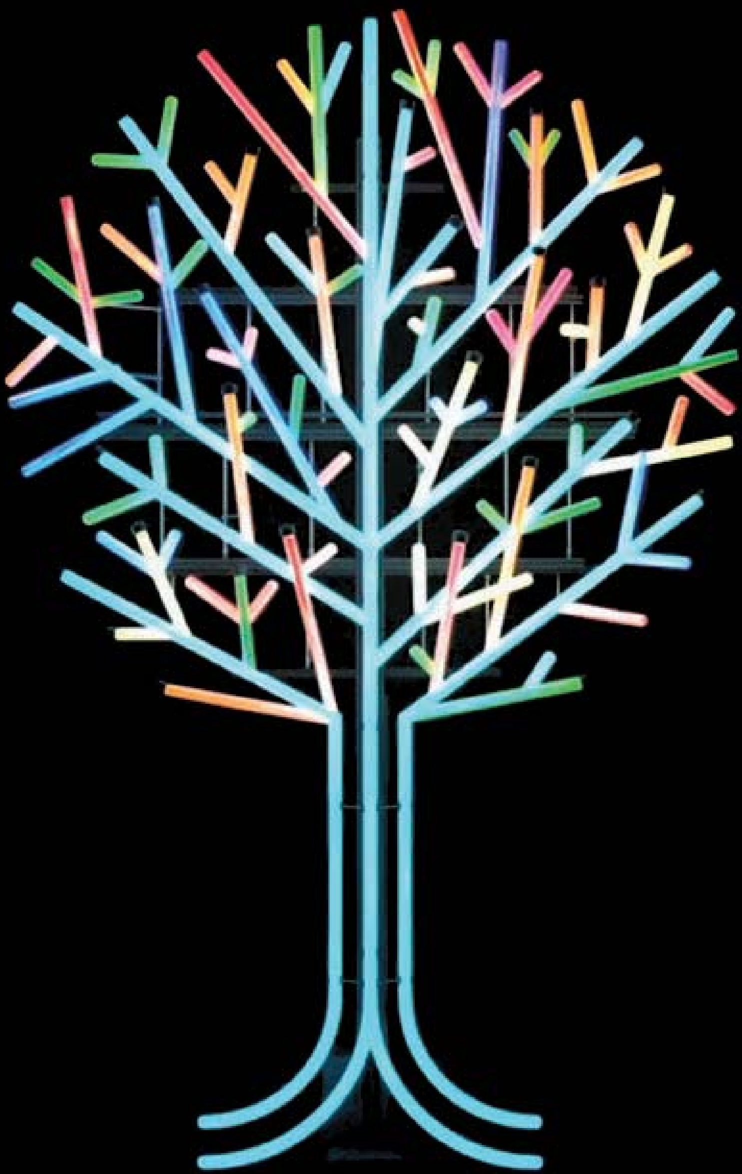
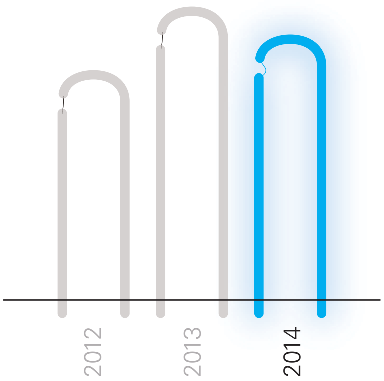
cutting through complexity

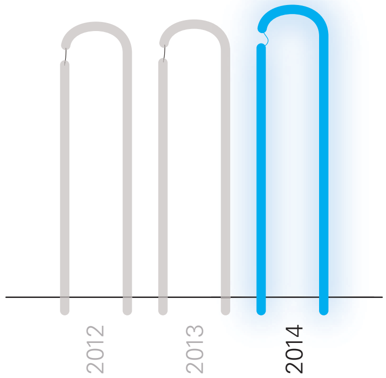


UK Annual Report (including the Transparency Report) 2014/KPMG LLP



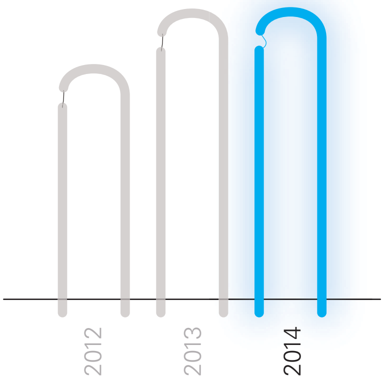
Profit before tax and members' profit shares

£414m
(2013: £455m)
-9%



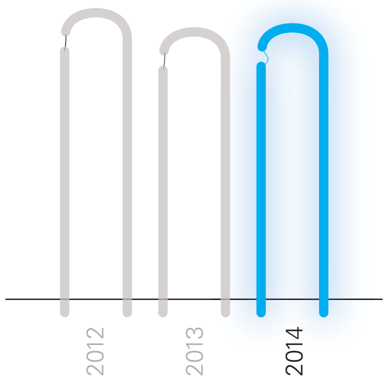
Revenue

£1,909m
(2013: £1,814m)
+5%



Average partner remuneration

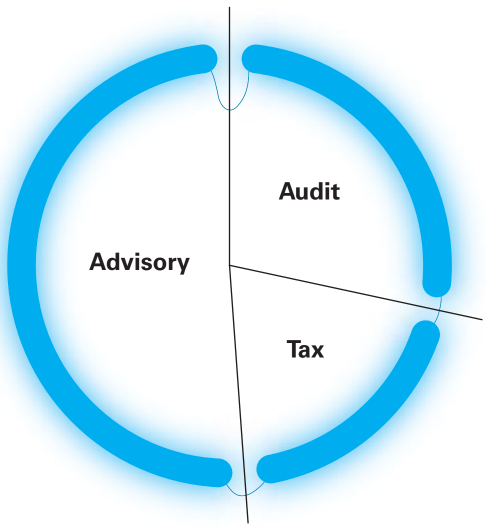
£715k
(2013: £713k)
+0.3%



Total tax payable to HMRC

£711m
(Total taxes paid £105.8m; Total taxes collected as agent £604.8m)

Contribution



Audit contribution
£181m
(2013: £178m)
+2%

Tax contribution
£129m
(2013: £140m)
-8%

Advisory contribution
£324m
(2013: £308m)
+5%

Our people UK employees
(average excluding Partners for FY 2014)
+5%

11,341

Partners

588

Community support Organisations supported

878

Contents

Strategic report

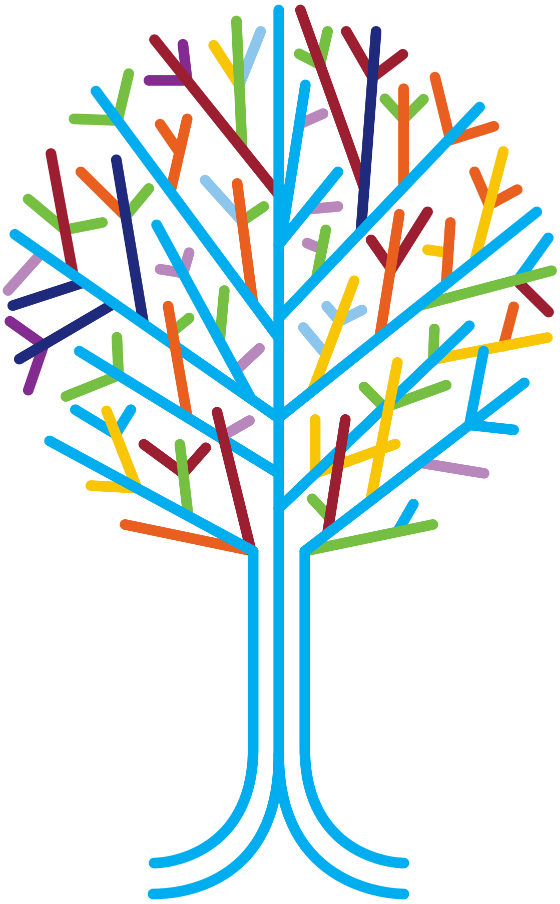
Governance

Financials

Appendices

KPMG in the UK is one of the largest member firms of KPMG's global network providing Audit, Tax and Advisory services. In the UK we have 588 Partners and 11,341 outstanding professionals working together to deliver value to our clients across our 22 offices.

This Annual Report incorporates our Transparency Report by integrating herein the information required to be disclosed in accordance with the Statutory Auditors (Transparency) Instrument 2008 and the Audit Firm Governance Code. Appendix 4 details where these disclosures in relation to both KPMG LLP and KPMG Audit Plc may be found in this Annual Report.



OUR STORY

Our vision

We want to be the **clear choice** by:

- Attracting and keeping the best people
- Winning the best mandates
- Doing the best work for the best clients
- Being the most trusted firm

Our strategy

We're going to get there with our four strategic priorities:

- Be **market-focused**
- Become an **issues-led** business
- Ensure **operational excellence**
- Build the **culture and motivation** to support our vision

Our values

What we believe and how we behave:

- We lead by example
- We respect the individual
- We work together
- We are open and honest in our communication
- We seek the facts and provide insight
- We are committed to our communities
- Above all, we act with integrity

Our purpose

We are here to:

Inspire Confidence
Empower Change

Our strategy and growth priorities

We are two years into a three-year programme to grow to a £2 billion business and last year our revenue increased from £1.8 billion to £1.9 billion.

Market-focused

We prioritise and give relentless attention to our clients.

Operational excellence

We grow profitability by being cost effective, and by allocating our resources efficiently.

Issues-led

We focus on the issues that keep our clients awake at night.

Culture and motivation

We create a high performance culture, guided by our values, where our diverse talent feels included and excels.

Pages 26–27

We have invested in our Strategic Growth Initiatives:

- Technology
- P³ – People Powered Performance
- Cyber security
- Enterprise
- Digital and analytics

Page 26

We are improving Our Deal for colleagues including:

- 122 dedicated people leaders
- Honest performance conversations
- In-year promotions
- E Grade Academy
- Secondment programmes
- Rebalance of bonus and fixed salary

Page 43

Our functions and markets

Audit

Total net sales were up by 2% at £445 million Pages 30–31

Tax

Total net sales were up by 2% at £351 million Pages 32–33

Advisory

Total net sales were up by 6% at £850 million Pages 34–35

Financial Services

Total net sales were up by 6% at £594 million Pages 36–37

Sectors

Total net sales were £439 million, flat on 2013 Pages 38–39

Regions

Total net sales were up by 5% at £586 million Pages 40–41

One Firm Event

24 September 2014, and The O2 arena in London was filled with 13,000 KPMG colleagues, contractors and sub-contractors and an atmosphere of slightly edgy expectancy.

In a real first for a big UK business, we've shut all 22 of our UK offices for the day and brought every single person who works inside KPMG's offices to London for what will surely be seen as one of the most remarkable days in the history of the Firm.

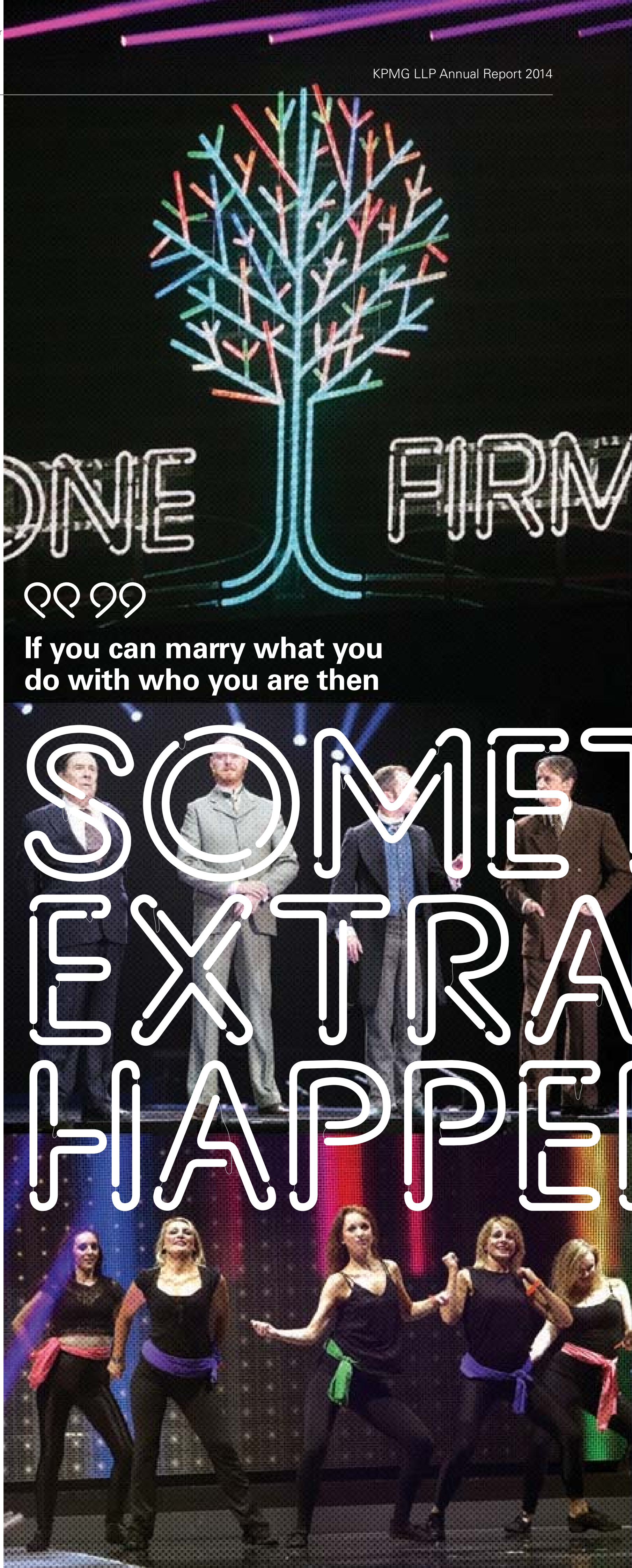
This was a unique event. Few big organisations have ever brought all of their people together in this way, and certainly none in the UK. We wanted to rekindle a sense of collective pride and energy in KPMG; to be inspired and challenged; to think what we could do, together, both for our clients and for society at large whilst celebrating and having fun at the same time. We also wanted to throw the spotlight back on KPMG's Values – putting them centre stage again – and explain Our strategy and Our purpose. With fantastic and inspiring contributions from some big personalities – the day was packed with surprises.

The day was crowned with the launch of Our Deal – our new deal for all KPMG employees – which tackled head on the way we manage and reward our people, for the better.

With a string of additional special benefits – from preferential banking and mortgage arrangements, to help with student loan payments and 'a day off on your birthday' – Our Deal puts us at the forefront of engagement programmes in our industry. Like the One Firm Event itself, it is a powerful demonstration of our commitment to keep investing heavily in our people. They make KPMG what it is today, and what it can be in the future.

And some of the most powerful words came from KPMG people themselves as they talked about their work and showed vividly the breadth and meaning of the work we do in the UK and beyond. It was, quite simply, an extraordinary event. It was a powerful reminder of the extraordinary collective power of our organisation.

The One Firm Event and Our Deal demonstrate that we'll continue investing in every one of the talented individuals who make up our Firm.




Market Focus
Issues Led
Operational Excellence
Culture & Motivation


THING
ORDINARY
NS
Inspire Confidence.
Empower Change.

Policing in Northern Ireland

In a project that tested the resolve and courage of both the client and KPMG, a joint team of consultants, police officers and their staff successfully implemented a large-scale change programme affecting over 40% of Northern Ireland's population. 'Service First' reduced crime investigation times by half, improved call attendance times and increased the number of arrests through targeted, proactive policing, proving that it is possible to 'do more with less.'

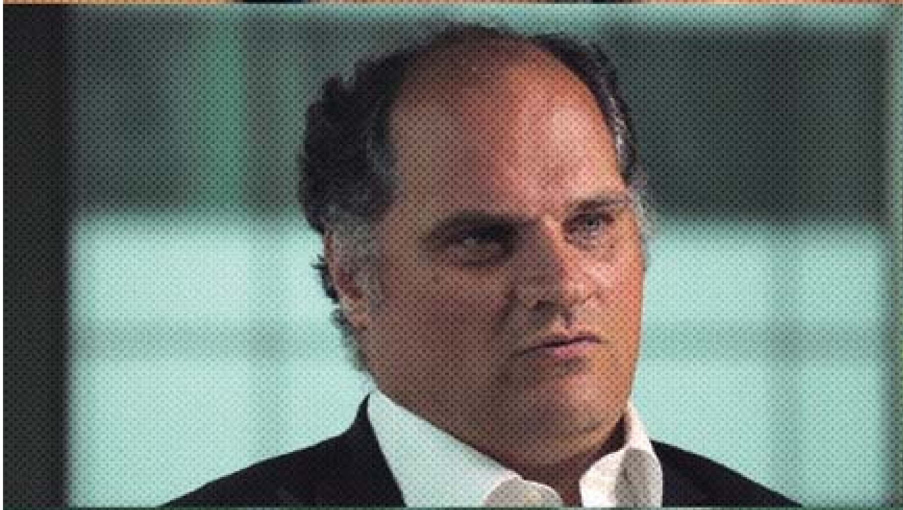
Despite the most volatile summer marching season in three years, the threat from dissident republicans, and the huge challenge of policing the G8 summit, the Police Service of Northern Ireland needed to manage a shrinking budget whilst improving performance. KPMG consultants quickly built the trust and confidence of the client, by creating a joint team, bringing in a rigorous analytical methodology and taking part in (sometimes violent and frightening) patrols.

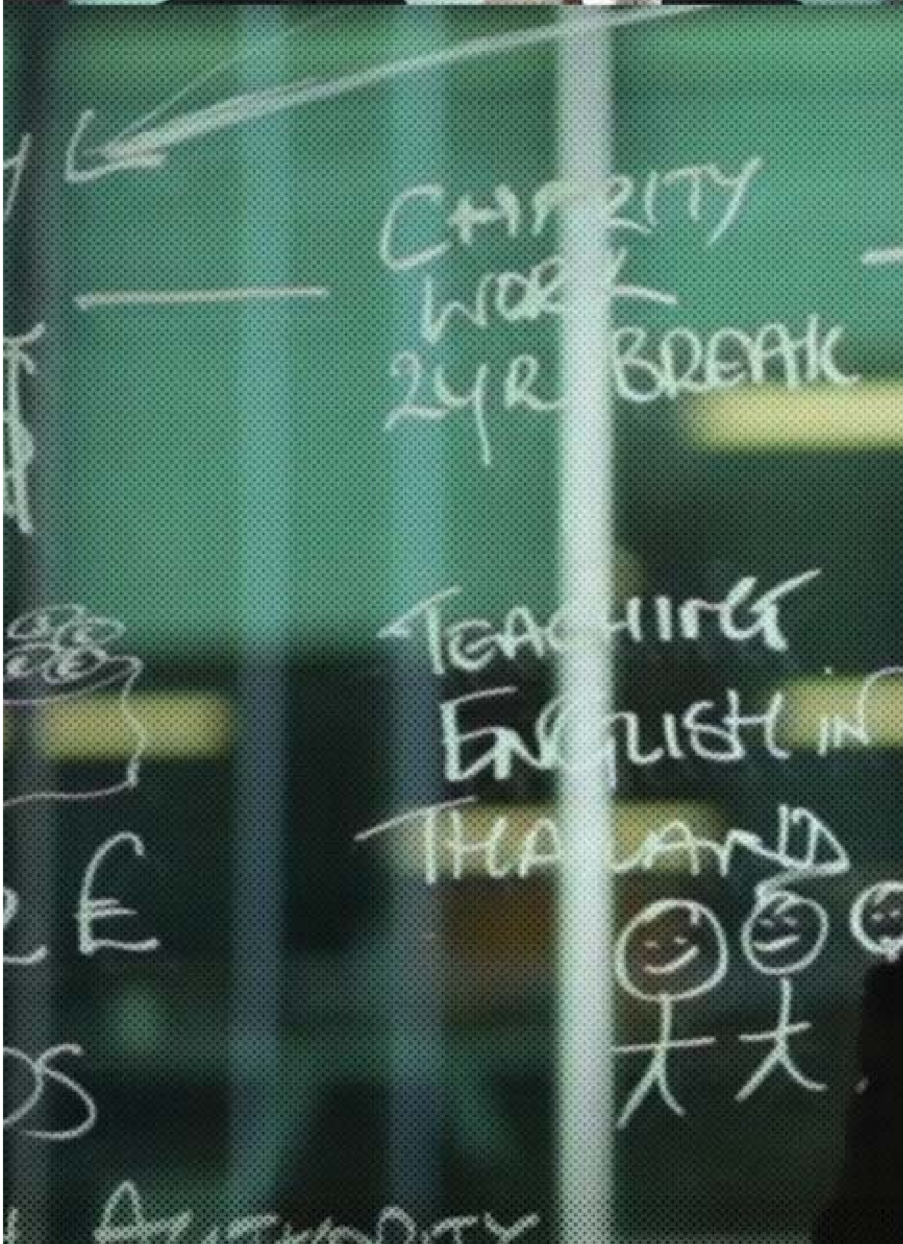
The greatest challenge was to gain support for change from all stakeholders from the Chief Constable through to front-line police officers working with KPMG each day. This could only be achieved by proving the resilience of the new model in real-life policing situations, and adapting the solution until the joint team had full confidence to go-live.

Crucially, the service now has a group of officers with the change and project management skills to sustain momentum independently, thanks to strong knowledge transfer from KPMG. The service as a whole can adapt to budget cuts, not by slicing services but by delivering them more innovatively and efficiently.

Helping Northern Ireland's police do difficult work was a challenge for KPMG's Rory Leyne. By listening and learning, he produced a plan that was able to help them work more efficiently.

FORCE OF PERSONALITY





Remediation project – a chance to shine

After an early career in money-broking and two years working for a charity in Thailand, Gayle Sutherland returned to London looking to re-launch herself in a new career but was not entirely sure which way to go.

She came to KPMG for an interview and was quickly offered a post as a float secretary in our Audit practice, a job she did for a year. She then became a Partner secretary, but after 10 months knew she wanted a bigger challenge. She sought advice from a senior colleague who, having been through her CV and talked to her extensively, recognised her ambition and helped her find a new role.

She became part of a remediation project for a major bank involving over a 100 staff over a two-year period reviewing past transactions. To complete this huge project we've had to call on people from right across the Firm with multiple skills, and for some, like Gayle, it's been a chance to test out a new career path.

Increasingly, it's our goal to offer people more opportunities to move within the Firm, learn new skills and widen their experience as their careers develop. For instance, from 2015 we have committed to offering 300 secondments a year to people in our E to C grades, including opportunities to work abroad.

"Working on the remediation project has shown me that I am capable," says Gayle. "I see the role I'm currently in as a stepping stone to doing something else in KPMG."

Plotting a career is not always plain sailing. You need to be resilient, to keep challenging yourself and pushing yourself on.

"Sometimes when you get a kick to your confidence it can be hard to bring yourself back up," she says. "You've just got to brush yourself off and say – OK, next challenge!"

At KPMG, we're committed to offering our people more opportunities to move within the Firm, learn new skills and widen their experience.

A CHANCE TO SHINE

The long road to cyber safety

It took KPMG Partner, Charlie Hosner, six years to get from Detroit to London – an adventure that took him first to Malaysia and then right into the middle of one of the biggest cyber security attacks of our time.

In 2008, after three years with the Firm, Charlie decided to leave Detroit and start a new life with KPMG in London. Just as he was about to depart, the financial crisis hit and the move was cancelled.

Back to square one. Until a Partner from KPMG in Singapore offered him a post. He went for it, but things quickly changed again. He was asked if he could stop off on the way in Malaysia to work on a 'short assignment' helping a large energy company to devise a cyber security strategy. The company had been experiencing problems for some time and didn't know how seriously to take them.

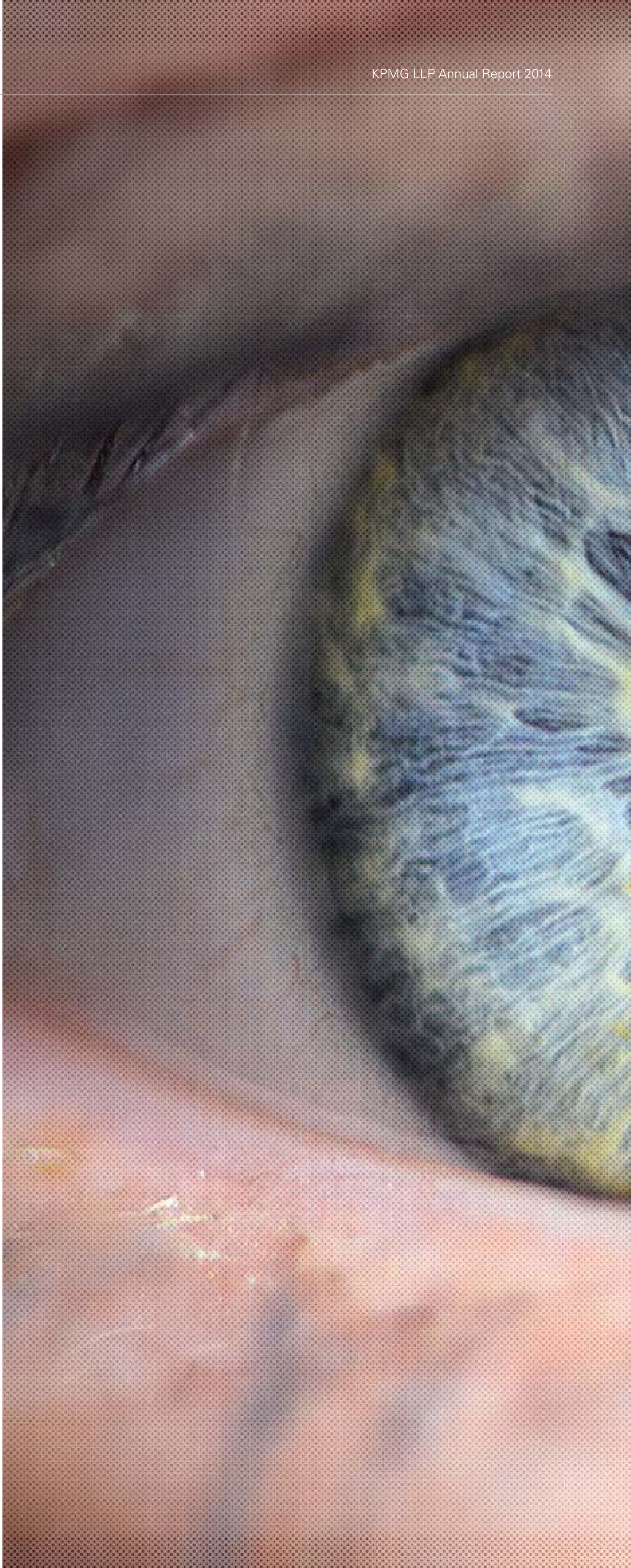
It soon became crystal clear. A fortnight into the assignment we had found two rogue administrators had written a script that started systematically erasing servers. Shortly afterwards the company's entire global network was shut down and it was offline for a week.

About 100 days into Charlie's 'short assignment' an even more severe threat emerged, a full-on cyber attack by a foreign state, one of the first and biggest examples of cyber espionage. The attack was massive, infiltrating their system at every level. It took two years and a team of 50 to put the company back on the front foot.

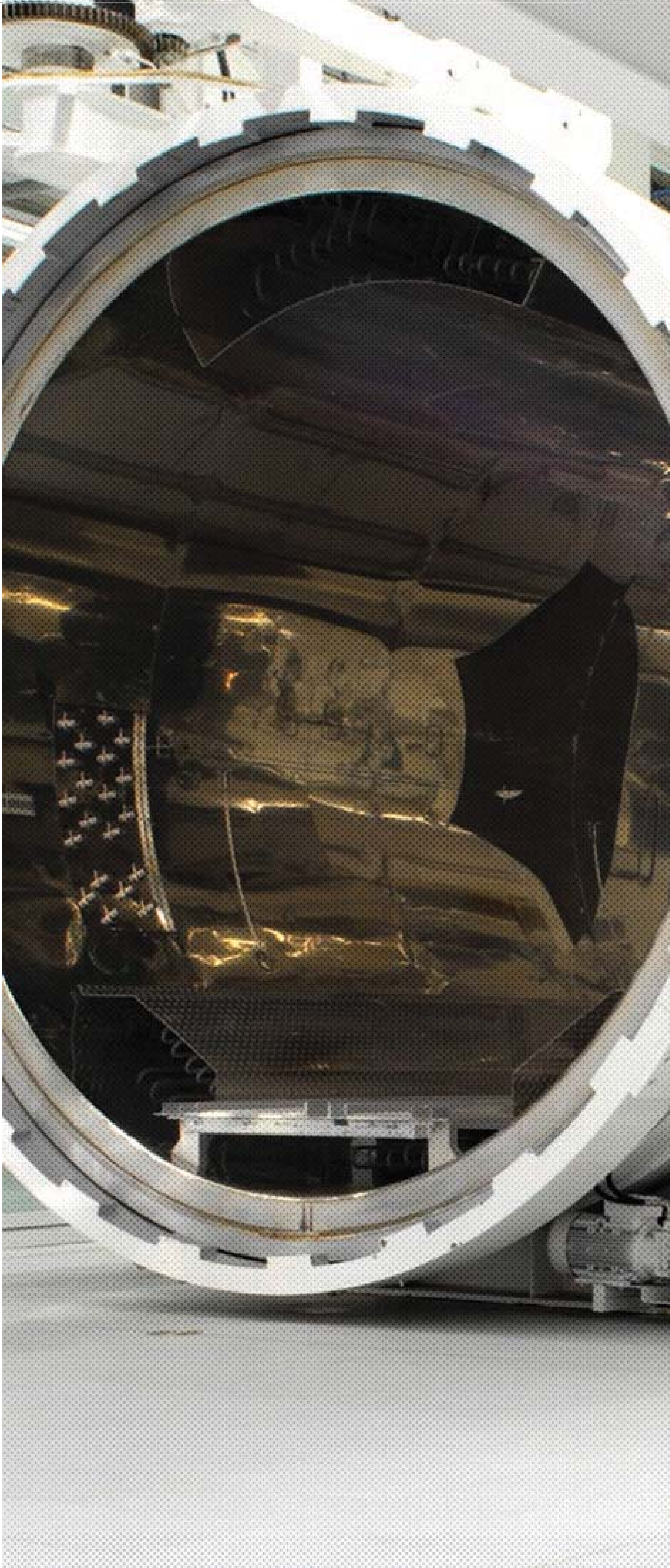
As Charlie puts it: "It was one of the biggest challenges of my life, my confidence was regularly shaken, but together we came through it."

Cyber attacks of this kind are becoming increasingly frequent, and these days they are as likely to be focused on vital national infrastructure – like transport, energy and water – as individual companies. It's one reason why KPMG has made it a goal to build the leading Cyber Security practice and our experts, like Charlie, are at the forefront of a battle that is of huge political and commercial importance.

Charlie Hosner's Singapore stopover quickly escalated into managing a full-on cyber attack. He now helps KPMG deliver the insights businesses need to manage this key issue.



THE LONG ROAD



Ground-breaking strategic alliances

To drive innovation and enhance our existing technology capability we have invested in two market leading alliances. Both offer our clients the opportunity to achieve breakthrough performance through embracing modern technologies.

Our 10 year strategic alliance with McLaren Group combines our industry experience and business insight with the high performance technical skills and culture of McLaren Applied Technologies' (MAT).

As the pioneer 'Innovation Partner' of the McLaren Group, we will jointly develop a unique range of audit and advisory services. By combining the leading edge predictive analytics capability of MAT with our own data and analytics expertise, we are set to transform our approach to audit to deliver greater quality, value and actionable insights.

Similarly, we will work with MAT to help our clients from all industries solve complex operational challenges in areas as diverse as international supply chain, manufacturing and R&D.

In alliance with Imperial College London we have created the KPMG Centre for Advanced Business Analytics. The last two years have produced more data than in all previous history.

By committing £20 million into this relationship we'll put the UK at the forefront of data science and help our clients turn collected data into connected data that offers valuable insights.

Over an eight-year period, Imperial faculty staff and students will work with KPMG using data and analytics to solve complex client issues. Together we'll generate economic and social benefits for our clients, the Firm, and the UK. A clear expression of this ambition will be our work in the Global Data Observatory, a facility that enables potentially valuable data patterns to be visualised.

These two important alliances could transform data science and business analytics; placing KPMG at the heart of technological change, imagining a future beyond what is currently possible.

These two important alliances will transform our audit and advisory business and put us and our clients ahead of the curve. We work together to drive information and embrace modern technology.

AGENDA-CHANGING

Awards endorse our new approach to audit

Taking risks can bring great rewards, and that has certainly been the case with our decision to go out on a limb and pioneer a new approach to audit.

With an accent on improving the transparency of company accounts, our New Audit Opinion approach, launched this year, is now gaining wider support and has seen us scoop some important awards.

We dominated proceedings at the Investment Management Association's Audit Reporting Awards 2014, winning three of the six awards and were commended in five. This was a superb achievement, not least as the awards, sponsored by Schroders, set out specifically to reward 'transparency and excellence' in audit reporting.

In the FTSE 100, FTSE 250 and AIM categories we won all three 'Insightful' awards for our reports on the Rolls-Royce, Rathbone Brothers and Stobart Group audits, respectively. Rolls-Royce was one of the first clients we tested our New Audit Opinion approach on during the year, before offering this service to all our clients in September.

We were commended for our audit reports on many clients including ITV, Kazakhmys Minerals, Merlin Entertainment and New World Resources.

Reflecting on a night of triumph, Tony Cates, Head of Audit, said: "The truth behind this success lies, as ever, in the team working well together and being bold and I feel proud to be associated with that team."

"We have much to do to persuade everyone that we are on the right route forward with our new approach to audit, but tonight gave us encouragement to forge ahead."

By being open and honest, right from the initial contact, Robin and the team built a strong relationship that led to a number of tax engagements.

The power of relationships

Two years ago we had no relationship with Alltech, an international success story in animal health and nutrition. That was until Harvey Perkins, a Tax and Pensions Partner, chatted with their CFO while sitting next to him on a flight to the UK. Picking up on the group's international needs, Harvey introduced Robin Walduck, an International Tax Partner.

Headquartered in the US, Alltech operates in 128 countries, though much of its global finance function is based in the UK. At a time of rapid growth, the company wanted a service provider that could meet a broad range of business needs, including audit, tax and transaction services, while working seamlessly across functions and borders.

Following the initial contact, Robin and his team cultivated a trusted relationship with the group and won a number of tax engagements. The opportunity then arose to pitch for their audit, so we put together an impressive joint UK and US team.

The pitch process included an interactive discussion of the client's risks and the creation of a risk map to tailor the audit approach for 2014. As well as enabling our discussion to focus on the mechanics of performing an audit, this approach also helped us understand the sector and the specific business issues facing Alltech. After a couple of months of discussions, Alltech appointed KPMG. They valued our deep sector knowledge and the insight they recognise we can bring to the business.

"The client was impressed with the quality of the proposal presentation and how quickly we built trust and rapport. The team had the right credentials, good chemistry and came across as engaged and eager," said Robin Walduck who is now Alltech's Global Lead Partner.

"To win an audit of this magnitude – from start to a decision in a couple of months – clearly demonstrates the importance of relationships when it comes to winning mandates. It also shows the power of a one Firm approach," said Richard Broadbelt, Lead Audit Partner.

Alric A Blake, the Vice President and CFO of Alltech Inc explains, "When we decided to maintain and grow our competitive advantage we needed to align with similar organisations, who are at the top of their respective fields and had similar attributes as Alltech. Culture, global scope and capabilities. KPMG, we believe, is such an organisation. Our experience with KPMG confirms that we were right in making the change as in a short period of time they have built strong relationships throughout the regions and in our organisations, and they are already seen as a truly valuable partner. I believe this will be a long lasting and mutually beneficial relationship for both organisations."

POWER OF RELATIONSHIPS

Chairman's statement

Simon Collins
Chairman and Senior Partner
KPMG in the UK

The second year of our three-year programme to transform KPMG in the UK has seen us invest heavily in the business and our people to create a springboard for growth in the year ahead. The plan is on track, but we have a great deal more to do to see our long-term strategy through.

In my first year as Chairman, I set out our three-year 'grip, build, grow' plan to transform KPMG in the UK as part of a long-term strategy to become the clear choice in the professional services sector.

In 2013 we gripped the business, making the necessary changes in our structure, organisation and resources to restore profitability on a permanent basis.

With that done, the focus in 2014 switched to building the business and creating a springboard for the final growth phase of the plan, which has already started to take effect this year.

In the last 12 months our job was to learn to grow again, without cannibalising profitability, and to do that through intense investment in people, new technology and in acquisitions and alliances which will boost our capabilities in areas that address our clients' most pressing needs. We have also learned to take risks again.

The job of building the Firm is a continuous one, of course, but we have largely achieved what we set out to do in 2014 and the benefits of that work, and the consistent approach we've taken, are clear to see in our results for the year. Whilst we achieved 5% increase in revenue, profits then (before taxation and members' profit shares) reduced by 9%, reflecting increased investment in our clients, our people and our future growth.

We'll achieve that growth by holding fast to our strategic priorities. That means focusing on our key target accounts, helping clients to overcome the issues they face and to grasp opportunities opening up for them; achieving operational excellence in all we do; and continuing to build a highly motivating workplace and culture within which KPMG people can bring their whole selves to work and therefore achieve their full potential.

Chairman's statement continued

Rebooting the Firm

Another priority in the first year of the plan was to re-engage the partnership, restoring to it a true sense of both sovereignty and democracy so that our Partners can focus – as they should – on creating a lasting and proud legacy for the Firm. That process involved a number of important changes, not least reforms to Partners' remuneration and to our system of governance.

With Partners re-energised by those changes, our priority this year was to transfer that renewed sense of purpose to colleagues across the Firm. We did this through a wide range of initiatives, culminating in the One Firm Event at The O2 arena in London in September.

The One Firm Event, which saw us close all 22 of our UK offices and bring 13,000 KPMG colleagues, contractors and sub-contractors together for a day, was entirely funded by Partners – an investment in our people made willingly and with a sense of great joy. And it was quite simply superb.

For me the event was about rebooting the Firm. I wanted people to witness the collective power of our organisation, to learn about our roots and our heritage, to hear stories about the great things we have done through our history and the difference we continue to make, both for our clients and for society.

It was also an opportunity to re-launch our values. Those powerful values have remained unchanged for many years, but recently we've given them less emphasis than they deserve. It was time to put them back into the spotlight and they are once again promoted and displayed in all our offices, as they should be.

I'm delighted that the One Firm Event was such a success. I know many people, like me, woke up the next day feeling part of a very special organisation – one with the power to achieve great things. There's been a palpable buzz across our offices ever since.

A new deal

To achieve our vision of being the clear choice for our clients, we also need to be the clear choice for talented people looking to build a career in professional services. That means we have to compete hard and in increasingly sophisticated ways to recruit and retain the talented people we need. The new deal, we think, puts KPMG at the forefront of staff engagement programmes, recognising the changing nature of the world of work.

In creating the right culture for our success, diversity matters too. We've been a little slow in the past to back our commitment to building a truly diverse workforce with the right kind of targets and action. I'm delighted that we have now introduced some of the most ambitious diversity targets in our industry, with specific commitments on gender, sexuality, ethnicity, race and disability. By doing so, we are now in a position to build a workplace that really reflects the world in which we live and work.

Putting clients at the heart of the business

The professional services world has become a buyer's market. Our clients now have a much wider range of advisers to choose from, making it easier to switch from one to the other as they try to find solutions to their most complex problems.

In this much more fluid world it's not the quality of our technical skills that sets us apart – they are, by and large, a given. It is the experience our clients have of working with us, the depth of our relationship with them and our brand that really differentiates us from our competitors. We're clear that we can only address these three issues successfully if we put our clients at the very heart of our business.

In the last 18 months we've taken steps to ensure that we do just that, culminating in the creation of a Client Council – a group of 25 of our most senior client-facing Partners, drawn from across the country.

Average Partner remuneration

£715k
(2013: £713k)
+0.3%

Chairman's remuneration

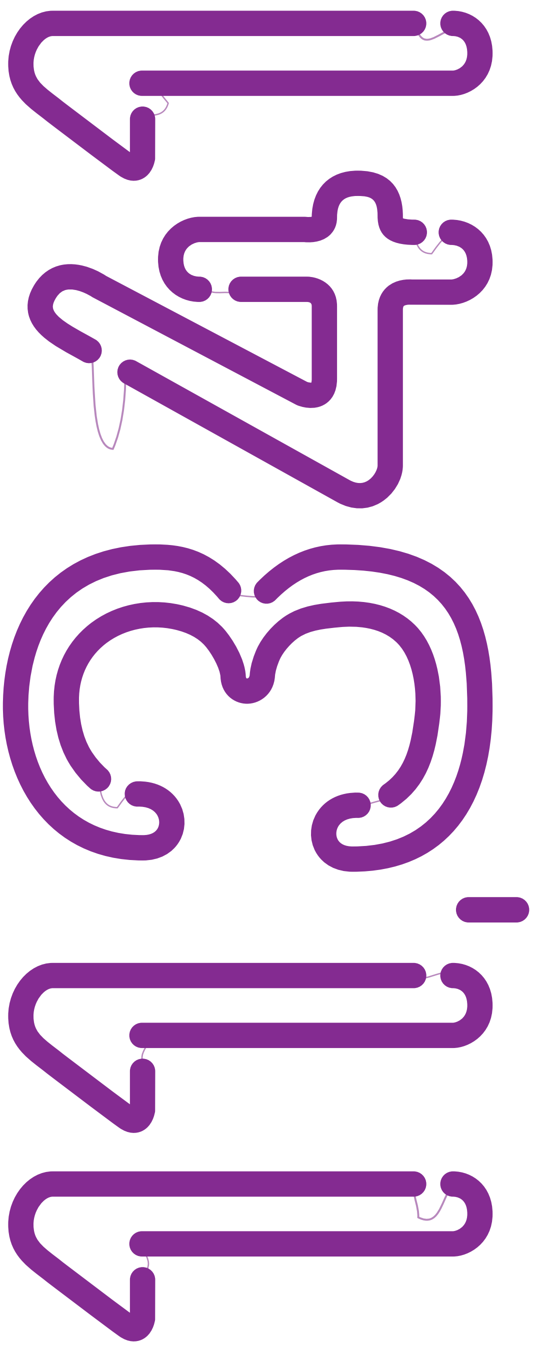
£2.5m
(2013: £2.4m)
+4%

Employee bonus pool

£80m
(2013: £73m)
+10%

I wanted people to witness the collective power of our organisation, to learn about our roots and our heritage, to hear stories about the great things we have done through our history and the difference we continue to make, both for our clients and for society.

UK employees (average excluding Partners for FY2014)



The Client Council works as an independent body supporting our ExCo (Executive Management Team) and Board to ensure that the client is always at the forefront of our minds as we plan our investments and growth strategy.

The Client Council is overseeing an extensive work programme to help improve the breadth and quality of our client relationships and the client relationship building skills of our people. We have also introduced a new and more comprehensive client feedback programme that asks our clients for feedback after every single engagement. This is transforming the way we interact with our clients by putting their voice at the heart of our service delivery.

We believe that we are the only Big 4 firm to have created a Client Council. That sends a strong signal to our clients and the wider market. We've always talked about being client-centric; now we're determined to really live and breathe it.

A strategic focus on growth

Much of the focus for our investment during the year was on five new, multi-disciplinary strategic growth initiatives (SGIs) – investments that capitalise on our clients' evolving business needs and priorities in a fast-changing world.

The SGIs underpin our determination to act as one Firm – drawing on skills from across our functions – and our equal commitment to be an issues-led business, anticipating and responding to the real risks and opportunities facing our clients. They represent a new way of working.

They include Cyber security – one of the most pressing concerns for business and governments and an area where we have established the market-leading practice – and Digital & Analytics, tackling the many ways traditional businesses are now going to market online. We also launched Enterprise this year, which uses technology to deliver our expertise in the middle market at an affordable rate to smaller businesses. Enterprise creates an eco-system: the innovation we are progressing with smaller companies, will feed our middle market practice.

During the year we made a number of tie-ups to support the SGIs, including an exciting Digital & Analytics alliance with Imperial College London that will help our clients go beyond the data to solve complex issues. We also became the sole service provider for Xero software to help us cement our position in the SME market and bolster our Enterprise offering. Further significant transactions are in the pipeline, because we recognise that they can help us augment our organic growth and capture market potential. We have kicked-started our 2015 financial year with a ground-breaking strategic alliance with McLaren Group. McLaren has developed world class expertise in predictive analytics, high performance design and technology development. This expertise, combined with their ethos of constant innovation, attention to detail and determination to win, enables us to complement our already extensive capabilities.

Chairman's statement continued

We are also extending our existing services to meet client demand. A great example is the licence we obtained from the Solicitors' Regulatory Authority to provide legal services. This recognises that many of our clients – particularly in the middle market – would prefer to go to a one-stop shop for all their services, rather than hire accountants and lawyers separately. We see considerable growth potential here.

Audit – a new world

As the auditor to the most UK-listed companies of any firm, audit remains the absolute bedrock of the Firm. Although we are in the business of providing assurance in the widest sense across our functions, the trust placed in us by regulators, companies, investors and society to provide opinions of the highest quality springs primarily from our role as auditors.

The world of audit has changed radically though in the last 12 months, with the introduction of new compulsory re-tendering rules in the UK. We have seen more churn in our market place in the last year than at any other time in our history as a result. This is the new norm.

We are responding to these changes actively, dedicating significant resources into our marketing, and have emerged from the first turbulent year with some fantastic successes. We were particularly delighted to win the Unilever, Smith & Nephew and Compass Group PLC audits. Significantly, only 10 FTSE 350 companies re-appointed their auditors during the year. Six of them were KPMG clients – a remarkable result, of which we are very proud. Although we lost some audit clients, we have worked hard to build on our trusted relationship with them to offer other services.

But we've gone much further. During the year we announced a radical new approach to the audit report, which we believe will greatly increase the transparency of company accounts.

Going beyond regulatory demands for greater disclosure, we have now tested a new form of audit opinion which includes a detailed, qualitative commentary from the Lead Partner on the major findings from our Audit that are of concern to management, audit committees and investors. Having tested this approach on a number of clients, including Rolls-Royce, we have now offered all our listed clients the chance to publish such an opinion with their accounts.

The response has been mixed. It has been well received by regulators and investors and been embraced enthusiastically by some clients. Some clients, however, have been a little more cautious. A few have been hostile.

But for us this is all about building a renewed sense of trust in the audit process – one that is clearly called for in the wake of the financial crisis. And it plays to an important and much wider agenda about restoring society's basic trust in business. With our new approach to audit and our recent alliance with McLaren, we have shown that we are prepared to take risks to bolster trust in what we do. Entrepreneurship and values must work hand in hand.

Trust – the need to act

We must be clear – trust between business and society is substantially broken. It needs to be repaired and rebuilt urgently if we are to achieve sustainable economic and social recovery.

A number of factors will help that process, not least a period without major corporate scandals and a sustained recovery in economic growth. Balanced and well thought through regulation also has a vital role to play.

KPMG One Firm Event at The O2 arena
Below

We are now so much better placed to provide that support to our clients, thanks to the extraordinary talent, dedication and energy of our people and our ability to deploy our skills together as one Firm. We look forward to growing strongly alongside them in the year ahead.

But ultimately the onus is on businesses to fight their way back to the point where they are presumed to be acting with integrity. We won't do that through well-intentioned words and half-measures. It will take concerted action.

That's certainly our starting point at KPMG. It underpins our new approach to the audit. It's why our Tax practice works to a set of published principles and why we are now going further and convening a debate among a wide range of stakeholders about what a modern, ethical and responsible tax business should look like.

On the recommendations of Lord Gold, who we commissioned to review our governance and our values during the year, we have re-energised our commitment to our Values and set up an Ethics Committee to oversee and monitor compliance with the ethical standards to which we aspire.

More recently we have commissioned an independent review of the effectiveness of our Board to ensure that we are working not only efficiently but to the highest standards of governance.

Our approach to corporate responsibility has long gone beyond old-fashioned altruism and fence-painting goodwill projects. Increasingly we are trying to put our skills to work to tackle pressing social problems. For instance we've helped our charity partners, Shelter and Action for Literacy, build their lobbying capabilities so that they can make a real difference in national policymaking.

Our decision to take a lead role in the Living Wage campaign reflects our concern that the fruits of economic recovery must be more evenly spread across society and has paid huge dividends to our business, staff and sub-contractors alike, in terms of staff retention and productivity. And we are making great strides in improving access to our profession, not least through our school leavers' programme, where over a quarter of the young people we've recruited have come from schools we specifically targeted in disadvantaged areas.

Operating as a responsible business is already proving a differentiator for us in the market place, helping us to work with organisations that share our commitment to acting sustainably, such as Unilever. And operating from a bedrock of responsibility gives us not only a licence to operate day-to-day, but the confidence to take the sort of carefully considered entrepreneurial risks from which real and sustainable economic growth can spring.

Looking ahead

Like many of our clients we are now poised to take advantage of an improving economic environment. For them and us, the year ahead should be a time of growth.

The outlook is not entirely smooth. Though significant challenges remain, the UK economy continues to grow, and conditions are far more favourable now in the US and in a number of key emerging markets. Continental Europe, however, remains locked in a low growth cycle, which is likely to persist. Where markets have improved, companies are once again investing heavily and once again doing transactions as confidence returns. But it remains an unpredictable world and our job of helping our clients navigate it is inevitably an increasingly complex one.

We are now so much better placed to provide that support to our clients, thanks to the extraordinary talent, dedication and energy of our people and our ability to deploy our skills together as one Firm. We look forward to growing strongly alongside them in the year ahead.

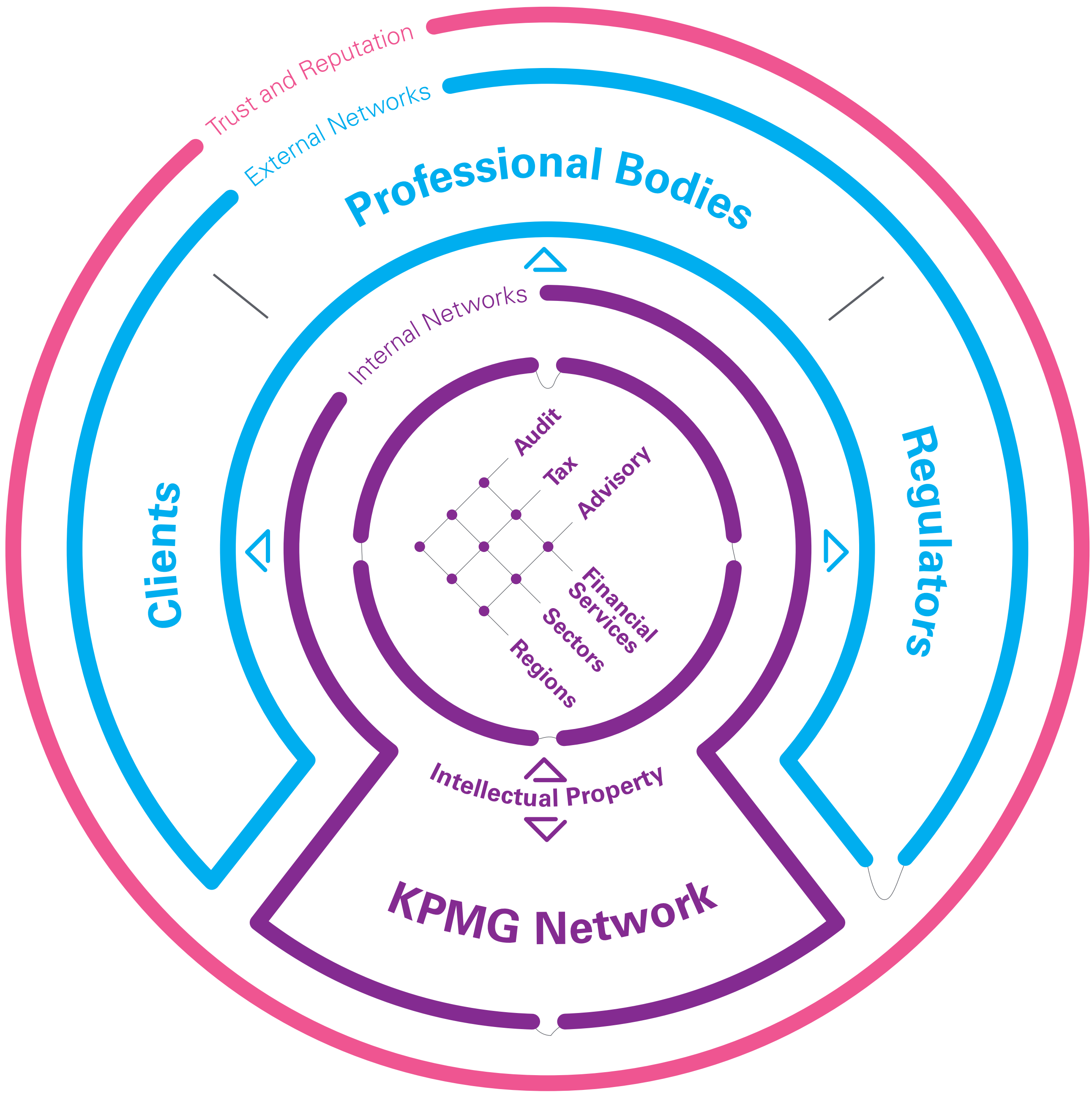
Yours,

Simon

Simon Collins
UK Chairman and Senior Partner

Business model

A network of relationships enables the combined expertise of our Partners and staff to meet, and exceed, our clients' needs. Their experience cements our reputation in the marketplace enabling us to generate sustainable, long-term value.



Our business model depends on our ability to create knowledge and processes that can respond flexibly to changing circumstances and new opportunities in the marketplace. At the centre of this is a network of internal and external relationships. Together, these enable an exchange of information that creates knowledge that has value in the marketplace.

To meet our clients' needs effectively, we have adopted a matrix structure with our three functions – audit, tax and advisory – delivering services to markets segmented by business line. These are financial services, sectors and regions.

Reputation and trust is hugely important and a key factor that supports our business model.

Internal networks

Knowledge is our business, whether it applies to Audit, Tax or our Advisory services. To create value we need to create knowledge from the skills of our Partners and staff. This is achieved when the combined skills of our experts increase the value of each other. This is central to generating revenues across our Firm and re-investing for the future.

Our internal relationships must be mutually beneficial and we can only create sustainable value when it is in everybody's interests to be flexible and share information. We need a degree of stability among our Partners and staff and it is important for our reward structure to reflect merit as well as seniority and performance. As we explain in our section on people and culture on pages 42–45, our goal is to create a secure, fair and inspiring workplace where people feel deeply connected to our values and our overall purpose. Our Deal is a new and radically different pay, progression and benefits package that puts us at the very forefront of people engagement.

We also appreciate that demand is strong for highly trained professionals. A thriving and happy alumni community supports our business model as former employees often work for clients or return to KPMG later in their careers.

It is also important that our values encourage the behaviours among our staff that make our internal networks work.

The following values, in particular, are essential to ensuring internal relationships are mutually beneficial:

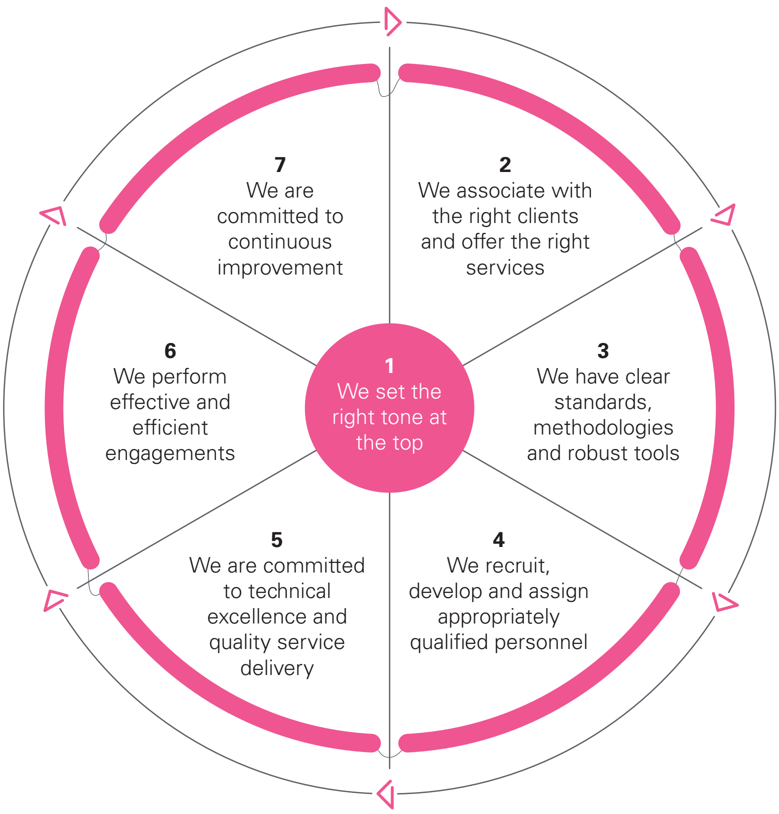
We respect the individual.
We work together.
We are open and honest in our communications.
We are committed to our communities.

Business model continued

Intellectual property
Translating individual expertise into organisational processes is one of the ways we create value and attach it to our Firm. This is demonstrated by our system of quality control.

System of quality control
Our quality control processes are cross-functional and apply equally to audit, tax and advisory. To demonstrate this we have focused on audit to explain the system of quality of control, which codifies the processes, thought and integrity behind the audit report. The framework introduces a common language that is used by KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality. Further details on our system of quality control is included in Appendix 2.

Audit quality framework



International network
We are members of an international network of KPMG member firms. We are independently owned and controlled, but share a commitment to quality standards and common methodologies. Our international network also ensures we can deliver our services to international clients. International firms support the delivery of global audits representing 36% of our Audit net sales. We deliver projects on a global scale and support other KPMG member firms to do the same. 7% of Advisory and 10% of Tax net sales was earned from clients of another KPMG member firm. Further information on our international network is included in Appendix 1.

Reference to risks
- Data loss
- Financial risk

See page 59

External networks

An external network comprising clients, regulators and professional bodies also supports our business model.

Clients
Our most important external relationship is the one with our clients. In the long run, our business model depends on our ability to continually provide a service that is recognised by our clients as consistently high and continues to meet their needs.

Both parties benefit from a relationship of mutual trust. Audit relationships typically last a number of years, although they are renewed annually. Our Tax and Advisory work tends to be project-based and we cultivate enduring client relationships that last beyond individual projects. To manage these we assign overall responsibility for each client relationship to a Lead Partner.

Regulators
To a greater or lesser extent, large parts of our business are regulated and a number of external bodies have an influence on our business model. For example, we implement international policies and procedures that are designed to address rules and standards issued by the Financial Reporting Council (FRC) and the US Public Company Accounting Oversight Board.

Professional bodies
Professional bodies also help maintain standards. A large proportion of our people are professionals and we have a constructive relationship with a wide range of bodies. Our auditors, for example, must hold an audit qualification from a recognised qualifying body.

Reference to risks
- Major litigation or regulatory investigation
- Major regulatory change impacting on our business model

See page 59

The following values, in particular, support our external network:

We seek facts and provide insight.
We are committed to our communities.

The following values, in particular, are important to maintain our reputation:

We lead by example.
We are open and honest in our communications.
We act with integrity.

Reputation

Our ability to compete rests on the talents of our Partners and staff. This is enhanced by our reputation, which creates a virtuous circle by attracting other talented individuals as experienced hires, graduates and school leavers as well as attracting new clients.

Reputation is hugely important in professional services. The quality of the service we provide to our clients is paramount. Unlike some markets where buyers can easily ascertain the quality of the product, companies can only assess the quality of professional services through long-term experience. Our brand and name support our reputation, but it is the long-term experience of our clients that cements it.

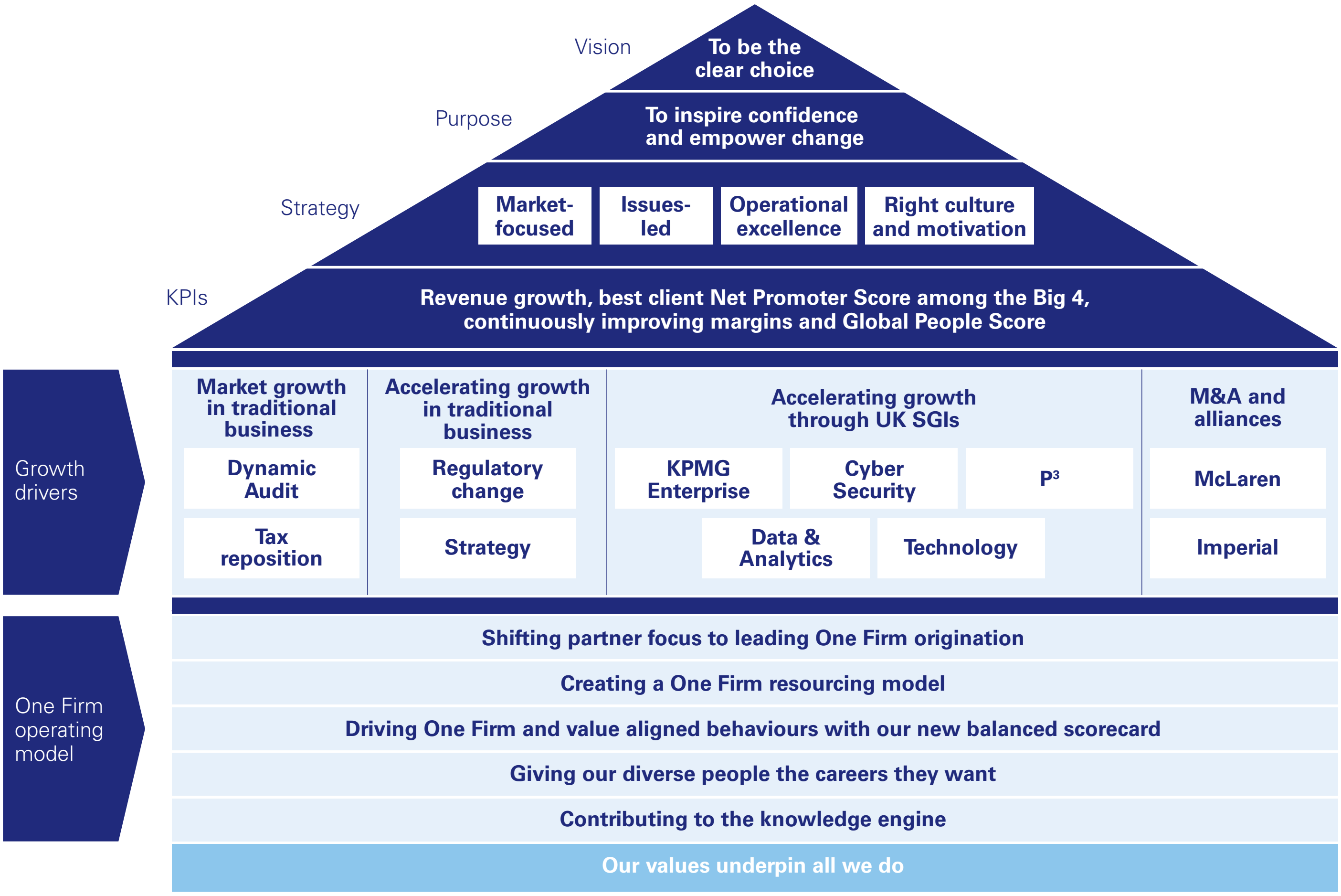
Reputations must be nurtured and protected. By managing our reputation, we have been able to extend it into other markets. Our roots are in accountancy, but we offer an array of services, which continue to drive value. We are also acutely aware that reputations can be lost overnight.

Reference to risks
- Major or multiple audit failures
- Major litigation or regulatory investigation
- Delivering inappropriate services

See page 59

Strategy

KPMG in the UK's strategy



The strategy that underpins the three-year process of transformation we describe in this report is underpinned by one clear ambition – to be the clear choice in professional services in the UK.

As the clear choice we want to be looked upon with respect and admiration not only for what we do but how we do it.

Our people are extraordinary
- We are caring and courageous and share a lasting pride in our Firm
- We are smart, curious and relish a challenge
- We thrive on developing the leaders of tomorrow

Our clients see a difference in us
- We build enduring relationships
- We bring leading insight and innovative solutions

The public trusts us
- We are valued by investors and respected in our profession
- We invest in the communities where we live and work
- We have the courage of our convictions

Strategic priorities

Our four strategic priorities

How we achieve this

ISSUES-LED BUSINESS

We need to focus relentlessly on the issues that really matter to our clients.

By opening wide-ranging conversations with clients and listening to their perspective, we develop a much deeper understanding of all the issues that confront them and not just those that relate to our traditional functional expertise.

We must also demonstrate clearly that our opinions are based on deep research and understanding, and that these are of the highest quality, be bold in expressing our views and unafraid to bring to the agenda issues which others might not yet have thought about.

In the year, the work of the Client Council has continued to enhance the client voice inside our Firm and challenge us on our own thinking.

We have also continued to develop and invest as thought leaders in KPMG SIGHT, our thought leadership hub, and our Strategic Investment Committee has driven our priority areas for investment to deepen our specialisms and capabilities in the issues that really matter to our clients, such as cyber security and data and analytics.

MARKET FOCUS

It is essential that we are totally focused on the market, listen to our clients, and respond to them as 'one Firm'.

Being market-focused is also about having a much clearer view of where our opportunities for growth might lie and being bold enough to explore new ways of operating and investing to achieve that growth, prioritising the profitable and ruthlessly pruning the rest.

These days clients naturally expect us to have market expertise and therefore what interests them more is what extra value we can help them achieve by bringing all of our capabilities together in a seamless way. Another key role is to work with colleagues in KPMG member firms across the world to open international corridors to new high growth markets for our clients.

Many of them are influenced too by our agenda on sustainability and corporate responsibility, say, or our own experience of managing talent, learning, development and reward – they want to work with advisers who share the same progressive attitude to these issues.

We work to ensure that our Partners have the confidence and skills to form close and trusted business partnerships with our clients, and the ability to represent all that KPMG has to offer at the highest level.

CULTURE AND MOTIVATION

Creating the right culture lies at the heart of the transformation we are trying to achieve. KPMG has worked hard over the years to create a high performance culture where talented people can excel.

We strive to ensure that the concept of 'doing the right thing' is embedded in the thought processes and actions of all our staff in all decisions. We are constantly curious – about what we do not know, where we do not sell, and people with ideas we are not familiar with. And we are being bolder in expressing our own views. We want clients to actively seek out our opinions and our advice, rather than wait for us to come to them.

We are striving to make our culture truly diverse and motivating so that we can recruit, develop and retain people whose preferences, values and priorities are likely to be very different.

We know we must nurture the right frame of mind – sharing knowledge must become second nature because it will always increase the total value of what we do.

We know that to get the very best from people we need to be better at engaging our employees. This continues to be a key part of our strategy and focus and was at the heart of our One Firm Event and Our Deal that was launched this year.

OPERATIONAL EXCELLENCE

To excel we need to operate from a platform of secure and sustainable profitability, making sure we are as efficient, agile and cost effective as we can be.

Operational excellence means that we do not for one second take our eye off the focus of being the most efficient, well run business we can be – in terms of cost, managing our commercial affairs, allocating resources more efficiently and sustaining profitability.

To sustain that profitability, we concentrate on securing profitable revenue growth, rather than chasing revenue at any expense.

Operational excellence is also about going to market in the most efficient and value-adding ways, harnessing the collective knowledge of our Partners and clients to create high value solutions – whilst at all times maintaining and enhancing our unwavering commitment to quality.

WORKING TOGETHER

The priorities do not stand in isolation, they are enablers. They work together like four pieces of a jigsaw, setting our transformation plans on a trajectory of rapid change and ensuring that we put clients at the heart of all we do.

We are each committed to leaving the Firm better than we found it.

Financial overview

2014 was all about returning to growth whilst investing heavily in the business and maintaining profitability. We delivered 5% growth in revenues, second highest of the Big 4, as well as investing heavily in our strategic growth initiatives.

This is another step successfully taken on our journey to sustainable, profitable growth. This year was the second year in our transformation journey. We identified five strategic growth initiatives and as part of a three-year investment journey are looking to use them as a spearhead to transform our business as they drive truly cross-functional one Firm behaviour.

Net sales growth was particularly strong in Financial Services at 6% and in the Regions marketplace at 5%. Our major corporates and public sector business was flat year-on-year, however under the new leadership of Richard Gostling we are looking to drive a significant increase in the business. From a functional perspective our Risk Consulting business grew at 21% and was yet again the star performer. Much of this came from the significant interest rate derivative projects for the major financial institutions.

Profit before tax and Members' profit shares

£414m

(2013: £455m)
-9%

Revenue

£1,909m

(2013: £1,814m)
+5%

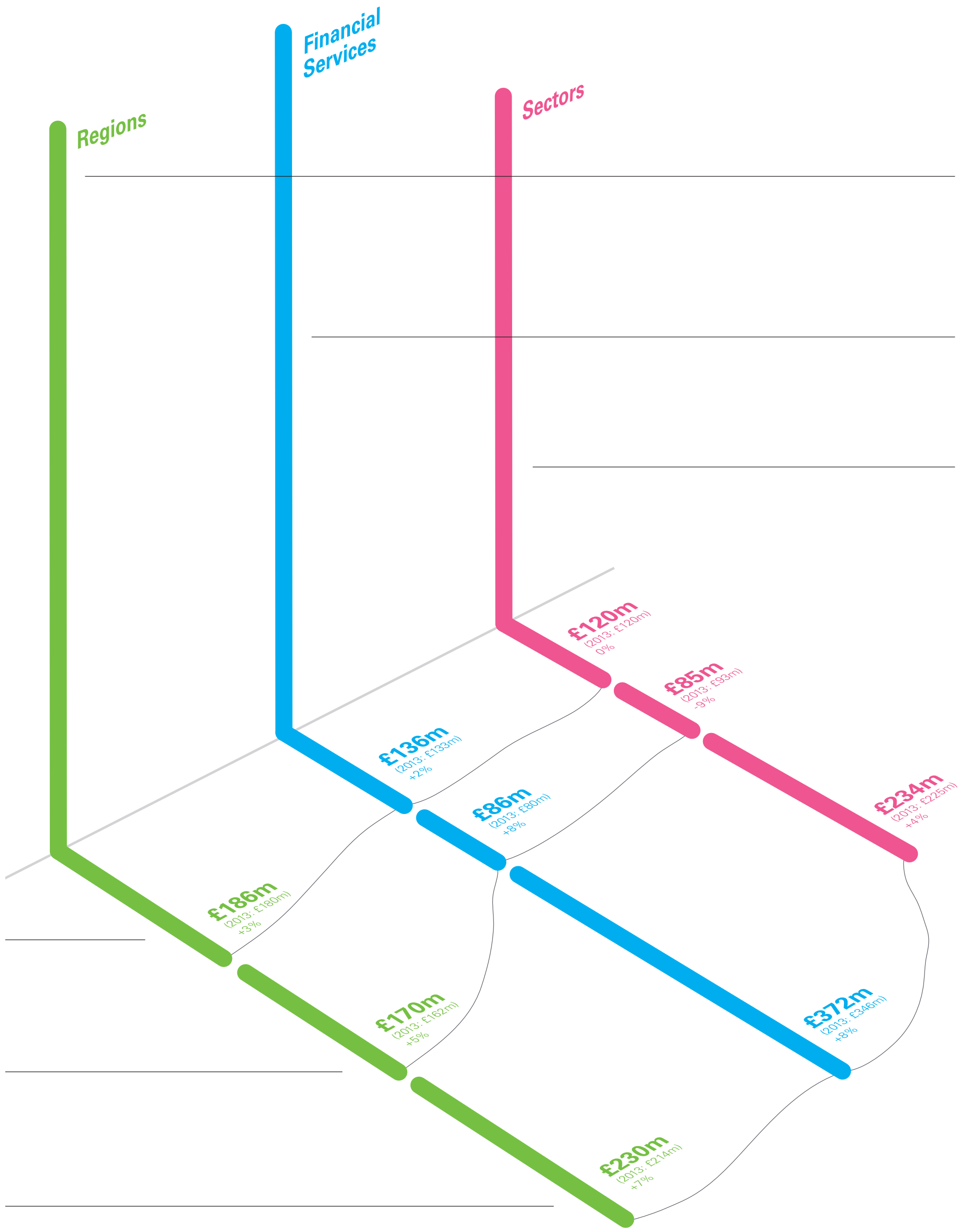
Audit and Tax both delivered 2% growth, which, with the backdrop of audit rotation and EU audit reform, was a satisfactory performance. T&R declined 1%, but this was largely due to the runoff of a very large insolvency project in a previous period.

At 1% growth, management consulting was disappointing.

This net sales performance translated into a 1% improvement in gross contribution. This would have been higher except for the significant headcount investments made, particularly in Tax and Management Consulting which, whilst not essential for FY14, put us in a strong position for growth in FY15.

FY15 is all about harnessing the investments that we have made and completing our journey to profitable growth.

Performance by market and function



Total net sales by:

Regions
£586m
(2013: £556m)
+5%

Financial Services
£594m
(2013: £559m)
+6%

Sectors
£439m
(2013: £438m)
+0%

KPMG International
£27m
(2013: £28m)
-4%

Total
£1,646m
(2013: £1,581m)
+4%

Total net sales by:

Audit
£445m
(2013: £435m)
+2%

Tax
£351m
(2013: £344m)
+2%

Advisory
£850m
(2013: £802m)
+6%

Total by function exclude the sales allocated to KPMG International.

Internal reporting
Our key internal performance indicators are net sales and contribution – revenue net of recoverable expenses and profit before central costs respectively. A detailed reconciliation of net sales to reported revenue and contribution to reported profit is given in note 3 of the financial statements. The reconciliation of net sales to reported revenue is summarised as follows:

	2014 £m	2013 £m
Net sales	**1,646**	**1,581**
Recoverable expenses	236	208
Elimination of intragroup trading	(8)	(7)
Revenue of entities not reported internally	35	32
Revenue	**1,909**	**1,814**

Audit
A letter from Tony Cates, Head of Audit

Tony Cates
Head of Audit

We are living in an extraordinary period of change for Audit. In the last 12 months the UK audit market has transformed out of all recognition. Regulatory reforms – most notably new UK rules on the compulsory retendering of the audit – have created more opportunity in the market than I have ever seen in my career. We saw these changes coming and prepared for them well.

Our long-term strategic aim is to increase our share of the audit market, especially at the top end of the FTSE 100 companies.

With 14 FTSE 100 audits up for tender in the year, we won more mandates than any of our competitors, with six new wins, Unilever, Smith & Nephew, Compass Group PLC and Royal Mail and the retention of Standard Chartered and Old Mutual. Of the three FTSE 100 companies that elected to retain their auditors, two of them were KPMG clients.

Audit
A year in review

There were losses too, including instances where companies decided not to invite us to retender reflecting EU rules, but our relationships with these companies remain strong and we continue to provide other services to them, not least internal audit advice – a business we see as having very good growth potential in the years ahead.

Our win rate outside the UK's largest listed companies was also impressive, where we secured a third of audits up for tender in the FTSE 350. So I'm pleased that one of our major objectives for the year – to build market share – was achieved, although we undoubtedly have a great deal more to do.

Our second objective in 2014 was to re-establish trust in the audit process – something that has clearly been undermined since the financial crisis – and position KPMG as a leader in bringing new thinking to the role of audit in the capital markets as described in the Chairman's statement.

It's still very early days since we took steps to do this and, gauging the reaction to the idea would therefore be premature at this stage. But it's fair to say the reaction from regulators and investors has been very positive and the idea has been enthusiastically accepted by some clients. As with any new idea it can take time for it to be widely accepted and it's therefore unsurprising that others, while expressing interest, have been more cautious, while some remain unconvinced that this is the right way forward.

Net sales

£445m
(2013: £435m)
+2%

Contribution

£181m
(2013: £178m)
+2%

Wins and retentions – FTSE 100 audit retenders

4
Wins

2
Retentions

We also pushed forward the trust and transparency debate by launching a global 'Value of Audit' debate in the UK which comprises a series of candid, personal interviews with KPMG audit leaders from around the world. Working with the magazine, Economia, we are now taking our opinions forward through a global series of roundtable discussions with investors, regulators, and audit committee members. We are committed to an open debate about how corporate reporting, audit and assurance can help to restore trust in business.

Our third priority for the year was to increase the use of innovative technology in the audit process – in effect changing the very core of the way we work. We made some good progress here, and subsequent to the year end have entered into an alliance with McLaren Applied Technologies, a move that will enhance both the quality and value of audit.

The quality of our audit work is a constant focus for us – it is ultimately where the trust placed in us, by clients, regulators, investors and society, starts from. In the year it was also noticeable that quality was the deciding factor in awarding many audit mandates, rather than price.

We were delighted to have been singled out for praise in a Citi Research report on the quality of audit reporting: a timely review by recipients of audit reports of the profession's implementation of new long form audit reports in the UK. In addition, we are striving to improve our audit quality and in that respect we will be continuing to monitor our performance through our internal processes alongside the Financial Reporting Council and other regulatory reviews. See Appendix 2.7.2.

All this only proves how vital it is to maintain our relentless focus on achieving the very highest quality in our work. As we continue our efforts to boost our market share in a turbulent market, that focus on quality will continue to be the top priority for us in the year ahead.

And we are extremely proud to have seen our work recognised in the form of winning a number of industry awards in November 2014. We won all three sub-divisions in the 'most insightful' audit reports category in the Investment Management Association's inaugural Auditor Reporting Awards and our audit Partner, Jimmy Daboo, received the highly prestigious 'Outstanding Industry Contribution' award at the British Accountancy Awards.

Yours,

Tony

Tony Cates
Head of Audit

Tax
A letter from Jane McCormick, Head of Tax and Pensions

Jane McCormick
Head of Tax and Pensions

The tax and pensions landscape continues to change rapidly and our task, within KPMG's overall three-year transformation plan, has been to reconfigure our Tax and Pensions practice to reflect this evolving environment.

Our strategy has been to build those parts of the practice addressing changing market conditions, notably corporate tax management and governance.

Compliance remains a huge area of focus and so we have invested further in our Tax Centre of Excellence in Glasgow and additionally in a satellite centre in Birmingham. We have continued our expansion into areas related to tax, most notably in legal services but also through the development of new technology – for example in KPMG Fusion, our award-winning cloud-based pension modelling tool launched this year.

The pace of regulatory change – not to mention the ongoing political and public debate about corporate taxation – suggests that this focus on governance and compliance together with reviewing operating models is the right strategy and Corporate Tax & Legal are the fastest growing area of our business in the last 12 months, with net sales up by 5% and 47% respectively.

Part of that growth has been driven by inbound investment in the UK by companies looking to operate in a more favourable corporate tax environment created by government reforms of the last few years.

International tax is evolving particularly rapidly. The OECD's Base Erosion and Profit Shifting (BEPS) programme and other national regulatory initiatives, mean that many organisations are now fundamentally rethinking their approach to taxation.

1 From KPMG's Tax Purpose Statement 2014

Tax
A year in review

Our tax purpose

"Our approach to tax advice can be summarised as follows: Responsible tax advice for the common good. Enabling sustainable tax outcomes that contribute to the overall benefit of society.

KPMG tax commits to play its role in giving citizens confidence in the tax system and that tax experts can come together to help create an equitable and sustainable system both now and as society, the economy and global business models change." From KPMG's tax purpose statement 2014

Net sales

£351m
(2013: £344m)
+2%

Contribution

£129m
(2013: £140m)
-8%

Other parts of our business have fared less well, however, and our Indirect Tax business – one of the largest in the UK – saw a 5% decline in net sales.

The pending EU Audit Reforms, limiting the number of non-audit services we can offer to the Firm's audit clients, also had an impact on all areas of the business, in particular in Global Mobility Services. So, while we were encouraged by the underlying growth in Corporate Tax, our Private Client business and in Legal Services, our overall net sales growth was only 2%.

Tax remains a politically fraught issue. We have always sought to take a lead role in the debate, helping to shape a responsible tax system. For years we have worked to a set of published tax principles and have operated a Tax Risk Committee – as well as more recently a General Anti-Abuse Rule (GAAR) panel which we established when the UK government introduced the GAAR rules in 2013. Taken together, these allow us to scrutinise the work we do for clients – and perhaps more importantly, to decline work, as we do if it looks likely to breach our principles.

During the year we took this further through an initiative to look at our 'purpose' in relation to tax. Firstly, we began debating internally what a responsible tax business should look like and have developed a Purpose Statement, an excerpt from which is quoted above. We have now begun a series of conversations on the issue with external stakeholders including NGOs, government, businesses and the media, with the aim of publishing a white paper in 2015 to set out the issues, the different points of view, and share a hypothesis of what responsible tax advice and behaviour looks like.

It is vital to us that we are clearly seen – by clients, government, regulators and the public – to be operating responsibly. We take this extremely seriously.

In recent years the Tax and Pensions practice has become an engine room of innovation and technology development, providing not only our clients, but also our internal teams with new tools and systems to deliver improvements and efficiencies across a range of tasks and processes.

New tools of the trade infographic

Among the technology tools developed by our Tax and Pensions practice in the last few years are: KPMG Fusion, an online pension modelling tool that gives companies and trustees up-to-date scheme financial information; EMX Hub, a communication platform which gives each employee a truly personalised space that contains all of their HR information from payslips and contracts to rewards and benefits; and KPMG BIO, combining disparate data sets within an organisation, delivers evidence-based informed analysis about the performance of your workforce.

I mentioned compliance and investment in our Centre of Excellence earlier. We have more than doubled the headcount in our Glasgow Tax Centre of Excellence from 70 people in September 2013 to 164 in September 2014, including six apprentices. In the same period, the number of compliance clients for which the centre is responsible more than doubled from 6,022 to just over 13,652. This is a significant portion of our compliance base – but there is still more to do, which is why we have invested in the satellite Centre of Excellence in Birmingham to operate as an extension of the Glasgow Centre.

In the last 12 months, our Legal Services business grew by 47%. We have had non-practising solicitors working in our Tax and Pensions practice for the last decade, and following the grant of an Alternative Business Structure (ABS) licence, from 1 October we can transform this already high growth business model. We were the first 'Big 4' professional services firm to be awarded an ABS licence to operate on a multi-disciplinary practice basis – which will allow us to offer legal services which are fully integrated with other areas where we already provide advice.

The changes we have made position us very well to meet the fast-changing needs and expectations of our clients and to build and grow our Tax practice in the years ahead.

Yours,

Jane McCormick
Head of Tax and Pensions

Advisory
Letter from Richard Fleming, UK Head of Advisory

Richard Fleming
UK Head of Advisory

The last 12 months saw key parts of our Advisory business grow strongly on the back of high demand in Risk Consulting services, returning activity in the M&A market and continued heavy investment by our clients in restructuring and operational efficiency.

Risk Consulting grew fastest, with net sales up by 21% in the year, reflecting a continuing stream of remediation work on interest rate derivative projects for three major banks, and a 25% growth in advisory work on cyber security risks. We are determined to build the UK's leading cyber security practice, an effort which was helped in the year by the acquisition of assets in Qubera Solutions Limited, a leading cyber security business with an impressive client portfolio. This transaction strengthens our security transformation capabilities.

The M&A market finally began to recover after nearly five years in the doldrums and our deals practice has had a busy year. We have assisted our Corporate and Private Equity clients with numerous acquisitions, divestments and joint ventures, including several multi-billion cross-border transactions. The London IPO market has returned to strength and we have worked on many of the IPOs launched in the year including Virgin Money, Jimmy Choo, SSP Group, Merlin Entertainments and Poundland. We think the recovery in transactions will gather pace in 2015, although there is likely to be a pause during the General Election in the spring.

Management Consulting experienced growth in many of our priority industry groups, although historically high growth rates in Banking were not maintained, hence overall growth in net sales were 1%. We invested heavily in building our next generation capability to allow us to solve the strategic issues of clients and we are starting to see this investment reposition our services

Advisory
A year in review

in the market. Both for Management Consulting and our Strategy group, there is a fierce war for talent and we are addressing this through recruitment, flexible resource models and acquisitions.

Overall, 2014 was a strong year for Advisory with net sales at £850 million, 6% higher than in the previous year. That means we are growing our Advisory business faster than almost any of our competitors.

Our success is reflected in the rich array of assignments we are now working on across the private and public sectors. Take defence, for example, where in June we put together a multi-disciplinary team and beat several competing firms to become the programme development partner for RAF Brize Norton's Programme GATEWAY, a forward-looking transformation programme to develop a leaner and more effective operating model for the UK's Air Mobility assets. In Healthcare we been supporting the Care Quality Commission in the development of its market oversight scheme for adult social care providers. This assignment was won, partly, through a combination of Restructuring's extensive work in the care sector and the Healthcare Regulation team's expertise and understanding of key stakeholders.

We were also appointed preferred supplier for a supply chain excellence programme at Sellafield, the nuclear decommissioning and reprocessing group, helping them to manage spend of nearly £1 billion per year. Our Information Protection team had a breakthrough win at a major US Investment bank, while in Restructuring we are working on a number of cost-saving working capital programmes for major international clients, including one of the world's leading suppliers of glass and metal packaging, a major steel producer in Europe and the UK, the world's leading manufacturer of chemicals, fertilizers, plastics and metals and several supermarket groups.

Net sales

£850m

(2013: £802m)
+6%

Contribution

£324m

(2013: £308m)
+5%

Acquisitions are playing an important part in our efforts to grow the practice faster. This year also saw us successfully bed in Makinson Cowell, the leading investor relations advisory company, which we acquired in 2013 and we expect to make a further two acquisitions in the coming months.

Alliances are an exciting opportunity to develop our offerings, not least in the area of data analytics, where we are working with our clients to help them get value from their data.

Our relationship with Imperial College London, creating the KPMG Centre for Advanced Business Analytics, will put the UK at the forefront of data science and see a real shift in the way academia, KPMG and clients come together to deliver cutting edge insight and innovation.

Our recently announced 10 year strategic alliance with McLaren Group further extends our ability to solve real and complex client issues in areas such as operational excellence, helping our clients benefit from huge gains in performance by applying modern technologies and predictive analytics to diverse operational challenges from optimising production lines through to field force engineers.

Deploying technology to solve client issues is an increasingly important part of our work, but it is important to co-ordinate our efforts to avoid duplication and to ensure the tools we create are relevant and replicable for the widest number of clients. To refine our work, we have created Tech Solutions, bringing together five key capabilities across the Firm. We have created several systems including KPMG-powered Finance, a cloud solution to help companies transform their finance departments and won Oracle Specialized Partner of the year – EMEA in the Oracle Cloud category.

The five new strategic growth initiatives provide us with an opportunity to invest in new areas which will help us anticipate and solve some of our clients' most pressing future needs. We are convinced they will, in turn, enable us to grow at a much faster rate.

Yours,

Richard Fleming
UK Head of Advisory

Financial Services
A letter from Bill Michael, Head of Financial Services

Bill Michael
Head of Financial Services

Seven years from the onset of the financial crisis, the Financial Services sector remains caught in the midst of extraordinary and ongoing change. And I believe we will see more change in the sector in the next five years than we've seen in the last 50.

Banks, insurers and other financial institutions are continuing to re-invent and restructure themselves as they look to redefine their purpose in terms of their relationship to society and the vital role they need to play in stimulating economic growth. This debate is critical to us and we are working closely with all market participants, regulators and policymakers to help shape this change.

Financial Services
A year in review

We are hugely proud to have developed our Financial Services practice. We are the firm of choice for many of the sector's most complex and high profile challenges such as:

1. Customer outcomes – the need to focus on customers whilst continuing to grow
2. Operational excellence/ technology – reflecting legacy IT systems which need huge investments to replace existing platforms, whilst exploring digital potential and use of data analytics
3. Changing business models – retreating from unprofitable businesses, growing in core businesses and transforming existing businesses
4. Business protection – business activities still heavily influenced by regulation
5. Culture and ethics – the need to accelerate a new culture of leadership

Net sales

£594m

(2013: £559m)
+6%

Overall our Financial Services practice – which accounts for some 36% of the Firm's total net sales – saw its net sales increase by 6%. One of the drivers has been helping big banks remediate legacy issues, such as interest rate derivative swaps, and settle them fairly. Our role in remediation, such as our role as skilled persons for many of the major banks in the Financial Conduct Authority's (FCA's) swaps programme, has been high profile and at times difficult, but we are proud of our work in delivering fair outcomes for individuals and Small and Medium-sized Enterprise customers.

This year has seen a continued focus on bank audits especially around audit rotation. Our goal has always been to have meaningful long-term relationships with clients and we have a strong track record in non-audit relationships with the banking sector over many years which we continue to focus on. Bank auditors continue to attract media and regulator attention as we seek to understand the reasons for the banking collapse in 2008 and learn the lessons of the past.

The agenda we're working on is, of course, a global one. The creation of the European Central Bank ('ECB'), for instance, has meant we've had to respond seamlessly with other KPMG member firms across Europe, bringing all our combined skills together to create an ECB Centre of Excellence to bring greater focus to this role. That's one reason why KPMG member firms won a major role in the Asset Quality Review process, reviewing 71 of the 130 banks stress-tested by the ECB, a higher number than any of our competitors.

After a difficult year in 2013, we were delighted to see solid growth in work for the insurance sector, particularly in connection with regulation, risk and compliance advice on the new Solvency II capital regime. Our Investment Management business is well positioned to help the industry deal with the long-term saving challenge we face.

KPMG is famous for its financial services practice. We believe that we continue to be a market leader and adviser of choice. We are committed to continue to make significant investment in people, technology and cutting edge operations to ensure we provide the best possible service for our customers.

Yours,

Bill Michael
Head of Financial Services

Sectors
A letter from Richard Gostling, Head of Sectors

Richard Gostling
Head of Sectors

I rejoined KPMG this year, from Goldman Sachs, as Head of Sectors with a clear brief: to drive our focus on clients and grow our Sectors business.

By blending industry and service specialisms, our Sectors teams work with some of the largest listed and multinational companies, central government departments and major private equity houses in the UK.

Fundamental regulatory changes in our industry, particularly relating to audit and tax, make this a once in 100-year opportunity to rethink how we go to market for the benefit of clients. Technology is changing many of our clients' strategies and operations and how we interact with them. Competition in the consultancy sector is increasingly fierce and diverse.

Our Sectors business has underperformed in recent years, lacking the agility and focus to achieve the scale we think it can. As part of my appointment, I have undertaken some important changes to our structure so that our resources are more closely aligned to the market, and our clients are at the centre of our commercial activities.

Sectors
A year in review

As we set out on this journey to return significant growth to our Sectors business we've secured a number of strong client wins, including working with Lockheed Martin, Imperial Tobacco Group and TNT Express to name but a few. These wins will see teams bring solutions to client issues across growth, people, operational and protection agendas. These are great examples of how we're working with our clients to bring success in a rapidly changing world.

We've also seen some losses. New regulation and the adoption of audit re-tendering has increased the likelihood of attrition amongst audit clients; with some clients ending their long-standing relationship with us as their external auditor. At the same time this does open up opportunities for securing new internal audit and advisory work, which we consider to be a fantastic opportunity to work with clients as trusted advisers.

Client focus

A standout area of growth for us in the year was our government work, particularly defence where we are of strategic importance to the Ministry of Defence. Consumer Markets was also a high growth area as a result of a number of significant projects with SABMiller and a number of large retailers. In addition, by working on some of the most innovative and impactful infrastructure projects – such as Hinkley Point and HS2 – we are contributing to the future of the UK.

Net sales

£439m
(2013: £438m)
0%

We see a significant opportunity to grow our Energy and Natural Resources and Telecoms sectors by improving our agility and aspects of our service delivery to clients. We will also build upon our market-leading position in the private equity sector – not only as clients in their own right, but as potential investors in all of our market sectors. This is an important change at a time when transactions are once again showing signs of growth after the last few stagnant years and so we expect to maximise significant opportunities for growth through greater integration between private equity and other sector teams.

The launch of KPMG's five Strategic Growth Initiatives and our increasing success in making important acquisitions and alliances to boost our capabilities have real relevance to our Sector clients. Through alliances such as the KPMG Centre for Advanced Business Analytics with Imperial College and our recently announced strategic alliance with McLaren Group we are developing exceptional capability to provide clients with insight to create new economic value from complex issues around capital, growth opportunities, people, operations and resilience.

Diversity and inclusion is an increasingly important element of our clients' selection process as seen during the year in winning the Smith & Nephew audit. Our clients demand that our teams reflect the diversity that exists within their own organisations. Our team is now much more diverse than in the past. Indeed, following the restructuring, our Sectors team is now 48% female. We still have more work to do here but the public announcement of our diversity targets demonstrates our long-term commitment to this.

We believe the structural changes we have made during the past year provide us with a much stronger platform for growth in the years ahead. The market has many exciting opportunities for us, whether it is regional developments or securing the energy supply of the UK for years to come, and we're now positioned to deliver on some of the biggest projects effecting UK society. I've no doubt our Sectors business can grow – even without economic growth – at a rapid rate in the current year and beyond.

Yours,

Richard Gostling
Head of Sectors

Regions
A letter from Iain Moffatt, Head of Regions and Enterprise

Iain Moffatt
Head of Regions and Enterprise

The economic tide has turned for many of the middle market businesses we advise and as they begin to grow again after the punishing years of the recession, so too does our Regions business.

We derive all but about 22% of our net sales in this part of the business from listed companies that are regionally-based, or privately-owned enterprises. The remainder of our net sales comes from serving public sector clients, particularly health authorities and local government.

2014 has been a very strong year for private sector work, with this part of the business growing by a healthy 6%. That growth reflects where our clients are at the moment. They've spent the last few hard years improving their operating efficiency, controlling costs and capital, but are now once again looking to invest either in new plant and equipment or in transactions.

While M&A activity is not as busy as it was before the onset of the financial crisis, we are nevertheless seeing growth in transactions in all our regions – Scotland, the North, the Midlands, the South and London and the South East. Indeed, the North saw net sales from corporate finance work alone more than double to nearly £11 million during the year, and that picture is being repeated up and down the country.

Regions
A year in review

We maintained a strong transaction services specialism in the regions in expectation that we would see just such a return to growth in M&A. We are therefore well placed to grow here in an area that has traditionally been very strong for us.

Net sales

£586m

(2013: £556m)
+5%

We have strong ambitions to further boost this part of our business through our newly established Enterprise strategic growth initiative, which will see the Firm expand its service offerings to the growing network of 4.9 million privately-owned businesses across the UK.

One component of our KPMG Enterprise initiative is KPMG's new Small Business Accounting service, which combines cutting-edge digital technology with KPMG's wealth of expertise to provide select online accounting and tax services – including accounts preparation, bookkeeping, payroll, VAT and corporate tax returns – to small and start-up enterprises via the cloud.

By digitising these affordable services, we are in a position to start working with these clients from their earliest days and, hopefully, to keep working with them as they grow.

Indeed, many of these so-called 'Gazelle' companies will be the superstar companies of tomorrow and they will play a vital role in driving overall economic growth and wealth and job creation. Our challenge is to continue adding new services, delivered digitally, at the same competitive rate so that our offer becomes all the more compelling.

Our exclusive arrangement with Xero, the cloud accounting group signed during the year, plays right to the heart of our strategy to expand our online small business offering.

We're investing £50 million over three years to target the growing network of privately-owned businesses across the UK in a move which we believe will generate an additional £100-120 million of net sales a year. With some 1,500 new businesses being started every day in the UK, this is an important and very exciting opportunity for us. Currently we have approximately 13% share of the private capital market, but our aim is to grow this to between 20 and 25% within the next three to five years, both through expanding services to existing/new mid-market clients and through our Small Business Accounting offering.

Hiring enough highly skilled people to meet growing demand was at times challenging in a highly competitive employment market last year, but we expect to make good progress here in 2015. Another challenge is to bring more of our management and risk consulting services, which have gained good traction with our larger Sector clients, to mid-market companies.

Work for public sector clients accounted for £129 million of our net sales last year. While we saw strong growth in work for health authorities – particularly advisory and compliance work – our local government business did not do so well with austerity continuing to eat into budgets and frontline services.

In future we expect to see some growth return, particularly for services focused on issues which cross over between health and local government, for instance in children's services. The private sector will also have an increasing role to play here, and we are well placed to lead that development.

Devolution is once again right at the top of the political agenda, not just in Scotland, but right across the UK. As more powers are devolved to the regions, it's vital we maintain a strong presence in all these fast-changing regional economies. That's why we have continued to invest in our network of 22 offices, with moves to new, bigger locations in Cambridge, Leeds and Manchester.

We have big ambitions for our Regions business and I'm convinced that we are on the right trajectory to continue growing strongly.

Yours,

Iain Moffatt
Head of Regions and Enterprise

Our people and resources

We will only achieve our business strategy and vision if the 13,000 colleagues, contractors and sub-contractors who work for KPMG feel committed to the Firm, to each other and are engaged with our values and overall purpose. Getting this right was a top priority in 2014.

We began by re-energising our leaders, restoring the sovereignty of the partnership through a series of far-reaching reforms, not least to Partners' pay and to our system of governance. In 2014 we made it an absolute priority to bring that same sense of energy and engagement to the rest of the Firm.

Times of change and transformation are always unsettling, and we knew we had a big job to do here. Our Global People Survey in 2012 – taken soon after a painful redundancy programme – showed that levels of staff engagement had fallen to just 52%.

There were clear concerns about our system of appraisal, about mobility, career development, pay, diversity and inclusion, and the way the leadership had been communicating the Firm's strategy and vision. On the positive side, a clear majority of people told us they continued to feel proud to work for KPMG, although for a wide range of reasons.

The Global People Survey 2012 showed us that our people feel openly able to report unethical practices without fear of reprisal. In addition, they believe that the people they work for demonstrate honest and ethical behaviour. The survey showed that there is an appropriate emphasis on quality at KPMG.

One Firm, in one place, on one day

Transforming our approach to staff engagement has involved a wide range of initiatives but it culminated in the extraordinary One Firm Event we staged on 24 September 2014.

The event provided an opportunity to share stories about the history of the Firm, the important work we have done for clients over time, the contribution we've made to the UK economy and the impact we continue to have in addressing some of society's toughest challenges.

It also gave us the chance to throw the spotlight back on our values. We unveiled Our Vision and Values Tree at the event, a simple but powerful graphic representation, now prominently displayed in all our offices, of how our vision, strategy, values and purpose link together.

Reaction to the event has been overwhelmingly positive. It will, we think, be seen in future as a pivotal day in the history of the Firm, on a par with the moment in 1997 when we codified our values and launched them publicly for the first time.

Recruitment

In the course of the next year we anticipate hiring around 2,800 people. This reflects around 1,600 experienced professionals across our business. These volumes are similar to those seen in the previous year, with some anticipated growth in the skill areas relevant to KPMG's strategic growth initiatives – Technology, Enterprise, People Powered Performance (P^3), Cyber security and Digital and Analytics.

Recruiting graduates and school leavers remains a priority for us and this year we anticipate hiring around 1,000 students across graduate programmes and internships. We will also hire some 120 students to our school leavers' programme although we expect this number to be an area of growth across Audit and Advisory next year.

In addition we will also explore a series of Insight Days for first year university students as we extend offer for entry level careers.

Training, development and progression

This year we spent over £18.9 million in developing our people in the technical and leadership skills required to help deliver our strategic goals to create a market-focused and issues-led business.

We also ran 4,454 individual courses, which amounted to 401,860 hours training or 87,787 individual learning experiences over the year. Our internal course range consisted of approximately 1,200 different titles, 47% of which were classroom-based, 43% e-learning and 10% virtual classroom.

Training hours by course type across the Firm was 71% on classroom courses, 21% e-learning, 5% external and 3% virtual classroom.

Our Deal

Our Deal, which was announced at the One Firm Event, is defining the colleague experience that we want all our current and future colleagues to have at KPMG.

Through the launch of Our Deal we have transformed the way we performance manage our people, in terms of career development, the way we pay and how we deliver mobility. Our old system of appraisal, based on the so-called 'forced distribution curve', clearly wasn't working. Indeed many colleagues said it had become an excuse for avoiding the sort of honest conversations about career development and progression that we think are the key to creating a high performance culture.

To facilitate those conversations, we have created a team of 122 dedicated people leaders in the first quarter of FY15, all specially trained senior managers and directors, who will spend a minimum of 50% of their time helping colleagues plan and manage their careers.

We've also brought more transparency to our pay and bonus system. Many colleagues said they found it hard to understand how the bonus was calculated in the past. So for FY15 and onwards we have now enshrined the concept of a uniform, one Firm profit share in our reward mechanism. This will help give our people greater certainty and transparency.

Mobility was a big issue for many of the colleagues we surveyed. We have, therefore, committed to creating 300, three- to six-month secondment opportunities a year for those working in Grades E to C, including the chance to work in overseas markets such as the US and Australia. We've introduced mid-year promotions to help our top performers fast-track their careers.

In addition, to reward the loyalty of colleagues who join our graduate programme, we're now offering a one-off payment towards their student loan when they remain with the firm in their career and subsequently get promoted to manager.

For colleagues who want to develop a career in industry, we've created a career transitions team to help them find the right position in the right company. Significant levels of attrition is a feature of our industry. While we want to boost retention levels, particularly among our highest performers, we also want to build a thriving and happy alumni community, not least because a number of people return to the Firm later in their careers.

By talking to our colleagues about the things they value we also made sure Our Deal includes a string of important practical benefits, including free private banking, a dedicated Private Banking Relationship Manager, free worldwide travel insurance and mortgages at preferential private banking rates through Clydesdale & Yorkshire Banks.

We've launched Leisure Bank, offering people the chance to take time off in lieu when they've worked extra hours, and introduced Jump Start Friday, where colleagues can finish at 3.00 pm on Friday, in the summer months.

To say thank you to all our people for their hard work going forward we are giving everyone 'a day off on your birthday'.

Our challenge now is to build on the success of the One Firm Event and we're doing that in a number of ways.

One of our network leads at the One Firm Event.

Our people and resources continued

For instance, we want to keep the conversation about our values going in a practical, down-to-earth way. So we've challenged all our people to look at the seven values, and their 21 associated behaviours, and to pick two that they find most hard to apply in their working lives. We're encouraging them to share that with colleagues and in development conversations with our people leaders in the coming 12 months.

This winter members of the Executive Committee will stage a series of roadshows across our offices, giving staff the chance to ask detailed questions about our strategy, face-to-face. We have given everyone a smartphone so that we can communicate the strategy in new and interesting ways.

And the process of telling stories about our heritage, and the legacy we hope to create, will also continue throughout the year.

New routes into the profession

We are working hard to open up new routes into our profession so that we can recruit talented people who, in the past, may never have considered a career with us.

Social mobility is a key focus of our corporate responsibility programme and is also, increasingly, an active feature of our approach to recruitment.

We received around 30,000 applications for 1,000 graduate places this year. But in the last 20 years we've, unintentionally, narrowed the source of those recruits to about 30 top universities and to graduates with either a 1st class or 2:1 degree. That's cut out a whole cadre of talented people who may not have the opportunity, or the desire, to go to university and attain these qualifications.

Three years ago we introduced our school leaver audit programme, taking in recruits at 18, sponsoring them through university and then training them, as paid employees, through to a professional qualification.

Since the scheme started some 503 school leavers have joined us this way. Despite that success, the programme still has a focus on university qualifications and is not attracting as diverse a group of young people as we would like.

During the summer we took a lead role, alongside the ICAEW, in launching a profession-wide work experience scheme designed to give students from disadvantaged backgrounds a real taste of working life in our business.

We're now taking that further by developing a KPMG apprenticeship scheme for those who, having experienced our world of work, want to join the Firm. The scheme, which we hope will attract 75 apprentices a year from 2015, does not involve going to university, but will still lead to a professional qualification within six years.

We're clear our work on diversity, inclusion and social mobility is fundamental to our strategy to transform KPMG. It will have a powerful effect on the work we do, increasing the diversity of our thinking and enriching the services and products we create for our clients.

Diversity is a reality; inclusion is a choice

Creating a truly diverse and inclusive organisation through Inclusive Leadership is a business imperative to KPMG. The diversity profile of the professional services sector does not currently reflect society or the clients that we serve and increasingly our clients demand that we tackle this issue and for some it is a deciding factor in awarding mandates.

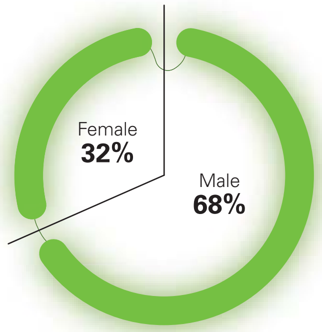
Inclusive leadership is about everyone taking personal responsibility for building diverse teams to interact better with a diverse and rapidly changing world. We want to have a truly diverse and inclusive workforce because we believe it will differentiate us from our competitors and help us become the 'clear choice' for our clients. As such we are embedding Inclusive Leadership into the actions of our people, our procurement, our client pitch teams and our communications.

Diversity is simply the reality of the world in which we live and work. But inclusion is the real key to positive change, and it is about making the right choices as an organisation and as individuals.

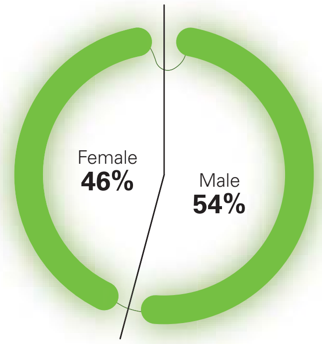
We can attract diverse talent to the business, but if we do not actively create an inclusive workplace we will struggle to retain that talent and fall short of our clients' expectations. Our aim is to create an environment where everyone is confident to bring their whole self to work, feels at ease and able to fulfil their potential.

Gender diversity

Senior roles



Firm wide



The high point of the One Firm Event was the launch of Our Deal.

During the year we appointed a new Diversity and Inclusion (D&I) team, headed by Stephen Frost, who, as former head of diversity and inclusion at the London Organising Committee, was credited with making the 2012 Olympics the most inclusive games in history.

We also developed and launched a three-year D&I strategy, supported by an employee diversity monitoring refresh. Thanks to this diversity monitoring refresh we now know detailed diversity characteristics for over 93% of our workforce.

We've modelled the data to demonstrate that a 'do nothing' approach over the next three years would leave us looking even less like our clients in that time. We've also drawn up a model of what 'good' would look like and used this to create a set of industry-leading targets on gender, ethnicity, sexual orientation and disability, which we launched publicly during our inaugural Inclusion Week in October.

The strategy focuses on recruitment, promotion and retention and is designed to ensure that we work intelligently and accountably as one Firm. With strong leadership from the top we're also taking steps to reinforce the importance of inclusion at all levels, for instance making it mandatory for everyone in the Firm to complete training on unconscious bias.

Our targets are very ambitious, as the table below shows.

	Grade	Firm's Current population (%)	2018 (%)
Female	Partner	15	25
	Director	23	36
	Senior Managers	36	46
BAME* (Black/mixed)	Partners	7 (0.9)	9 (2.2)
	Directors	9 (1.2)	14 (4.4)
	Senior Managers	14 (2.0)	18 (4.1)
Disability	Overall	1.4	2.8
LGBT**	Overall	3.0	4.1

*BAME stands for Black, Asian and Minority Ethnics which means anyone who has identified themselves as non-white. KPMG has specific focus on black professionals who are part of the BAME population.
**LGBT stands for Lesbian, Gay, Bisexual, Transgender.

We need to raise the overall proportion of women reaching partnership by 10 percentage points. And while our numbers on ethnicity are relatively good, we need to do much more to support black professionals as their careers develop – less than 1% of our Partners are black.

Challenging though they are, we believe the targets give us the chance to make the sort of real progress on diversity and inclusion that has so far eluded many professional services firms.

Corporate responsibility

Responsible business is at the core of KPMG's strategy to be the clear choice in professional services. This approach is grounded in our KPMG Values – leading by example, working together, respecting the individual, seeking the facts and providing insight, being open and honest, committed to our communities and, above all, acting with integrity.

These values govern our relationships and activity with our clients, our people and wider society. Once again this year KPMG internationally has been named Sustainable Firm of the Year by the International Accounting Bulletin.

Our focus on social mobility

Part of being a responsible business is reflecting on our place in society and how we contribute to it, through the work we do with our clients and also through the change we empower in our communities. Our business is ultimately about unlocking the potential for our clients – whether by inspiring confidence in the capital markets through audit opinion or advising on our clients' challenges. It's also about finding the most talented people and unlocking their potential. Far too often, however, young people in the UK don't have the opportunity to realise their full potential, and we're working hard to change this; KPMG has been named in the Government's first cohort of Social Mobility Business Compact Champions.

We focus on issues where we can make a real difference:

- Living Wage
- Affordable and secure housing
- Literacy
- Fair access to our profession
- Preparing young people for the world of work

We also support young leadership through our partnerships with international charities Free the Children and Enactus and our own Bright programme, which encourage school-age, university-age and KPMG's own people, respectively, to transform local and international communities.

Some examples of our success:

- BRIGHT has delivered £4.45 million worth of pro bono services supporting youth and livelihoods;
- Through Enactus, KPMG business advisers have mentored students from 17 universities and 15 Enactus teams have received a KPMG grant for projects to improve social mobility; and
- KPMG is a proud sponsor of Free the Children – at the inaugural UK 'We Day' over 180 young people from our supported schools attended.

Living Wage

The Living Wage is a voluntary rate of pay which is based on the recognition that the national minimum wage, currently £5.50, does not pay enough to meet a basic quality of life. The Living Wage is currently £9.15 in London and £7.85 nationally. KPMG has been a vocal supporter and adopter of the Living Wage since 2006. We have found the increased cost has been more than offset by reduced employee churn and absenteeism and increased performance and loyalty.

Since seconding a KPMG director to the Living Wage Foundation in May 2013, accredited Living Wage businesses have increased from 212 to more than 1,000, lifting at least 50,000 families out of working poverty.

The City Academy, Hackney, co-sponsored by KPMG.

82% gaining 5 or more A*– C grades (inc. English and maths).

Individuals directly supported through our social mobility programmes

12,270

Using our skills and supporting policy development
KPMG's international development programme, Bright, now in its fourth year, has provided over £4.45 million of pro bono support to developing communities, working with leading charities Restless Development, Child Helpline International and Fair Trade. Colleagues from KPMG firms in 19 countries have taken on a wide range of projects, from financial planning to IT development, leadership development and skills training.

Affordable housing and literacy
This year we completed an award-winning partnership with Shelter, National Literacy Trust and Dyslexia Action. KPMG volunteers over two years spent 900 hours volunteering on a wide range of projects including policy development, and the £1.2 million raised during the partnership is helping 2,700 families stay secure in their homes and helping over 8,000 young people improve their literacy skills.

Sustainable procurement
Our sustainable supply chain programme focuses on carbon and environment, diversity and Living Wage. 93% of our strategic suppliers took part in the CDP Supply Chain disclosure and 100% of contractors on KPMG sites are paid at least the Living Wage by our suppliers.

Environmental management
As a professional services firm our direct environmental impact is relatively small, but 13,000 colleagues, contractors and sub-contractors across 22 locations use (and produce) resources such as energy, water and waste. Our aim is to achieve a low carbon business through reducing our energy consumption and CO_2 emissions. We seek to avoid unnecessary travel and minimise waste by creating new sustainable offices and engaging on environmental matters with our suppliers and clients.

To help us manage our environmental impact robustly and identify risks, we operate an environmental management system (EMS) which is certified to ISO14001 standard. We seek to send zero office waste to landfill, which we have already achieved in the offices we own and hence control. We currently recycle 60% of our waste, but aim to increase this to 70%.

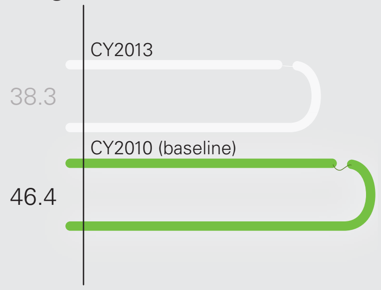
To improve our carbon footprint, we're investing in innovative engineering technologies, modern video conferencing and IT systems and working with equipment manufacturers to buy the most energy-efficient, travel-reducing products for use in our new buildings. Furthermore, we continually ask our people and suppliers to help identify and create emissions savings.

Case study: The homes we need
KPMG and Shelter's ground-breaking report into the UK housing market is having a major impact on public policy – and bringing exciting new commercial openings for KPMG. 'Building the homes we need: A programme for the 2015 government' presents insightful recommendations for increasing housing supply and overcoming the chronic shortage of homes that is blighting lives and undermining economic growth.

Positioned as a coherent, costed programme that could be adopted by whichever government is elected at the May 2015 general election, the paper has influenced the policies of all major parties and put housing at the front of the political agenda.

Case study: 40,000 new arrivals
90% of food worldwide comes from just 100 crop species – 71 of which are dependent on honey bees, so the decline in our bee population is a serious threat. In 2014 KPMG became home to Canary Wharf's first ever colony of honey bees. 40,000 bees have taken residence in two specially constructed hives on the roof of our Canada Square building. The project, established to support the UK's biodiversity, is a logical next step to the green roofs which crown an increasing number of buildings in London. We are now looking across our office estate to establish how we can make it better for biodiversity and more welcoming to bees and other pollen carrying creatures.

Total gross CO_2 emissions (UK) (m kg)



Corporate responsibility continued

Environment data

	CY2013 emissions (kg)	CY2012 emissions (kg)	CY2010 (baseline) emissions (kg)
Fuel combustion and emissions from KPMG owned car travel			
Fuel combustion	3,164,421	3,325,356	3,334,743
KPMG owned/leased car travel	1,579,694	1,480,310	1,383,514
Total scope 1	**4,744,115**	**4,805,666**	**4,718,257**
Electricity and renewable energy usage			
Purchased electricity	247,267	355,548	892,579
Renewable energy	14,235,772	16,650,316	19,858,138
Total scope 2	**14,483,039**	**17,005,864**	**20,750,717**
Business related travel (air and car travel)			
Business related car travel	2,899,131	3,589,712	4,213,005
Air travel	16,154,410	15,386,137	16,680,537
Total scope 3	**19,053,541**	**18,975,849**	**20,893,542**
Total gross emissions	**38,280,695**	**40,787,379**	**46,362,516**
Gross emissions per FTE	**3,370**	**3,363**	**4,522**
Total net emissions*	**24,044,923**	**24,137,063**	**26,504,378**
Net emissions per FTE	**2,117**	**1,990**	**2,585**
Water consumption (litres)	133,409,000	125,792,715	118,790,000
Paper (sheets)	61,588,020	68,519,076	78,433,500
Waste			
Total waste (kg)	2,353,012	2,490,063	2,495,504
Recycled waste (kg)	1,417,286	1,536,477	1,282,719
% waste recycled	60%	62%	51%
CY full-time equivalents	11,359	12,130	10,252

The above environment and community data has been subject to limited assurance procedures and the report of the independent assurer, Grant Thornton UK LLP, may be found on pages 50–51.

* Since 1 November 2008, at least 95% of the electricity the UK firm buys is obtained from 100% renewable sources including wind, solar, tidal, wave and biomass. The remaining 5% comes from the cleaner low carbon sources and certified CHP sources and all of it is accredited by OF GEM. Each unit of Greenelectricity is backed by a levy exempt certificate (LEC) which acts as evidence that the supply is from accredited renewable sources. However this electricity does not meet the current UK government definition of a green tariff and we have calculated our emissions for electricity using the national grid average conversion factor as provided by the UK Government.

Community data

	FY2013/14	FY2012/13
Community benefits		
Individuals directly supported	**12,270**	6,237
Organisations supported	**878**	968
Leverage (cash) (£000)	**945**	696
Community investment		
Community contribution (cash, time, in-kind and management costs) (£m)	**6.2**	4.8
Volunteering during working hours (number of people)	**3,138***	3,456
Time spent volunteering during working hours (number of hours)	**47,930**	42,924
FTE staff volunteering during work hours (%)	**28%**	32%

*CR strategy is to increase skilled volunteering and hence the value to the recipient organisation is greater i.e. outcomes not inputs are prioritised.

Our taxes paid and collected

As a major UK business – whose activities include providing tax advice to companies large and small, at a time when transparency over tax affairs is the subject of such intense public scrutiny – we think it is very important to spell out the tax we pay and the way we manage our own tax affairs.

As a partnership, KPMG in the UK does not pay Corporation Tax on the majority of its profits. Those profits are instead subject to income tax in the hands of the individual Partners.

Total Partner income tax and national insurance during the year totalled £155 million compared to £163 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of Partners during any year relates to the profits earned the previous year and the lower amount paid reflects a fall in the statutory tax rate.

KPMG paid tax to HMRC on behalf of Partners based upon the statutory rates of 40% on the first £150,000 of profit, and then at 45% thereafter (2013: 50%), plus a further 2% in national insurance hence the reduction in taxes paid this year as set out in the table below.

KPMG in the UK makes a significant contribution each year to the public finances through the taxes paid by our Partners on our profit, the taxes we bear as an organisation such as national insurance, Corporation Tax, business rates and property and environmental taxes, and those we collect on behalf of the Exchequer, such as national insurance, employment tax and VAT.

Taken together the total tax paid and collected by us in 2014 was £710.6 million (2013: £701.6 million). The table below shows the split between taxes borne by us directly, and those we collect for the public purse in the course of our day-to-day business.

It shows that our largest contribution comes through the tax paid in respect of and on behalf of our employees. We are proud of the contribution this level of employment makes to the overall economy. The amount of employee-related tax increased as we had more employees in 2014 than 2013.

Taken together, the tax borne by us and collected on behalf of the government gives a clear picture of our economic activity, the contribution we make to the UK economy and the value we add to society at large.

Managing tax

Ultimate responsibility for our tax strategy and compliance rests with the Board of KPMG in the UK and is overseen by our Audit and Risk Committee. Day-to-day management of our tax affairs is carried out by the Head of Partnership Tax, under the control of our Chief Financial Officer who is also our Senior Accounting Officer.

We manage our tax affairs responsibly. We apply the same tax principles adopted by our tax practice to our own affairs. We are open and transparent in our dealings with HMRC (and all tax authorities) and have voluntarily adopted the Senior Accounting Officer legislation in the partnership even though strictly it only applies to companies.

KPMG UK – cash taxes paid in the years to 30 September 2014 and 2013 – Summary

	Y/E 30 September 2014			Y/E 30 September 2013		
	Cost to firm £m	**Collecting agent £m**	**Total £m**	Cost to firm £m	Collecting agent £m	Total £m
Employment items	**80.5**	**213.2**	**293.7**	77.5	200.4	277.9
Partners	**0.5**	**154.0**	**154.5**	0.0	162.8	162.8
Corporation Tax	**10.4**	**0.0**	**10.4**	9.7	0.0	9.7
Rates	**11.5**	**0.0**	**11.5**	11.7	0.0	11.7
VAT	**1.0**	**236.9**	**237.9**	1.0	235.9	236.9
Other items	**1.9**	**0.7**	**2.6**	1.5	1.1	2.6
	105.8	**604.8**	**710.6**	101.4	600.2	701.6

Independent limited assurance report

Independent assurance report to the Members of KPMG on selected environmental performance and community investment information.

Grant Thornton UK LLP ('Grant Thornton') has been engaged by KPMG LLP ('KPMG') to perform limited assurance procedures in respect of selected Environmental Performance and Community Investment information (hereafter 'Selected Information') contained in the KPMG Annual Report for the year ended 30 September 2014 ('the Report').

This report is made solely to the members of KPMG, as a body, in accordance with our engagement letter. Our work has been undertaken so that we might state to the members of KPMG those matters we are required to state to them in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of KPMG, as a body, for our work, for this report, or for the conclusions we have formed.

Scope and subject matter

The Selected Information subject to our limited assurance engagement in respect of the Environmental Performance data for the year ended 31 December 2013, consists of:

- Direct emissions – gas and firm-owned vehicle fleet (in tonnes of CO_2) Scope 1;
- Indirect emissions – purchased electricity (in tonnes of CO_2) Scope 2;
- Other emissions from travel, water (in tonnes of CO_2) and waste (in tonnes) Scope 3;
- Total paper usage (in sheets);
- Total water consumption (in litres); and
- Total waste (recycled and non-recycled in tonnes).

The carbon footprint data is reported in accordance with the criteria set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), jointly issued by the World Business Council for Sustainable Development and the World Resources Institute.

The CO_2 figures are calculated using the Defra/DECC guidelines 'Greenhouse Gas Conversion Factors for Company Reporting', issued on 1 June 2014.

The Selected Information subject to our limited assurance engagement in respect of the Community Investment data for the year ended 30 September 2014, consists of:

- Total community contribution (excluding discounted work) in £;
- Number of employees engaged through volunteering;
- Number of hours contributed;
- FTE staff volunteering during work hours;
- Number of individuals directly supported; and
- Number of community organisations supported.

The community investment data is reported in accordance with the criteria set out by the London Benchmarking Group.

Responsibilities of KPMG and Grant Thornton

Management is responsible for the preparation of the Selected Information contained in the Report. The Environmental Performance data has been prepared in accordance with the GHG Protocol and the KPMG Internal Reporting Guidance and the Community Investment Data has been prepared in accordance with the London Benchmarking Group (the 'Reporting Criteria'). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error. Our responsibility is to express a limited assurance conclusion on the Selected Information based on the procedures we have performed and the evidence we have obtained.

Assurance standards used and work performed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagement 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' ('ISAE 3000') and International Standard on Assurance Engagements 3410, 'Assurance Engagements on Greenhouse Gas Statements' ('ISAE 3410'), issued by the International Auditing and Assurance Standards Board. These standards require that we plan and perform this engagement to obtain limited assurance about whether the Selected Information is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 and ISAE 3000 involves assessing the suitability in the circumstances of KPMG's use of the GHG Protocol and the criteria set out by the London Benchmarking Group as the basis for the preparation of the Selected Information, assessing the risks of material misstatement of the Selected Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Selected Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our limited assurance procedures included:

- Review and assessment of the systems processes and controls to aggregate, validate and report the data;
- Discussions with key personnel responsible for the relevant process and governance thereof;
- Review of information provided by third parties and through enquiry, the existence of any assurance provided on the quality of information and underlying processes and controls applied;
- Analytical procedures and sample tests on collated data and conversion factors applied in accordance with the Defra/DECC guidelines; and
- Review of an internal audit of the Community Investment data undertaken by the KPMG Sustainability Services team.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a positive assurance engagement. Accordingly, we do not express a positive opinion.

Our ethical requirements

We are able to confirm our independence and objectivity as follows:

- We are independently appointed by KPMG; and
- Our work is performed in accordance with all relevant UK, European Union and global ethical and independence guidance and codes. This includes those issued by the Institute of Chartered Accountants in England and Wales, the International Federation of Accountants – Code of Ethics, the Ethical Standards issued by the PCAOB, and Grant Thornton International guidelines.

Our team consisted of assurance professionals with a combination of environmental, sustainability and relevant sector experience.

Limited assurance conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Selected Information is not prepared, in all material respects, in accordance with the Reporting Criteria.

Grant Thornton UK LLP
Chartered Accountants
London, November 2014

Governance

Our structure and governance

Legal structure

KPMG LLP is incorporated as a limited liability partnership under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its members ('members' or 'Partners' to be used interchangeably).

KPMG Audit Plc, a public limited company registered in England and Wales, is wholly-owned (through two intermediate holding companies) by KPMG LLP.

A list of the key entities owned by KPMG LLP (together with KPMG LLP, 'KPMG UK' or 'the Firm'), and details of their legal structure, regulatory status, principal activity and country of incorporation is set out in note 26 to the financial statements.

KPMG LLP is affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Appendix 1.

On 26 September 2014, KPMG LLP demerged from its former parent, KPMG Europe LLP, and, along with a number of KPMG member firms in Europe, transitioned to a stronger EMA regional structure. This initiative was implemented in order to build on the success of KPMG's European network of member firms and join the rest of the EMA region to deliver a more powerful proposition to clients in Europe, Africa and the Gulf.

As described in Appendix 1, all KPMG International member firms (including KPMG LLP) belong to one of three regions – Asia Pacific (ASPAC), the Americas or Europe, Middle East and Africa (EMA). KPMG LLP belongs to the EMA region.

Audit Firm Governance Code

With effect from 1 November 2013 KPMG LLP has complied with the provisions of the Audit Firm Governance Code (the 'Code') at national level as set out in Appendix 4. Previously, the provisions of the Code were applied across the KPMG Europe LLP group and accordingly details of how we complied with the provisions of the Code in previous years were included in the KPMG Europe LLP Transparency Report.

Name and ownership

KPMG is the registered trademark of KPMG International and is the name by which its member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

During the year to 30 September 2014, there was an average of 588 Partners in KPMG LLP (2013: 583 Partners).

Governance structure

Consistent with our aspiration to be the clear choice, we apply high standards of governance.

Further details of the members of the Board, the Executive Management Team, and the Audit & Risk, Nomination & Remuneration, Public Interest and Ethics Committees including their background and meeting attendance are set out in pages 64–66 of this report.

Senior Partner

The Senior Partner is responsible for leading the Board and ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the members at large. The Senior Partner also meets with the Non-Executive members (without the Executive Management Team present) at least once annually. The current Senior Partner, Simon Collins, was appointed in August 2012 following a competitive election campaign and confidential vote (administered by the Electoral Reform Society) of the members.

The Board

The main governance body for KPMG UK (including KPMG LLP) is the UK Board, which is responsible for the growth and long-term prosperity of the Firm ensuring it keeps with, and is true to, the 'KPMG Values'. It provides leadership to the organisation, sets the Firm's strategy and oversees its implementation, monitoring performance against our business plan. The Board also ensures that there is a satisfactory process for managing ethical, risk and reputational matters affecting KPMG UK business including compliance with laws, other regulations relevant to our business and KPMG's global policies.

Appointments and re-election (at the end of fixed terms) of the Non-Executive members of the Board are subject to election by the members. The Non-Executive members will serve three-year terms up to a maximum of six years.

As at 1 October 2013 the Board consisted of 16 members, 10 Executive members and six Non-Executive members. However, following a review of governance by the Board in autumn 2013, the Board composition was revised to focus on strategic aspects of the Firm. As at 30 September 2014, the Board consisted of nine members; the Senior Partner (the Chair), the Chief Operating Officer and Head of People, the Head of Quality & Risk Management and six Non-Executive members. Since 30 September 2014 the number of Non-Executive members has been increased from six to seven as two vice chairs were appointed, one of whom has subsquently stood down having announced his retirement.

The UK Board met formally nine times in the year to 30 September 2014. In addition, the Board met (together with the Public Interest Committee members) to discuss the Firm's strategy.

The Executive Management Team (ExCo)

Management of the day-to-day activities of the Firm is undertaken by the ExCo, whose responsibilities include the development and implementation of business plans, monitoring operating and financial performance, prioritisation and allocation of resources and investment and managing the risk profile of KPMG UK (including KPMG LLP).

The members of ExCo are appointed by the Senior Partner and during the year ended 30 September 2014, in addition to the Senior Partner, included the Chief Operating Officer & Head of People, the Head of Quality & Risk Management, the Head of Corporate Affairs, the Heads of Markets for each of Financial Services, Sectors and Regions, and the Heads of our Functions, namely Audit, Tax and Advisory.

In the year to 30 September 2014, ExCo met formally 11 times supplemented by frequent additional telephone calls and ad hoc meetings.

The Audit & Risk Committee

The key responsibilities of the Audit & Risk Committee are set out in the full terms of reference. In summary the Audit & Risk Committee is required to monitor the integrity of KPMG UK's financial reporting system, internal controls and risk management framework, overseeing the relationship with our statutory auditors (including recommending their appointment, removal and remuneration as well as monitoring their independence and effectiveness) and reviewing the effectiveness of the group's internal audit function.

During the year ended 30 September 2014, the Audit & Risk Committee consisted of three of the Non-Executive members of the Board, one of whom was appointed as Committee Chairman, an appointment ratified by the Board.

The Audit & Risk Committee normally meets together with the Public Interest Committee, given the commonality of interests. In such meetings the Audit & Risk Committee will form their own separate conclusions on matters raised and may adjourn for private deliberations if thought necessary.

The Audit & Risk Committee met five times in the year ended 30 September 2014.

The Nomination & Remuneration Committee

The key responsibilities of the Nomination & Remuneration Committee are to review the process for profit allocation and distribution for UK members; to make recommendations on the performance of and profit distribution to the UK Senior Partner; to review the recommendations of the Senior Partner in relation to the performance of and profit distribution to ExCo; and to establish a framework for recommending Public Interest Committee members.

Governance continued

During the year ended 30 September 2014, the Nomination & Remuneration Committee consisted of three Non-Executive members of the Board, one of whom was appointed as Committee Chairman, an appointment ratified by the Board.

The Nomination & Remuneration Committee met formally six times in the year to 30 September 2014.

The Public Interest Committee

On 1 October 2010, in accordance with the requirements of the UK Audit Firm Governance Code, KPMG Europe LLP established a Public Interest Committee consisting of three external Non-Executives. Following the changes in governance implemented in 2013, the KPMG Europe LLP Public Interest Committee ceased to operate and on 1 November 2013 a new UK Public Interest Committee with responsibility solely for KPMG UK was established. Sir Steve Robson (the Chair of the former KPMG Europe LLP Public Interest Committee) agreed to chair the UK Public Interest Committee. In addition, three new members (Philip Augar, Professor Laura Empson and David Pitt-Watson) were appointed with effect from 1 November 2013. These three individuals were selected to provide specific insights considered to be relevant to the activities of the Public Interest Committee and the development of the Firm, namely expertise in corporate matters, leadership of professional services firms and governance and investor needs respectively. Each of the new Public Interest Committee members received induction briefings on the activities and management of the Firm.

The key responsibilities of the Public Interest Committee are to provide comment and recommendations relevant to professional risk management and the public interest on the key elements of KPMG UK's business.

The Public Interest Committee normally meets together with the Audit & Risk Committee given the commonality of interests. In such meetings the Public Interest Committee will form their own separate conclusions on matters raised and may adjourn for private deliberations if thought necessary. In advance of such meeting the Public Interest Committee will meet by itself to discuss matters relating to its own remit and whatever else the Public Interest Committee Chair believes appropriate.

During the year to 30 September 2014, the Committee met formally four times.

KPMG LLP has considered the UK Audit Firm Governance Code and the Ethical Standards for Auditors in drawing up criteria for appointment of the members of the Public Interest Committee. These criteria recognise the need for the external Non-Executives who comprise our Public Interest Committee to maintain appropriate independence from the Firm and its Partners and have due regard to the impact of any external financial and business relationships held by the Non-Executives on the Firm's independence of its audit clients.

Our external Non-Executives are not considered to be part of the chain of command for the purposes of auditor independence requirements. In addition, none of them hold Board or senior management positions at audit clients of the Firm which are public interest entities. They are, as a condition of their appointment, under a continuing obligation to disclose any matters which may constitute a potential conflict of interest as soon as they become aware of them.

A report from the chair of the Public Interest Committee on the activities of the Committee in the year is provided in pages 62 and 63.

The Ethics Committee

During the year, the Firm established an Ethics Committee to provide oversight of policies and procedures in relation to ethical standards and of breaches of their requirements in relation to personal financial independence; general trends in disciplinary, grievance, human resource appeals and whistle-blowing processes to consider what these might imply for members/employees underlying ethical behaviour; and other ethical issues facing the Firm.

During the year the committee consisted of six members: the Head of Quality & Risk Management, General Counsel, a member of the Audit & Risk Committee and three Partners at large drawn from each of the Audit, Tax & Pensions and Advisory functions of the business. Subsequent to the year end the Committee determined that the General Council should act as adviser to the Committee rather than be a member of it.

The Ethics Committee met five times in the year ended 30 September 2014 with additional ad hoc discussions as required.

Communication with the members

The UK Senior Partner and Chief Operating Officer and Head of People have primary responsibility for communication with the Partners in the UK. They do this through a number of mechanisms including face-to-face quarterly Partners' meetings that are held at different locations and to which all Partners are invited. In addition, all members are invited to the Annual General Meeting which is held each December to discuss a range of topics including the results for the year and the forthcoming business plan.

Where there is an immediate need to communicate matters then an all-Partner voicemail message facility is used, or exceptionally town hall meetings convened. Finally, all members receive a monthly report from the Chief Operating Officer, setting out certain key aspects of operational performance.

Review of governance and independence

We aim to set the highest standards of governance and ethics. During the year, we commissioned Lord Gold to undertake a review of our governance policies, procedures and controls. We also commissioned Independent Audit Limited to undertake a review of the effectiveness of the Board of KPMG LLP and its Audit & Risk and Nomination & Remuneration Committees.

Independent Audit's review noted that the Board had been on a journey since its establishment two years ago and during that time there had been changes to its structure, membership and focus. The review commented that the Board deals with its key governance responsibilities increasingly well, but also made a number of recommendations. Those recommendations for the short term have either been implemented or otherwise are in the process of being implemented. We have also retained a leading external consultant to help the Board and individual members increase our individual and collective effectiveness. A number of recommendations for the longer term remain under consideration by the Board.

Lord Gold's review concluded that ethical behaviour is a key element in the way in which KPMG operates and that Partners and staff want to "do the right thing". However, he also pointed out that, whilst the Firm seeks to maintain high ethical standards, there is always more that can be done and made a number of recommendations. These included the revival of our Values, the establishment of an Ethics Committee and enhanced internal communication of strategy and other firm-wide matters. We have taken steps on all of the findings, although recognise that implementation – for example reviving our Values – is not simply a question of completing a single action but requires a longer-term programme – which we initiated with our One Firm Event.

More specifically in relation to compliance with the FRC's Ethical Standards, we fully recognise that our independence as a matter of fact and perception is vital in our role as auditor in order to ensure the confidence of those investors on whose behalf we act. We have fully embraced comments arising from the reviews by the FRC's Audit Quality Review team. In particular we have:

- introduced an Ethics Committee;
- undertaken root cause analysis of the issues arising from infringements of our policies relating to the personal financial interest of partners and staff, and enhanced our processes as a result; and
- established policies in relation to former partners holding roles at audit clients. These policies go beyond the existing requirements of Ethical Standards.

Annually we undertake an internal review of independence practices, and we will in particular monitor the success of the above and other recent initiatives as we strive to set the highest standards.

Quality and risk management

Responsibility for quality and risk management

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities.

However, our Senior Partner assumes ultimate responsibility for KPMG UK's system of quality control in accordance with the principles in International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB).

Operational responsibility for the system of quality control, risk management and compliance has been delegated to the UK Head of Quality & Risk Management, who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG UK. He has a direct reporting line to the Senior Partner and has a seat on both the Board and ExCo of KPMG UK which underlines the importance that our Firm places on risk and quality issues.

The UK Head of Quality & Risk Management is supported directly by a team of Partners and professionals (including Partners with specific responsibility for each of the client service functions referred to in the following paragraph, all of whom are supported by a function risk team).

The three heads of the client service functions (Audit, Tax and Advisory) oversee the quality of service delivered in their respective functions assisted by their functional management team and their function Quality & Risk Management Partners.

Our system of quality control

KPMG International has policies of quality control based on the ISQC1 and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and to help our personnel act with integrity and objectivity and perform their work with diligence.

KPMG UK supplements KPMG International policies and procedures with additional policies and procedures that are designed to address rules and standards issued by the Financial Reporting Council (FRC) and other relevant regulators such as the US Public Company Accounting Oversight Board (PCAOB).

Details of some of the measures that the Senior Partner and the rest of the UK Board have taken to ensure that a culture of quality prevails within KPMG UK are set out in Appendix 2.

Governance continued

Audit quality indicators

We are committed to achieving a high level of audit quality and the highest ethical standards with continuous improvement in both areas. During the year we have worked with the other major audit firms, as part of the Policy and Reputation Group, to develop a set of audit quality indicators that identify and measure factors contributing to audit quality (Audit Quality Indicators). We have agreed that we will each disclose our performance against these measures in our transparency reports to enable observers to compare performance over time.

Monitoring and continuous improvement

As explained in Appendix 2, we place considerable emphasis on ensuring our work continues to meet the needs of participants in the capital markets and we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

The results of internal and external quality reviews, which include the agreed Audit Quality Indicators, are summarised in this section, with more detailed information provided in Appendix 2.7.
In all cases, we seek to learn from matters raised from these reviews by preparing action plans following root cause analysis of issues arising so that we may address any underlying issues as well as the specific matters identified in the relevant reviews.

Internal monitoring

Our internal monitoring comprises principally three main components:

Our Quality Performance Review (QPR) Programme assesses engagement level quality for each of our functions, and the results of this for 2014 are set out in the table below.

The Risk Compliance Programme (RCP) is our annual self assessment programme which monitors, assesses and documents firm-wide/cross functional compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. We assessed our Firm to have a 'Green' rating, indicating substantial compliance with KPMG's policies and procedures, where issues identified are minor and isolated and are acted upon promptly (2013: Yellow).

The Global Compliance Review (GCR) is a triennial review focused on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the Firm's RCP) which is undertaken by members of the Global Compliance Group independent of the UK firm. The UK firm was subject to its last GCR inspection in January 2013 which identified a small number of opportunities for improvement, including some areas identified by the UK firm's own compliance and quality control processes. The next inspection is expected in the second half of 2015.

Overview of 2014 QPR results (2013 data in brackets)

	Satisfactory	Performance improvement necessary	Unsatisfactory	Number of engagements reviewed	% of engagement leaders reviewed
Audit	83% (87%)	12% (6%)	5% (7%)	116 (124)	36% (39%)
Tax	93% (85%)	7% (14%)	0% (1%)	232 (229)	44% (42%)
Advisory	86% (89%)	12% (7%)	2% (4%)	210 (196)	29% (31%)

External monitoring

We are subject to external annual reviews, primarily by the Audit Quality Review (AQR) team of the FRC and the Quality Assurance Department (QAD) of the ICAEW.

AQR review category	**2013/14**	2012/13
Good with limited improvements required	**10**	7
Acceptable overall with improvements required	**4**	6
Significant improvements required	**2**	0

QAD review category	**2013/14**	2012/13
Satisfactory or generally acceptable	**6**	8
Some improvement required	**2**	2
Significant improvement required	**3**	0

Regulatory investigations

During the year, the FRC commenced a disciplinary investigation into the preparation, approval and audit of the financial statements of The Co-operative Bank plc, up to and including the year ended 31 December 2012.

In December 2014, tribunals considered two Formal Complaints made by the Financial Reporting Council (FRC) against KPMG and two KPMG Partners. The tribunals follow investigations previously announced by the FRC on 9 May 2013 and relate to compliance with certain aspects of Ethical Standards in 2010–2012. The tribunals are only to determine any possible sanctions, since KPMG has admitted the Formal Complaints. The decisions of the tribunals are currently outstanding. In relation to both matters we have investigated the underlying reasons giving rise to the issues and taken steps to enhance our processes.

The FRC investigation in relation to our audit of the accounts of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2007, 2008 and 2009 announced in March 2012 remains open.

We have co-operated fully with all of the above investigations and will continue to do so.

Investment in audit quality

We invest heavily in delivering and developing our audit offering and this includes significant investment in training and research and development on audit and assurance.

Training delivered in audit

Our annual training programme runs for a calendar year to match the typical audit cycle and the majority of training takes place in summer and autumn. For the year ended 30 September 2014 our audit training programme (excluding those courses for unqualified staff on training contracts) included mandatory technical and risk courses.

In addition to this minimum structured training, Partners and staff are required to complete additional training relevant to their grade and role. This includes, for example, mandatory Audit Quality Workshops for all engagement leaders (as noted in Appendix 2.5.1), mandatory training and accreditation for all Partners and managers providing services on US GAAP and/or US GAAS/PCAOB audits (as noted in Appendix 2.5.2), and industry-specific training.

The average number of hours of this training undertaken by Partners and qualified staff for the year ended 30 September 2014 was 32 hours. These hours exclude the time spent on core skills programmes to support career and professional development, and the many hours spent ensuring continuing professional development by reading technical journals and attending technical briefings (including KPMG hosted events such as our Financial Reporting Seminars and those run by our Audit Committee Institute).

Research and development on audit

Our Firm, individually and together with our global network, is committed to developing our audit service. Much of this investment is undertaken collectively by our Global Service Centre to develop and support our audit methodology, as set out in KPMG's International Audit Manual (KAM) and our electronic audit tool (eAudIT). More information on KAM and eAudIT is included in Appendix 2.

We are undertaking a multi-year transformational programme to develop a new approach to audit, which we call Dynamic Audit, to add value for all our stakeholders by further increasing quality. Amongst other initiatives, this programme resulting in far greater use of Data & Analytics in the audit.

We are also investing in a number of areas where we believe corporate reporting and audit has an important role to play in restoring trust. As part of our commitment to restoring trust, this year has seen our investment in the development of a new approach to our audit reports.

We also seek to develop and apply other tools to enhance audit quality, and our recent alliance with McLaren (see page 12) is an example of such an initiative.

Governance continued

Partner and staff survey

We recognise the importance of listening to feedback from our people about how they are feeling about KPMG and their working environment. We perform Global People Surveys every two years, with shortened pulse surveys taking place in the intervening years. The next People Survey is being conducted during December 2014 and our next Annual Report will include the results from our Audit function for the following questions (results from the 2012 People Survey included in brackets):

- There is an appropriate emphasis on quality at KPMG (2012: 82% favourable response)
- I have access to the resources I need to do my job effectively (2012: 64% favourable response)
- We are getting the training and development needed to meet our clients' changing needs (2012: 69% favourable response)

Stakeholder interactions

Investor liaison

Recognising investors as the clients for our audits, in 2014 we have sought to increase the level of engagement with investor representative bodies. These meetings, often with one or more of our Public Interest Committee members present, have covered the results of the FRC's thematic reviews on Materiality and Fraud Risks and Law and Regulations, and the results of the FRC's AQR team findings in relation to our Firm. We have also met individually with investors. We see dialogue with investors as an important mechanism for increasing trust and understanding and we will be seeking to further increase the level of engagement in 2015.

Interaction with regulators

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level.

In the UK, the Heads of Audit and Audit Quality & Risk Management have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities. These meetings are to discuss reviews of the Firm and our audits as well as changes in regulation and the audit arena.

Risk management

The identification, evaluation, management and monitoring of the most significant risks that face our Firm and could threaten the achievement of our strategic objectives are the responsibility of the Board.

The principal risks and uncertainties facing our Firm are set out on the following page.

Risk, potential impact and mitigations

The identification, evaluation, management and monitoring of the most significant risks that face our Firm and could threaten the achievement of our strategic objectives are the responsibility of our Board. The principal risks and uncertainties facing our Firm are as follows:

Risk description	Mitigation
Major or multiple audit failures Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost clients through the resulting reputational damage.	• A tone at the top which emphasises quality, ethics and integrity • Board oversight of both internal and regulatory audit quality reviews, recommendations and actions • Robust audit quality controls • Rigorous client and engagement acceptance procedures
Major litigation or regulatory investigation Actual or suspected failure in any of our services potentially resulting in loss for our clients and shareholders, harming our reputation, opening us to increased scrutiny, the prospect of major claims and legal costs or significant remediation costs.	• General engagement quality and risk management controls • Rigorous and robust inter-firm contracting protocols when working with other KPMG International member firms • Rigorous client and engagement acceptance procedures
Major regulatory change impacting on our business model In particular resulting in further restrictions on the non-audit services we can offer to existing audit clients, being precluded from pitching for an audit because of other services provided in the past thereby potentially restricting the choice of auditors for entities, or from a system of mandatory audit firm rotation being introduced.	• Robust account planning • Executive Committee oversight of accounts plans on major accounts • Efficient and effective engagement take on processes allowing us to proactively manage audit independence for audit targets
Data loss Failure to protect client confidential or personal data, through either Cyber attack or through failures in our internal procedures leading to loss for our clients, potential damage to our reputation, loss of key clients and open us up to potential litigation of regulatory fines.	• IT infrastructure • Robust IT security policies and processes • ISO27001 accreditation • Ongoing training and awareness campaigns • Our Code of Conduct
Financial risk Failure to achieve growth or budget aspirations thereby losing market share and competitor positioning.	• Executive Committee budgetary challenge • Monthly financial analysis at firm and functional level • Pricing panels • Resourcing directors challenge on headcount levels
Delivering inappropriate services Delivery of services which are either illegal, unethical, contravene professional standards or are otherwise perceived by investors, regulators or other stakeholders as inappropriate could damage ours and our clients' reputations and potentially result in regulatory sanctions, legal action or damage our relationship with key regulators.	• Our internal quality control system, overseen by the Executive Committee, including (i) Rigorous client and engagement acceptance procedures, (ii) Engagement quality controls (including the involvement of an Engagement Quality Control Review), (iii) Robust conflicts checking processes, (iv) Policies and procedures around auditor independence, (v) Robust compliance programmes and (vi) our Code of Conduct and Values • Whistle-blowing processes
Failure of another network firm Our ability to service our clients or our reputation in the marketplace is severely impacted by the failure of another KPMG member firm.	• Global processes and procedures including: • Global risk policies and procedures • Global audit methodology • Global Quality Review Programmes
Working with the wrong clients Working with the wrong clients damages our reputation in the marketplace/with the regulators or exposes the Firm to litigation.	• Robust client take on processes • Whistle-blowing hotline • Money Laundering Reporting procedures
Change overload We attempt to achieve too much change in one year and (i) do not achieve the transformation we require or (ii) do not focus on business-as-usual growth.	• Realistic budgets • Board input into strategy • ExCo sponsorship of strategic growth initiatives

Governance continued

Activities of the Audit & Risk Committee in the year

In order to discharge its responsibilities, the Audit & Risk Committee met five times during the year; its activities included the following:

- Provided input into the Enterprise Risk Management process, reviewing key business risks and mitigations, prior to consideration by the UK Board;
- Considered the risk management policies in place, including compliance reviews and reporting on whistle-blowing from the group's independent Ombudsman;
- Considered the current status on all professional claims, including the exposure to uninsured cost; discussed regular updates as to the progress of each claim with the group's legal team;
- Considered the tax risks facing the group, both in respect of the advice provided to clients and risks that may arise from performing services in different jurisdictions;
- Reviewed the work undertaken in respect of internal controls operating within the group, including review of the Transparency Report requirements met within this Annual Report, prior to consideration by the UK Board;
- Reviewed and approved the scope of work to be undertaken by the Internal Audit function; reviewed regular updates as to the progress of each review against plan and discussed any significant issues identified as a result of those reviews;
- Reviewed the external auditor's plan for the audit of the group's financial statements, including the identification of key risks; monitored the progress of audit work against plan, including the review of detailed reports and discussion of any significant issues identified as a result of the work undertaken;
- Reviewed detailed reports as to the progress of audit work against plan and discussed any significant issues identified as a result of the work undertaken; and
- Considered the appropriateness of the group's accounting policies, culminating in the review of the annual financial statements, prior to approval by the UK Board.

The Chief Financial Officer, Head of Internal Audit and the lead audit Partner of our external auditors are invited to join the meetings. The Audit & Risk Committee members also met privately with both the Head of Internal Audit and the external auditors during the year.

Financial reporting risks

The key areas of risk that have been identified and considered by the Audit & Risk Committee in relation to the financial statements are as follows:

- Revenue recognition – the judgements applied in determining the timing of revenue recognition and the recoverability of related unbilled amounts for client work and client receivables;
- Professional claims – the judgements applied in either provisioning for, or disclosing, exposure to uninsured cost (including related legal expenses); and
- Retirement benefits – the assumptions selected for valuation of the defined benefit pension plans and former member annuities, under IAS 19.

In addition to these key areas of risk, the Audit & Risk Committee have considered the following additional financial reporting issues:

- Scope of consolidation – the early adoption of the consolidation suite of International Financial Reporting Standards, particularly in respect of entities that are not wholly owned, to ensure that new standards are applied appropriately.
- Retirement benefits – the implementation of the Asset Backed Funding Scheme (see note 20 of the financial statements).
- KPMG Europe LLP (ELLP) demerger – KPMG UK's exit from the ELLP group.

Having reviewed the reports received from the Chief Financial Officer and external auditor, the Audit & Risk Committee are satisfied that these key areas of risk and judgement have been appropriately addressed in the financial statements.

External auditor

Grant Thornton UK LLP retained the audit appointment when it was last tendered in 2008.

The Audit & Risk Committee has reviewed the performance of the external auditor and is satisfied that Grant Thornton UK LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. Accordingly, the Audit & Risk Committee have recommended the reappointment of Grant Thornton UK LLP.

In future periods, this appointment will continue to be assessed in light of auditor performance. Whilst we are not required to comply with the recently issued guidance on audit tendering and rotation, our expectation is that the audit would be put to tender no later than 2020, in line with current FRC guidance.

The provision of non-audit services is monitored by the Audit & Risk Committee. During the year, fees of £27,000 (2013: £19,000) were paid to Grant Thornton UK LLP in respect of non-audit services.

Statement by the Board of KPMG LLP on effectiveness of internal controls and independence

Internal controls statement

The Board is responsible for the Firm's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements. The day-to-day responsibility for managing our operations rests with the Executive Management Team.

In accordance with the Audit Firm Governance Code the Board has reviewed the effectiveness of its systems of internal control. In reviewing the systems of internal control and their effectiveness, it has adopted the approach prescribed within the Combined Code Guidance for Directors 2005 (Turnbull guidance). The Board will consider the application of the FRC's recently issued Guidance on Risk Management, Internal Control and Related Financial and Business Reporting during 2015.

This monitoring covers risk management systems and all key controls including those controls relating to finance, operations, quality and compliance controls. It is based principally on the consideration and review of reports from relevant Executive Members and reports from the Audit & Risk, Public Interest and Ethics Committees on an ongoing and timely basis to consider whether significant risks are identified, evaluated, managed and controlled.

The key elements of the Board's review of the risk management systems and internal controls during the period under review have been:

- Review of our risk assessment process, which is reported to the joint Public Interest and Audit & Risk Committees and then subsequently to the full Board.
- Regular reports by the Chief Operating Officer to the Board on the Firm's financial performance and on any emerging financial risks and issues.
- Regular reports from the Head of Quality & Risk Management to the joint Public Interest and Audit & Risk Committees and to the Board on regulatory, risk and compliance matters, including the findings and associated action plans arising from:
  - The various compliance programmes operated by the Firm (including the Quality Performance Reviews and Risk Compliance Programme as described in Appendix 2); and
  - External regulatory inspections.
- The report to the Board made by the Audit & Risk Committee on how it has discharged its duties in the year which included:
  - Review of the results of Internal Audit work commissioned as part of the approved annual internal audit plan, including progression on the resolution of weaknesses identified. In the reporting period reviews have been completed covering key internal controls; and
  - Review of the reports from the group's external auditors, Grant Thornton UK LLP, on the progress of their annual audit and discussions with them on any control weaknesses or issues identified by them.
- Reports to the Board on the work of the Ethics Committee since its formation during the year.

Conclusions

No significant weaknesses in our internal controls have been identified during the course of this review. In addition, the Board confirms with a reasonable level of assurance that the systems of quality control within our Firm have operated effectively in the year to 30 September 2014.

Further, the Board of KPMG LLP confirms that an internal review of independence practices within our Firm has been conducted in respect of the year ended 30 September 2014.

Compliance with requirements of Audit Firm Governance Code

The Board has reviewed the provisions of the Audit Firm Governance Code (as set out in Appendix 4) and confirms that the Firm complied with these provisions throughout the year ended 30 September 2014.

Governance continued

Report from the Chair of the KPMG LLP Public Interest Committee

Report from Public Interest Committee

The Public Interest Committee (PIC) was constituted in autumn 2013 as part of KPMG UK governance changes and reports to the UK Board. Having been the Chairman of the KPMG Europe LLP PIC that was terminated at the same time, I was retained to be Chairman of the new Committee and three new members were appointed: Philip Augar, Professor Laura Empson and David Pitt-Watson. As a result, most of the Committee members are new to the Firm and therefore much of the past year has involved learning about KPMG. This involved a full induction of the new Independent Non-Executives to KPMG and its business.

Due to the commonality of interests of the PIC and Audit & Risk Committees we met together throughout the year. In addition, the PIC holds separate meetings (usually in advance of the joint Committee meetings attended by the secretary of the Committee and other members of the Firm who we invite) to ensure that we have ample opportunity to debate matters privately and to discuss other agenda items falling under our remit. We are also invited to attend Board meetings, the Board strategy day and other ad hoc meetings of the Board as appropriate.

As a newly formed committee, our initial focus was on agreeing a common view of the public interest. After reviewing the Audit Firm Governance Code, and the rationale for appointing Independent Non-Executives, the Committee decided to start its work on the basis that the public interest had two components; the integrity of the information put into the public markets and avoiding failure or serious weakening of one of the large accountancy firms.

On the basis of this view of the public interest we concluded that we would need to consider a wide range of the Firm's activities including strategy, culture, risk management and the principles underlying remuneration.

The key observations made by the Committee during the past year in relation to these activities are summarised below.

Business and strategy

Looking forward we see opportunities and challenges in the marketplace. Following audit regulatory changes the opportunities are particularly apparent in audit where audit tendering is creating mobility in an area we feel the opportunity goes further. We are conscious that there is dissatisfaction amongst investors – the key clients of audit – with the status quo. We have encouraged KPMG to differentiate itself as a firm that produces audits and other services to ever higher levels of integrity and insight. We feel that this can be achieved by understanding and addressing the demands of investors and making an effort in engaging them in developing an audit which better meets their needs.

Turning to strategy, as stated above, the Committee members were all invited to attend the Board strategy day and subsequent follow-up meetings of the Board. The basis of the Firm's strategy is the aim for revenue growth with clear financial targets set to achieve this. The Committee feels that this is an improvement on previous strategic aims. It is clear and understandable at all levels in the Firm and is open to robust accountability.

Culture and integrity

The Committee has found much that is impressive with KPMG's culture. Everybody we have dealt with has been helpful and informative, and has provided us with any information we have sought. We have found that the way KPMG staff and Partners work together creates a pleasant working environment which may explain in part why KPMG ranks highly as an attractive employer for graduates. However, we have also highlighted to the Board the potential pitfalls of such a harmonious culture where it could get in the way of healthy internal challenge. We have encouraged them to consider this in the context of both the way the Board itself operates and in the activities of the Firm more generally. We have also suggested further codification of the responsibilities of top management.

During the year, KPMG set up an Ethics Committee, which is responsible for providing oversight of KPMG policies and procedures in relation to ethical matters and reviewing any breaches by Partners and employees of the Firm's requirements in relation to personal financial independence. We consider this to be an important initiative which we will monitor.

Risk management

We receive an update from the Head of Quality & Risk Management at both the Audit & Risk Committee meetings and our separate PIC meetings. These cover regulatory developments and risk issues arising during the period, including a focus on ethics and integrity. We consider the current arrangements to be sound. Looking ahead, the marketplace in which KPMG and similar firms operate is changing. Repeat business in all areas is in decline. This brings new and changing risks such as whether the Firm can move resources around the business to meet the demands of the market and the potential impact of increased selling on the quality of work produced. The Committee is particularly interested to see how these risks are identified and managed going forward.

The Firm has an embedded system of risk management overseen by the Audit & Risk Committee and a developing system of internal audit. We receive an annual update from the Head of Internal Audit on the proposed plans for the coming year and updates at each of the meetings on progress to date. Following discussion at the Audit & Risk Committee meetings, the internal audit process is being further developed to enable better audits for the new initiatives rolled out by the Executive Team.

Finally this coming year, we will be meeting with KPMG International's Global Quality & Risk Management to understand the management of risks which could affect KPMG UK but which originate in other countries in the KPMG network.

Remuneration

In the past year, the Firm has put in place important changes to the governance and operation of the partnership, including introducing new arrangements for Partner investments and Partner pay. The previous pay system carried the risk of magnifying the focus on the short term which is a common issue in partnerships so we are encouraged by these new developments. However, the ongoing challenge is to find enough flexibility in the reward system to provide the incentives to promote new behaviours in a changing environment.

Stakeholder and investor observations

An important part of our remit is to engage in discussions with the investor community and other stakeholders about the measures that the Firm is taking to ensure audit quality. During the year, the Committee members have attended meetings with investors together with members of KPMG's leadership team. The issues discussed have included materiality, the Audit Firm Governance Code, investor expectations and the role and priorities of the Independent Non-Executive Directors. There have also been a number of informal contacts with investors.

Overall conclusions

As this is the first year that the new Public Interest Committee has been in operation, this report sets out our observations of the key issues facing the Firm rather than any firm conclusions made. We will be looking to build on the discussions started during the year, with presentations from each of the function heads scheduled throughout the course of the next 12 months. We are also interested to see how the Firm adapts within a changing marketplace and how it deals with the associated challenges, particularly relating to risk management and audit quality. However, in summary, we have been impressed by the focus on ethics and integrity by leadership and their receptiveness to the comments and challenges raised by the Committee members.

Sir Steve Robson
30 September 2014

LLP Governance
Executive Committee

1. 2. 3. 4. 5. 6. 7. 8. 9. 10.

Members of KPMG LLP Executive Management Team as at 30 September 2014

At the start of the year the Board comprised all Executive and Non-Executive members. Following a review of governance in early 2014 the Board was changed to comprise three Executive members (as identified *) together with all Non-Executive members.

1. **Simon Collins***
Chairman of KPMG UK and Senior Partner

Simon has been a Partner for 14 years and joined the Board on 30 July 2012. He is also a member of the Boards of KPMG Europe LLP & KPMG International.

2. **Jim Marsh***
Chief Operating Officer and Head of People

Jim first became a Partner in 1997. He left KPMG in 2002 to work at a number of large corporates and returned in October 2011. He joined the UK Board on 30 July 2012.

3. **David Matthews***
Head of Quality and Risk Management

David has been a Partner for 17 years and joined the UK Board on 30 July 2012.

4. **Marianne Fallon**
Head of Corporate Affairs

Marianne joined the UK Board on 30 July 2012 and has been a Partner for four years. Marianne is also UK Head of Charities.

5. **Tony Cates**
Head of Audit

Tony has been an Audit Partner for 16 years and joined the UK Board in June 2011.

6. **Jane McCormick**
Head of Tax and Pensions

Jane has been a Tax Partner for 17 years and joined the UK Board on 30 July 2012.

7. **Richard Fleming**
Head of Advisory

Richard has been a KPMG Partner for 11 years, having previously been a Partner with both Arthur Andersen and Ernst & Young. Richard joined the UK Board on 30 July 2012.

8. **Richard Gostling**
Head of Sectors

Richard rejoined KPMG from Goldman Sachs in 2014 and replaced Joe Gallagher on the Executive Committee with effect from 1 August 2014.

9. **Iain Mofatt**
Head of Regions

Iain has been a Partner for 17 years and joined the UK Board on 30 July 2012. He is also the Chairman of KPMG's London and Eastern Counties region.

10. **Bill Michael**
Head of Financial Services

Bill has been a Partner for 14 years and joined the UK Board on 30 July 2012.

Non-Executive Members

11. **Richard Reid**
Non-Executive member

Richard has been a Partner for 23 years and joined the UK Board on 30 July 2012. He is also the London Chairman and was chair of the Nomination and Remuneration Committee.

12. **Kru Desai**
Non-Executive member

Kru has been a Partner for four years and joined the UK Board on 14 September 2012. She was also a member of the Audit and Risk Committee.

13. **Jonathan Hurst**
Non-Executive member

Jonathan has been a Partner for 19 years and joined the UK Board on 14 September 2012. He was also the Chairman for KPMG's North region and a member of the Nomination and Remuneration Committee. Jonathan retired from the Board on 30 September 2014.

14. **Melanie Richards**
Non-Executive member

Melanie has been a Partner for 12 years and joined the UK Board on 14 September 2012. She is also a member of the Nomination and Remuneration Committee and the Ethics Committee. Following the year end on 1 October 2014 Melanie was appointed a vice chair of the firm and now sits on the Board in that capacity.

15. **David Sayer**
Non-Executive member

David has been a Partner for nine years and joined the UK Board on 14 September 2012. He is also a member of the Audit and Risk Committee.

16. **Ian Starkey**
Non-Executive member

Ian has been a Partner for 19 years and joined the UK Board on 14 September 2012. Ian is also the Chair of the Audit and Risk Committees and a member of the Ethics Committee.

Other changes after the year end
Joe Gallagher was, on 1 October 2014, appointed to the Board as a vice chair. Joe stood down from the Board on the 4 November 2014 having announced his retirement. On 1 October 2014 three new non-executive members of the Board were appointed, Richard Heis, Nicola Quayle and Karl Edge following election by the members.

Governance continued

Members of the Public Interest Committee for the year ended 30 September 2014

Sir Steve Robson
Chair and Independent Non-Executive

Sir Steve retired as Second Permanent Secretary at HM Treasury in January 2001. He was a Non-Executive Director of the Financial Reporting Council, JP Morgan Cazenove, Glencore Xstrata plc, Cazenove plc, the Royal Bank of Scotland and Partnerships UK plc.

David Pitt-Watson
Independent Non-Executive

David Pitt-Watson is an Executive Fellow at London Business School. He is a leading thinker and practitioner in the field of responsible investment and he was CEO of Hermes Focus Asset Management and the founder of Hermes Equity Ownership Service, which now advises over £100 billion of investments. He is a director of the International Corporate Governance Network and Co-Chairs the UN Environment Programme's Finance Initiative.

Philip Augar
Independent Non-Executive

Philip is an author and Non-Executive Board member at TSB PLC. He is a former Group Managing Director at Schroders plc, he led NatWest's global securities business and he was a Non-Executive Board member at the Department for Education and the Home Office.

Professor Laura Empson
Independent Non-Executive

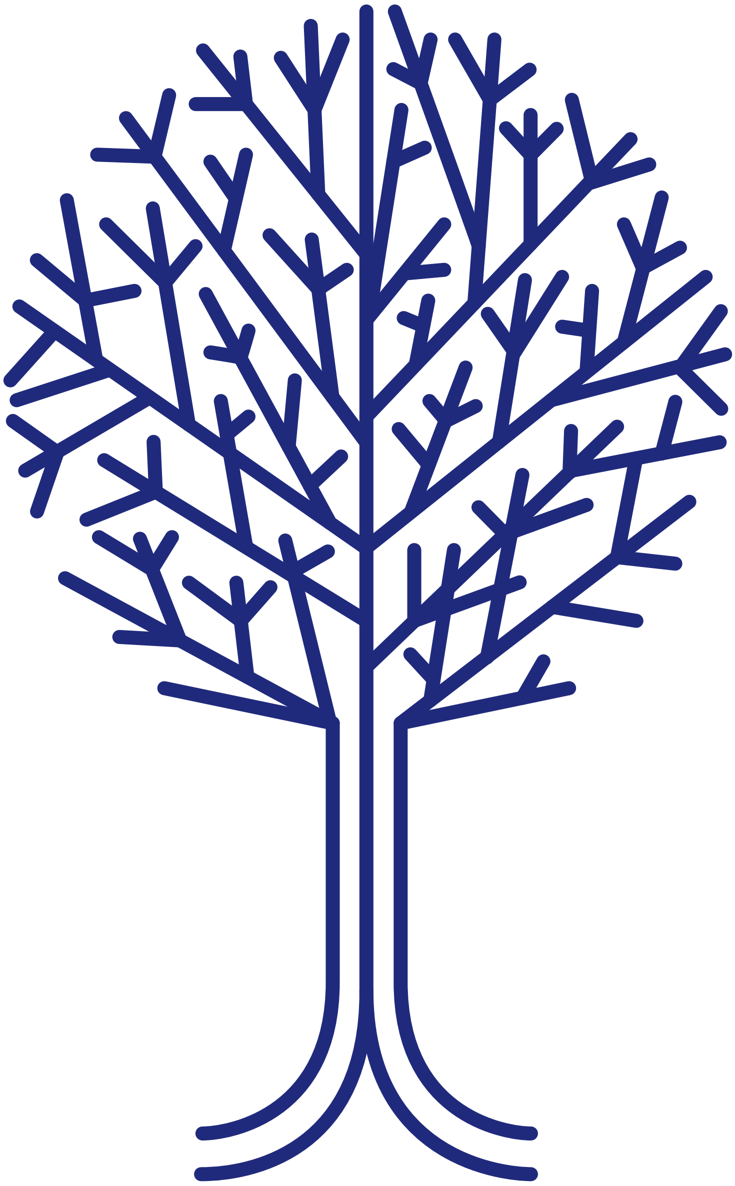
Professor Laura Empson is the Director of the Centre for Professional Service Firms at Cass Business School at City University London. She is currently a member of the Editorial Boards of the Journal of Management Studies, Organisation Studies, and the Journal of Professional Organizations. She is also a member of the Economic and Social Research Council's Peer Review College and an External Examiner for the London Business School Masters Programmes.

Meeting attendance for the year ended 30 September 2014
(Meetings eligible to attend in brackets)

	Board	ExCo	Audit & Risk Committee	Nomination & Remuneration Committee	Public Interest Committee	Ethics Committee
Executive Members						
Simon Collins*	9 (9)	11 (11)	–	–	–	–
Jim Marsh*	9 (9)	11 (11)	–	–	–	–
David Matthews*	9 (9)	11 (11)	–	–	–	5 (5)
Marianne Fallon	1 (1)	11 (11)	–	–	–	–
Tony Cates	1 (1)	11 (11)	–	–	–	–
Jane McCormick	1 (1)	10 (11)	–	–	–	–
Richard Fleming	1 (1)	9 (11)	–	–	–	–
Richard Gostling	–	2 (2)	–	–	–	–
Joe Gallagher	1 (1)	9 (11)	–	–	–	–
Iain Moffatt	1 (1)	9 (11)	–	–	–	–
Bill Michael	1 (1)	8 (11)	–	–	–	–
Non-Executive members						
Richard Reid	8 (9)	–	–	6 (6)	–	–
Kru Desai	8 (9)	–	5 (5)	–	–	–
Jonathan Hurst	8 (9)	–	–	6 (6)	–	–
Melanie Richards	9 (9)	–	–	6 (6)	–	4 (5)
David Sayer	9 (9)	–	4 (5)	–	–	–
Ian Starkey	8 (9)	–	5 (5)	–	–	5 (5)
Independent Non-Executive Directors						
Sir Steve Robson	–	–	5 (5)	–	4 (4)	–
Philip Augar	–	–	5 (5)	–	4 (4)	–
Professor Laura Empsom	–	–	3 (4)	–	4 (4)	–
David Pitt-Watson	–	–	3 (5)	–	3 (4)	–
Partners at large						
Richard Pinckard	–	–	–	–	–	5 (5)
Janette Wilkinson	–	–	–	–	–	3 (5)
General Counsel						
Vanessa Sharp	–	–	–	–	–	4 (5)

*See page 64.

cutting through complexity



Annual Report 2014 | Financials

Report to the members

The Board submits its report together with the audited consolidated financial statements of KPMG LLP and its subsidiary undertakings ('the group') for the year ended 30 September 2014. This report to the members should be read in conjunction with the other sections of this Annual Report.

Registered office

As set out on page 52, KPMG LLP is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000 and is referred to in these financial statements as 'the partnership'.

The partnership's registered office is 15 Canada Square, Canary Wharf, London, E14 5GL.

Designated members and the Board

The designated members (as defined in the Limited Liability Partnerships Act 2000) of the partnership during the year were:

SJ Collins
P Long
JW Marsh

At 30 September 2014, the UK Board comprised two of the three designated members and a further 7 members, including six deemed to be non-executive, as set out on pages 64 and 65.

Net assets and liquidity

The financial position of the group remains strong. Operations are generally financed by members' capital and other members' interests, which together totalled £366 million at 30 September 2014 (2013: £354 million) for the group and £293 million (2013: £310 million) for the partnership. Bank facilities of £405 million were also available to the group at 30 September 2014, against which £67 million had been drawn (2013: £95 million). In addition, if necessary, the group could alter the phasing of partner distributions in order to ensure sufficient finance is available to the group as required.

Capital is provided by each member on becoming a partner and totalled £52 million at 30 September 2014 (2013: £50 million). Capital is only repayable on retirement or resignation and is therefore relatively stable from year to year.

The main current assets of the group are trade receivables and unbilled amounts for client work. Both categories are monitored at departmental and function levels. The prompt rendering of fees for work done and collection of the resulting receivables are important aspects of the monitoring of financial risks within the group. These assets totalled £610 million at 30 September 2014 (2013: £617 million) for the group and £554 million (2013: £536 million) for the partnership.

The group's operating activities are cash generative in the short term, save for investments in property, plant and equipment and intangible assets which are held for the long term. Cash outflows are strongly influenced by the timing and amounts of payments in respect of profit shares to members, in settlement of tax liabilities on their behalf and bonuses to members and staff.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are discussed throughout the Strategic Report and in particular on pages 22–41. The financial position of the group, its cash flows, liquidity position and borrowing facilities are discussed above. In addition, note 22 to the financial statements includes the group's objectives, policies and processes to address risks arising from the group's use of financial instruments, in particular its exposure to market, credit and liquidity risks. The borrowing facilities, together with details of amounts drawn down under these borrowing facilities, are also set out in note 22.

The group has considerable financial resources together with well-established relationships with many clients and suppliers across different geographic areas and industries. As a consequence, the Board believes that the group is well placed to manage its business risks successfully.

After making enquiries, and following a review of its profit and cash flow forecasts, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Creditor payment policy

The group agrees commercial terms with suppliers (including payment terms) and, if performance accords with these terms, aims to abide by the agreed payment arrangements. The partnership signed up to the Prompt Payment Code in 2009, confirming the commitment to prompt payment of suppliers.

Disclosure of information to the auditor

The Board members who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the group's auditor is unaware; and each Board member has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Auditor

In accordance with Section 485 of the Companies Act 2006, the independent auditor, Grant Thornton UK LLP, will be proposed for re-appointment.

Other relevant information

Other information relevant to the 'report to the members' may be found in the following sections of the Annual Report:

Information:	Location in Annual Report:
Legal structure	Governance
Principal subsidiary and associated undertakings of the group	Financial statements: note 26
Strategy of the group	Strategic Report
Risks and performance	Strategic Report and Governance
Treasury and risk policies	Financial statements: note 22
Governance of the group	Governance
Members' remuneration policies	Financial statements: notes 1 and 5
Events since 30 September 2014	Financial statements: note 27

Statement of members' responsibilities in respect of the report to the members and the financial statements

The members are responsible for preparing the report to the members and financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the group and partnership financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under Regulation 8 of the 2008 Regulations the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and partnership and of the profit of the group for that period.

In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and partnership will continue in business.

Under Regulation 6 of the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and partnership's transactions and disclose with reasonable accuracy at any time the financial position and enable them to ensure that the financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and partnership and to prevent and detect fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. During the year, these responsibilities were exercised by the Board on behalf of the members.

Independent auditor's report to the members of KPMG LLP

Our opinion on the financial statements is unmodified

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent limited liability partnership's affairs as at 30 September 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Our audit focus

We have audited the financial statements of KPMG LLP for the year ended 30 September 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Group and Partnership statements of financial position, the Group and Partnership statements of changes in equity, the Group and Partnership statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In addition, the members have engaged us to expand our auditor's report to include auditor commentary providing an overview of: the scope of our audit; our application of the concept of materiality in planning and performing our audit; and the assessed risks of material misstatement that were identified by us and which had the greatest effect on our audit. The members have also engaged us to report findings arising from our audit work in relation to each of the significant risks identified by us.

Who we are reporting to

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partnership and the members as a body, for our audit work, for this report, or for the opinions we have formed.

Auditor commentary

An overview of the scope of our audit

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Our audit scope included a full audit of the financial statements of the parent limited liability partnership, KPMG LLP, together with audits for group reporting purposes of its subsidiary undertakings as detailed in note 26 (together 'the Group'). 98.2% of group revenues and 99.0% of net assets attributable to members were subject to a full audit under group materiality, with the remaining revenues and net assets subject to analytical review. Substantially all of the subsidiary undertakings were subject to audit by us, directly, as the group auditor.

Where component auditors performed work for group audit purposes, detailed group audit instructions were issued to those component auditors, which detailed the significant audit risks that should be addressed, together with materiality thresholds which were set at a lower level than overall group financial statement materiality. We also reviewed the component auditor's working papers and held direct discussions with them regarding their findings and conclusions. We met with component management to directly discuss judgements relevant to our group risk assessment.

We evaluated and tested key management controls over the financial processes linked to the significant audit risks described below which were identified as part of our risk assessment. We evaluated and tested general IT controls, the accounts production process and controls over critical accounting matters. We reviewed the findings of the work undertaken by internal audit where relevant to our assessment of significant risk. From this assessment, we sought to place reliance on those internal controls which we had tested. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was dependent on various factors including our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission.

For the group audit, we established materiality as a whole to be £31 million, which is 7.5% of profit before taxation and members' profit shares, which we consider to be one of the principal considerations of the Group in assessing its financial performance. In setting our materiality we considered the private nature of the ownership structure of the Group, but also its status as an entity of societal interest. We set an underlying performance materiality threshold of 75% of group materiality to direct and focus our audit testing, the determination of which was based upon limited audit adjustments identified in prior years.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the group financial statements as a whole and not to express an opinion on individual transactions, account balances or disclosures.

Independent auditor's report to the members of KPMG LLP
continued

Risk	How the scope of our audit responded to the risk and our findings from our audit
Revenue recognition Refer to pages 60, 79 and 83. Revenue is recognised as the fair value of the consideration earned in respect of professional services engagements undertaken during the year. In determining the timing of revenue to be recognised in accordance with IAS 18 'Revenue' and the value of unbilled revenue to be recognised in the Statement of financial position, each individual engagement team estimates the stage of completion and the right to consideration at the year-end for each contract. This can be highly judgemental. We therefore identified revenue recognition as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, an assessment of the methodology and internal control environment surrounding revenue recognition. We tested controls which we determined as key in the recognition of revenue. We performed substantive testing on a sample of engagements to assess that the right to consideration had been obtained through performance. For individually significant engagements, or engagements where we identified a specific risk, we discussed and challenged estimates applied in determining the level of revenue recognised and unbilled revenue recognised within the Statement of financial position. We also performed certain analytical procedures and made enquiries of engagement and management teams where revenues recognised or trends fell outside our expectation parameters. Where relevant, we sought corroborating evidence to support explanations provided by those teams. **Our findings** Our testing did not identify any significant deficiencies in the operation of controls which would require us to amend the nature or scope of our planned detailed testing. Overall, based on our audit work, our assessment is that the estimates applied in determining the level of revenue resulted in a mildly cautious, but consistent, level of revenue recognised in the Income statement and unbilled revenue within the Statement of financial position.
Professional claims Refer to pages 60, 82 and 83. The Group maintains insurance cover in respect of professional claims which is principally written through mutual insurance companies. In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', a provision is made for any uninsured costs to the Group for dealing with and settling negligence claims and regulatory matters. This can be highly judgemental. For claims with merit, generally the level of provision required is limited to the insurance excess. However, a claim with a value exceeding the Group's insurance cover, or a significant claim which is not covered by the Group's insurance could require a provision to be made. This, in turn, could draw into question the ability of the Group to continue as a going concern. We therefore assessed the identification of, and provisioning for, the costs of settling professional claims as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, performing an assessment of the professional claim notification, identification and practice protection procedures in operation. We considered claims in progress and challenged management's key assumptions underlying the level of provision, including whether any exposure was, or was not, covered by the Group's insurance arrangements. We directly confirmed the existence of insurance cover that the Group maintains and considered the financial strength of the insurance providers to ensure that sufficient assets were available to honour the levels of cover provided. We have reviewed both publicly available information and that held solely within the Group to consider whether the information we obtained was complete. **Our findings** Our testing did not identify any significant deficiencies in the operation of the professional claim notification, identification and practice protection procedures. Based on our audit work over claims in progress we found that, based on the information available to management, appropriate judgement had been made in determining the level of any provision required after taking into account available insurance cover. We confirmed with the insurance providers the levels of insurance cover in place for the Group and also obtained direct evidence of the financial strength of the insurance providers which enabled us to conclude that the insurers had sufficient assets to honour the level of cover provided. We did not identify from external sources any claims or circumstances not already included in the Group's internal reporting procedures. We consider that the Group's disclosures on page 83 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates.

Independent auditor's report to the members of KPMG LLP continued

Risk	How the scope of our audit responded to the risk and our findings from our audit
Defined benefit pension and member annuity schemes Refer to pages 60, 82, 83 and note 20. The Group has significant provisions for post-employment benefits, currently resulting in a defined benefit pension deficit and a provision for former members' annuities. The measurement of these liabilities in accordance with IAS 19 Revised 'Employee benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension and annuity liabilities being recognised within the group financial statements. We therefore identified post-employment benefit liabilities as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, reviewing the appropriateness of the valuation methodologies and their inherent actuarial assumptions, agreeing underlying data sent to the Group's internal actuaries and agreeing asset values to investment manager statements. We also involved our actuarial specialists to independently challenge management's actuarial assumptions and held discussions with the Group's internal actuaries. During the year the partnership entered into an Asset Backed Funding ('ABF') arrangement with the defined benefit pension plans as described in note 20 to the financial statements. We read and considered associated documentation in respect of this arrangement and challenged management's accounting treatment. **Our findings** Based on our audit work, we found the valuation methodologies and the actuarial assumptions inherent within them to be balanced and consistent with the expectation of our actuarial specialists. We obtained direct confirmation of assets from the investment managers and agreed them to the value of assets included within the actuarial valuation. We consider the accounting treatment adopted in respect of the ABF to be appropriate. The Group's IAS 19R deficit, Statement of financial position and Income statement are unchanged as a result of the ABF arrangement. We consider that the Group's disclosures on page 83 and in note 20 appropriately describe the significant degree of uncertainty in the underlying actuarial assumptions, estimates and the ABF arrangement.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement on page 69, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
16 December 2014

Grant Thornton

Consolidated income statement

For the year ended 30 September 2014

	Note	2014 £m	2013 Restated* £m
Revenue	3	**1,909**	1,814
Recoverable expenses		**(241)**	(213)
Net sales		**1,668**	1,601
Other operating income	4	**71**	76
Staff costs	5	**(843)**	(777)
Depreciation and amortisation	10,11	**(44)**	(41)
Other operating expenses	6	**(429)**	(394)
Operating profit		**423**	465
Financial income	7	**7**	9
Financial expense	7	**(16)**	(19)
Net financial expense		**(9)**	(10)
Profit before taxation and members' profit shares		**414**	455
Tax expense	9	**(11)**	–
Profit for the financial year before members' profit shares		**403**	455
Members' profit shares charged as an expense	5	**(329)**	–
Profit for the financial year available for discretionary division among members		**74**	455
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**79**	451
Non-controlling interests		**(5)**	4
		74	455

Consolidated statement of comprehensive income

For the year ended 30 September 2014

	Note	2014 £m	2013 £m
Profit for the financial year available for discretionary division among members		**74**	455
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on defined benefit pension plans	20	**(15)**	10
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		**–**	(1)
Other comprehensive income for the year, net of tax		**(15)**	9
Total comprehensive income for the financial year		**59**	464
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**64**	461
Non-controlling interests		**(5)**	3
		59	464

*Restatement on adoption of IFRS 11 Joint Arrangements (see note 1) and reflecting changes in internal reporting (see note 3).

Statements of financial position

At 30 September 2014

		Group		Partnership	
		2014	2013 Restated*	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**373**	367	**373**	366
Intangible assets	11	**49**	53	**31**	30
Investments	12	**3**	–	**14**	13
Other non-current assets	13	**14**	15	**85**	–
		439	435	**503**	409
Current assets, excluding members' interests					
Trade and other receivables	14	**713**	692	**676**	636
Other investments	15	**54**	51	**–**	–
Cash and cash equivalents	16	**48**	44	**13**	9
		815	787	**689**	645
Total assets, excluding members' interests		**1,254**	1,222	**1,192**	1,054
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**151**	138	**151**	138
Provisions	18	**104**	89	**72**	75
Deferred tax liability	19	**2**	3	**–**	–
Other non-current liabilities	13	**14**	15	**90**	–
		271	245	**313**	213
Current liabilities, excluding members' interests					
Short-term bank borrowings	22	**67**	95	**33**	62
Trade and other payables	17	**544**	507	**547**	464
Tax payable		**6**	5	**–**	–
Provisions	18	**6**	5	**6**	5
		623	612	**586**	531
Total liabilities, excluding members' interests		**894**	857	**899**	744
Net assets attributable to members and non-controlling interests		**360**	365	**293**	310
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(40)**	(140)	**(40)**	(135)
Amounts classified as current liabilities:					
Amounts due to members	21	**294**	25	**299**	25
Members' capital	21	**52**	50	**52**	50
		346	75	**351**	75
Amounts classified as equity:					
Other reserves classified as equity, being equity attributable to members		**60**	419	**(18)**	370
Total members' interests		**366**	354	**293**	310
Non-controlling interests		**(6)**	11	**–**	–
		360	365	**293**	310

*Restatement on adoption of IFRS 11 Joint Arrangements (see note 1).

The financial statements on pages 73 to 113 were approved by the members on 16 December 2014 and were signed on their behalf by:

Simon Collins
Chairman
KPMG LLP registered number: OC301540

Paul Long
Chief Financial Officer

Statements of changes in equity

For the year ended 30 September 2014

	Note	Members' other reserves £m	Non-controlling interests £m	**Group** Total £m	**Partnership** Total £m
Balance at 1 October 2012		314	8	322	264
Profits for the financial year available for discretionary division among members		451	4	455	436
Foreign exchange translation differences		–	(1)	(1)	–
Remeasurement on defined benefit pension plans	20	10	–	10	10
Total comprehensive income		461	3	464	446
2012 profits allocated to members during the year		(346)	–	(346)	(330)
Other movements	21a	(10)	–	(10)	(10)
Transactions with owners		(356)	–	(356)	(340)
Balance at 30 September 2013		419	11	430	370
Profit for the financial year available for discretionary division among members		**79**	**(5)**	**74**	**37**
Remeasurement on defined benefit pension plans	20	**(15)**	**–**	**(15)**	**(15)**
Total comprehensive income		**64**	**(5)**	**59**	**22**
2013 profits allocated to members during the year		**(423)**	**–**	**(423)**	**(410)**
Disposal of subsidiary	8	**–**	**(8)**	**(8)**	**–**
Other movements	21a	**–**	**(4)**	**(4)**	**–**
Transactions with owners		**(423)**	**(12)**	**(435)**	**(410)**
Balance at 30 September 2014		**60**	**(6)**	**54**	**(18)**

Statements of cash flows

For the year ended 30 September 2014

		Group		Partnership	
		2014	2013 Restated*	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**74**	455	**37**	436
Adjustments for:					
Tax expense	9	**11**	–	**–**	–
Depreciation and amortisation	10,11	**44**	41	**41**	39
Financial income	7	**(7)**	(9)	**(3)**	(9)
Financial expense	7	**16**	19	**14**	18
Acquisition costs expensed	8	**1**	–	**1**	–
Members' profit shares		**329**	–	**329**	–
		468	506	**419**	484
Increase in trade and other receivables		**(43)**	(23)	**(36)**	(6)
Increase in trade and other payables		**52**	36	**83**	5
Increase/(decrease) in provisions and retirement benefits		**5**	6	**(13)**	–
Cash generated from operations		**482**	525	**453**	483
Interest and other financial costs paid	7	**(3)**	(3)	**(1)**	(2)
Corporation tax paid		**(10)**	(10)	**–**	–
Net cash flows from operating activities before transactions with members		**469**	512	**452**	481
Payments to members		**(380)**	(362)	**(370)**	(348)
Net cash flow from operating activities		**89**	150	**82**	133
Cash flows from investing activities					
Cash paid on business combinations (net of cash acquired)	8	**(1)**	(9)	**(1)**	–
Interest and other financial income received	7	**3**	2	**–**	–
Dividends received		**–**	–	**–**	3
Dividends paid to non-controlling interests		**(2)**	–	**–**	–
Proceeds from disposal of subsidiary (net of cash disposed)	8	**(5)**	–	**–**	–
Acquisition of other investments		**(5)**	(1)	**(1)**	–
Proceeds from sale of property, plant and equipment		**2**	2	**2**	2
Acquisition of property, plant and equipment	10	**(41)**	(19)	**(41)**	(18)
Development of intangible assets	11	**(10)**	(7)	**(10)**	(7)
Net cash flows from investing activities		**(59)**	(32)	**(51)**	(20)
Cash flows from financing activities					
Short-term bank borrowings		**(28)**	(101)	**(29)**	(109)
Capital introduced by members	21	**6**	4	**6**	4
Capital repayments to members	21	**(4)**	(6)	**(4)**	(6)
Net cash flows from financing activities		**(26)**	(103)	**(27)**	(111)
Net increase in cash and cash equivalents		**4**	15	**4**	2
Cash and cash equivalents at the beginning of the year		**44**	29	**9**	7
Cash and cash equivalents at the end of the year	16	**48**	44	**13**	9

*Restatement on adoption of IFRS 11 Joint Arrangements (see note 1).

Notes
Forming part of the consolidated financial statements

1 Accounting policies

KPMG LLP (the partnership) is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000.

The consolidated financial statements include the financial statements of the partnership and its subsidiary undertakings ('the group') and include the group's interest in joint arrangements. The parent entity financial statements present information about the partnership as a separate entity and not about its group.

Both the group and partnership financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (adopted IFRSs) and have been approved by the voting members. In presenting the parent entity financial statements together with the group financial statements, the partnership is taking advantage of the exemption in Section 408(4) of the Companies Act 2006, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, not to present its individual income statement and related notes as part of these approved financial statements.

Following a change to the LLP Partnership Agreement during the year (see 'Allocation of profits and drawings' on page 82), certain members' profit shares now fall to be recognised as an expense in the income statement and a liability in the statement of financial position. As a result of this change, the presentation of the statement of financial position has changed and reflects accepted industry practice and guidance given in the LLP Statement of Recommended Practice (SORP).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all group entities. A number of new standards, amendments and interpretations to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have been endorsed by the European Union (adopted IFRSs) with effective dates such that they fall to be applied by the group. The Amendments to IFRS 7: 'Disclosures – Offsetting financial assets and liabilities' is the only such change of relevance to these financial statements and has been applied in the year ended 30 September 2014.

The group has also early adopted the following IFRSs and related amendments, including transitional guidance and any consequential amendments to other standards, in the year ended 30 September 2014:

- IFRS 10: 'Consolidated Financial Statements' and subsequent amendments; effective for periods beginning on or after 1 January 2014.
- IFRS 11: 'Joint Arrangements' and subsequent amendments; effective for periods beginning on or after 1 January 2014.
- IFRS 12: 'Disclosures of Interests in Other Entities' and subsequent amendments; effective for periods beginning on or after 1 January 2014.
- IAS 27: 'Separate Financial Statements' and subsequent amendments; effective for periods beginning on or after 1 January 2014.
- IAS 28: 'Investment in Associates and Joint Ventures'; effective for periods beginning on or after 1 January 2014.
- Amendments to IAS 32: 'Offsetting financial assets and liabilities'; effective for periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 11 and IAS 27: Investment Entities; effective for periods beginning on or after 1 January 2014.
- Amendments to IAS 36: Recoverable amount disclosures for non-financial assets.

The group early adopted the following IFRSs and related amendments in the year ended 30 September 2013:

- Improvements to IFRSs (issued by the IASB in May 2012): effective for periods beginning on or after 1 January 2013.
- IFRS 13 'Fair value measurement': effective for periods beginning on or after 1 January 2013.
- Amendments to IAS 19: 'Employee benefits': effective for periods beginning on or after 1 January 2013.

With the exception of the changes in accounting policy discussed below, these amendments have resulted in a small number of insignificant changes to disclosures given in the group's and partnership's financial statements but otherwise have had no impact.

There are no other adopted IFRSs, amendments or interpretations that are available for early adoption or that require mandatory application. The group has commenced the assessment of the impact of IFRS 15 'Revenue Recognition' and other forthcoming changes but no conclusions on the impact on either accounting or disclosure have yet been reached.

Change in accounting policy

IFRS 10, IFRS 11, IFRS 12, the amended IAS 27 and the amended IAS 28, endorsed by the EU on 11 December 2012, have been early adopted by the group.

In implementing IFRS 10, the group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the group reassessed the control conclusion for its investees at 1 October 2013. Following this reassessment, the group concluded that it remains in control of its investees at 1 October 2013. There is no impact from the change in accounting policy as a result of IFRS 10.

In implementing IFRS 11, the group has changed its accounting policy for its interests in joint arrangements in India. Under IFRS 11, the group has classified its interest in joint arrangements as joint operations, as the group has rights to the assets, and obligations for the liabilities, relating to an arrangement. When making this assessment, the group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

In the year ended 30 September 2013, the group accounted for its interest in its jointly controlled entities in India using the equity method as permitted by IAS 31 'Interests in Joint Ventures'. As a result of the adoption of IFRS 11, the group has derecognised the share of net assets that were previously accounted for using the equity method and recognised the group's share of individual assets and liabilities.

Notes
Forming part of the consolidated financial statements

1 Accounting policies continued

The following tables summarise the adjustments made to each of the financial statement line items on the adoption of IFRS 11. The group has taken advantage of the transitional provisions of Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), and has not included in the following tables the impact of the reclassification on the group's financial position, comprehensive income and cash flows as at and for the year ended 30 September 2014.

Consolidated income statement

	Group 2013 £m
Staff costs – as previously reported	**(779)**
Adoption of IFRS 11 – adjustment to staff costs on recognition of joint arrangements	**2**
Staff costs – restated	**(777)**
Share of profit of associated undertakings – as previously reported	**2**
Adoption of IFRS 11 – reversal of profit of associated undertakings on recognition of joint arrangements	**(2)**
Share of profit of associated undertakings – restated	**–**

Statement of financial position

	Group 2013 £m	2012 £m
Investments – as previously reported	**4**	2
Adoption of IFRS 11 – reversal of investment in associated undertakings on recognition of joint arrangements	**(4)**	(2)
Investments – restated	**–**	–

	Group 2013 £m	2012 £m
Trade and other receivables – as previously reported	**688**	668
Adoption of IFRS 11 – recognition of trade and other receivables in respect of joint arrangements	**4**	2
Trade and other receivables – restated	**692**	670

Basis of preparation
The financial statements have been prepared on the historical cost basis except that derivative financial instruments and certain other financial instruments are stated at their fair value.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The presentation currency of the partnership and the group is pounds sterling. The functional currency of the UK partnership and its subsidiaries is pounds sterling. The financial statements are presented in millions of pounds (£m) unless stated otherwise.

Basis of consolidation
Subsidiaries are entities controlled by the partnership. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

When the partnership loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. If the subsidiary represents a separate major line of business or geographical area of operations, the subsidiary is classified as a discontinued operation under IFRS 5 'Non-current assets held for sale and discontinued operations' and the results of the subsidiary are classified accordingly within the income statement.

Joint arrangements are entities in which the group, according to contractual agreements with one or more other parties, has joint control. The arrangements are classified as joint ventures, if the contracting parties' rights are limited to net assets in the separate legal entities, and as joint operations, if the parties have direct and unlimited rights to the assets and obligations for the liabilities of the arrangement. The group has consolidated financial statements of its joint operations by recognising its share of individual assets and liabilities.

Business combinations
For business combinations, fair values that reflect conditions at the date of the business combination and the terms of each business combination are attributed to the identifiable assets, liabilities and contingent liabilities acquired. For business combinations achieved in stages, the group revalues its investment to the fair value reflecting the conditions at the date of acquisition of the controlling share with any resultant gain or loss recognised in the income statement. Consideration for the business combination is measured at the fair value of assets transferred to and liabilities incurred on behalf of the previous owners of the acquiree. Goodwill is recognised where the consideration for the business combination exceeds the fair values of identifiable assets, liabilities and contingent liabilities acquired. Where the excess is positive, it is treated as an intangible asset, subject to annual impairment testing.

Transaction costs that the group incurs in connection with a business combination, such as legal fees, are expensed as incurred.

Notes
Forming part of the consolidated financial statements

1 Accounting policies continued

Non-controlling interests arise where the group holds less than 100% of the shares in the entities acquired or, as a result of agreements in place, is entitled to less than 100% of profits or losses arising. Non-controlling interests are measured on initial recognition at their share of the relevant net assets.

Intangible assets have been recognised in respect of customer relationships, framework contracts and similar assets. Each category is amortised over its estimated useful life as follows:

Customer relationships	5-7 years
Framework contracts	4 years
Trade names	10 years

Foreign currency
Transactions in each entity in foreign currencies other than its functional currency are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are translated in each entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement within financial income or expense, as appropriate. Non-monetary assets that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

For presentation purposes, the revenues and expenses of subsidiary undertakings with a functional currency other than pound sterling are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of such undertakings, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at year end. Exchange differences arising from this translation are recognised in other comprehensive income. They are reclassified from equity to the income statement as a reclassification adjustment when a gain or loss on disposal of the relevant subsidiary is recognised.

Revenue
Revenue represents the fair value of the consideration receivable in respect of professional services provided during the year, inclusive of recoverable expenses incurred on client assignments but excluding value added tax. Where the outcome of a transaction can be estimated reliably, revenue associated with the transaction is recognised in the income statement by reference to the stage of completion at the year end, provided that a right to consideration has been obtained through performance. Consideration accrues as contract activity progresses by reference to the value of work performed. Hence, revenue in respect of service contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant.

Where the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent that the costs of providing the service are recoverable. No revenue is recognised where there are significant uncertainties regarding recovery of the consideration due or where the right to receive payment is contingent on events outside the control of the group. Costs incurred are carried within 'Unbilled amounts for client work' but appropriately provided until such a time as the contingency is removed. Expected losses are recognised as soon as they become probable based on latest estimates of revenue and costs.

Unbilled revenue is included in trade and other receivables as 'Unbilled amounts for client work'. Amounts billed on account in excess of the amounts recognised as revenue are included in 'Trade and other payables'.

Recoverable expenses represent charges from other KPMG member firms, sub-contractors and out of pocket expenses incurred in respect of assignments and expected to be recovered from clients.

Taxation
Taxation on all partnership profits is solely the personal liability of the individual members. Consequently neither taxation nor related deferred taxation arising in respect of the partnership is accounted for in these financial statements. Distributions to members of these partnerships are made net of income tax; such amounts retained are paid to HM Revenue & Customs by the partnership, on behalf of the individual members, when this tax falls due. These amounts retained for tax are treated in the financial statements in the same way as other profits of the partnership and so are included in 'Members' other interests' or in 'Amounts due to members' depending on whether or not division of profits has occurred.

The companies dealt with in the consolidated financial statements are subject to corporation tax based on their profits for the accounting period. Tax and any deferred taxation of these companies are recorded in the consolidated income statement or consolidated statement of comprehensive income under the relevant heading and any related balances are carried as tax payable or receivable in the consolidated statement of financial position. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, and any adjustment to tax payable in respect of previous years.

Deferred tax in subsidiary companies is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at year end. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Financial income and expense
Financial income comprises interest and dividend income on funds invested, gains on derivatives recognised in the income statement, exchange gains and other financial income. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Notes
Forming part of the consolidated financial statements

1 Accounting policies continued

Financial expense comprises exchange losses, interest cost on short-term bank borrowings, losses on derivatives recognised in the income statement, net interest cost on defined benefit pension plan liabilities, discount on provisions and other financial costs. All borrowing costs are recognised in the income statement using the effective interest method.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Parts of an item of property, plant and equipment having different useful lives are accounted for as separate items.

Leases under which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, assessed at inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment and is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold land	999 years (or life of lease, if shorter)
Leasehold buildings	50 years (or life of lease, if shorter)
Office furniture, fittings and equipment	5-12 years
Computer and communications equipment	2-5 years
Motor vehicles	5 years

The residual value, if not insignificant, is reassessed annually.

Intangible assets

Expenditure on research is recognised in the income statement as an expense as incurred. Development expenditure on internally generated software is capitalised only if development costs can be measured reliably, if the product or process is technically and commercially feasible, future economic benefits are probable, and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure and software and licences that are acquired by the group and have a finite useful life are measured at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of software and licences and of internally generated software is generally five to eight years.

Goodwill, customer relationships, framework contracts and trade names are discussed in 'Business combinations' above.

Goodwill is stated at cost less any accumulated impairment losses. Customer relationships, framework contracts and trade names are stated at cost less accumulated amortisation and impairment.

Investments

In the entity financial statements, the partnership's investments in subsidiaries are stated at cost less provision for impairment. In the group financial statements, investments where the group has no control nor significant influence are stated at cost less provision for impairment.

Non-derivative financial instruments

Non-derivative financial instruments comprise other investments, non-current loans and receivables, trade and other receivables, unbilled amounts for client work, cash and cash equivalents, loans and borrowings, trade and other payables, members' capital and amounts due to and from members.

Other investments

Other investments held by the group mainly comprise bonds and equities. These assets are classified as fair value through profit or loss and are stated at fair value, calculated by reference to their listed price at the year end.

Any resultant gain or loss on those assets classified as fair value through profit or loss is recognised in the income statement.

Non-current loans and receivables

Non-current loans and receivables are initially recognised at fair value, based upon the estimated present value of future cash flows discounted at the market rate of interest at the year end. Subsequent to initial recognition, non-current loans and receivables are recorded at amortised cost.

Trade and other receivables

Trade and other receivables (except unbilled amounts for client work) are initially recognised at fair value, based upon discounted cash flows at prevailing interest rates, or at their nominal amount less impairment losses if due in less than 12 months. Subsequent to initial recognition, trade and other receivables are valued at amortised cost less impairment losses.

Unbilled amounts for client work

Unbilled amounts for client work relate to service contract receivables on completed work where the fee has yet to be issued or where the service contract is such that the work performed falls into a different accounting period to when the fee is issued.

Unbilled amounts for client work are stated at cost plus profit recognised to date (in accordance with the revenue accounting policy above) less provision for foreseeable losses and net of amounts billed on account.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The cash and cash equivalents are stated at their nominal values, as this approximates to amortised cost.

Short-term bank borrowings

Short-term bank borrowings are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost. Borrowing costs arising on short-term bank borrowings are expensed as incurred within financial expense. Initial facility fees incurred in respect of bank borrowing facilities are capitalised and amortised over the facility life.

Notes
Forming part of the consolidated financial statements

1 Accounting policies continued

Trade and other payables
Trade and other payables are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost.

Members' capital
The capital requirements of the group and partnership are determined from time to time by the Board, following recommendation from the Executive Committee. Each member is required to subscribe a proportion of this capital. Hence, members' capital of the group represents capital subscribed by members of the partnership to the partnership.

No interest is paid on capital.

On leaving the partnership, a member's capital must be repaid within one month of the leaving date, unless other arrangements have been agreed between the member and the Executive Committee. Members' capital is therefore considered a current liability and is stated at its nominal value, being the amount repayable.

Amounts due to and from members
Current amounts due to and from members are stated at their nominal value, as this approximates to amortised cost.

Derivative financial instruments and hedging
The group uses derivative financial instruments to provide an economic hedge against exposures to foreign exchange rate and interest risks arising from operational, financing and investment activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. The derivative financial instruments used do not satisfy the criteria to be classified as hedging instruments.

Derivative financial instruments are recognised at fair value. Those with a positive fair value are classified within 'Other investments'; derivative financial instruments with a negative fair value are classified within 'Trade and other payables'. Attributable transaction costs are recognised in the income statement when incurred. Subsequent gains or losses on remeasurement of fair value are recognised immediately in the income statement. The fair value of forward exchange contracts, swaps and interest rate caps is the estimated amount that the group or partnership would receive or pay at the year end, taking into account current exchange rates, interest rates and the current credit worthiness of swap counterparties.

Impairment
The carrying amounts of the group's and partnership's assets are reviewed at each year end to determine whether there is any indication of impairment which include default by a debtor; adverse changes in the payment status of debtors or issuers; or the disappearance of an active market for a security. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, the recoverable amount is estimated at each year end.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (being the effective interest rate computed at initial recognition of these financial assets). Receivables with a duration of less than 12 months are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever and to the extent that the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill cannot be reversed.

Leases
Assets held by the group under leases that transfer to the group substantially all of the risks and rewards of ownership are classified as finance leases. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets held under other leases are classified as operating leases and are not recognised in the group's and partnership's statement of financial position. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, over the term of the lease.

Rental income from sub-let property is recognised in the income statement, within other operating income, on a straight line basis over the term of the lease.

Provisions
A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provision for onerous contracts is recognised when the expected benefits to be derived by the group or partnership from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Provision is made for the present value of foreseeable rental commitments in respect of surplus property, after offsetting any future sub-letting income that could be earned. Surplus property includes premises which will become redundant as a result of steps to which the partnership or group is committed.

Notes
Forming part of the consolidated financial statements

1 Accounting policies continued

The partnership has conditional commitments to pay annuities to certain former members (and dependants). These annuities are payable only out of profits of the partnership, on which they constitute a first charge. The present value of the best estimate of the expected liabilities for future payments to retired members or their dependants is provided in full, gross of attributable taxation that is deducted by KPMG from payments to annuitants, as a charge against income at the point at which the contractual right arises. Any changes in the provision for former members' annuities arising from changes in former members and their dependants or in financial estimates and actuarial assumptions are recognised in the income statement.

The unwinding of the discount is presented in the income statement as a 'Financial expense'. The payment of former members' annuities is shown as a movement against the provision.

Insurance cover is maintained in respect of professional negligence claims. This cover is principally written through mutual insurance companies. Premiums are expensed as they fall due with prepayments or accruals being recognised accordingly. Rebates are recognised once they become receivable. Where appropriate, provision is made for the uninsured cost to the group of settling negligence claims. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the position of the group in any dispute with other parties.

Financial guarantees
Where the partnership or a subsidiary enters into a financial guarantee contract to guarantee the indebtedness of another entity within, or associated with, the UK group, the partnership considers this to be an insurance arrangement and accounts for it as such. In this respect, the partnership or subsidiary entity treats each guarantee contract as a contingent liability until such time as it becomes probable that a payment will be required under the guarantee.

Retirement benefits
The group operates two defined contribution pension plans for which the charge for the year represents the contributions payable to the plans in respect of the accounting period. An accrual or prepayment is included in the statement of financial position to the extent to which such costs do not equate to the cash contributions paid in the year.

The group also operates two defined benefit pension plans for which the partnership is the sponsoring employer and bears all related risks. One of the plans is closed to new entrants and provides benefits on final pensionable pay whilst the other is closed to new entrants and to current service and provides benefits based on average pensionable pay. The group's net obligations in respect of its defined benefit plans are calculated separately for each plan by estimating the amount of future benefit that employees and former employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of plan assets (at bid price) is deducted.

The group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The liability discount rate is the yield at the year end on AA credit rated bonds that have maturity dates approximating to the terms of each plan's obligations. The calculations are performed by qualified actuaries using the projected unit credit method.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment is recognised immediately in the income statement when the plan amendment or curtailment occurs.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). These are recognised immediately in the statement of comprehensive income and all other expenses related to defined benefit plans in either staff costs or financial expense in the income statement.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the group's pension plans to participating entities, the net defined benefit cost of the pension plans is recognised fully by the partnership, as sponsoring employer.

Surpluses are recognised on defined benefit pension plans only to the extent that they are considered to be recoverable by the group, taking account of future service by members of, and contributions payable to, the relevant plan.

Members of KPMG LLP are required by the KPMG LLP Limited Liability Partnership Agreement to make their own provisions for retirement income.

Allocation of profits and drawings
The allocation of partnership profits to those who were members of the partnership during the financial year occurs at the discretion of the Board following the finalisation of these financial statements. However, following a change to the LLP Partnership Agreement during the year, the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the accounting profits of the partnership for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the partnership for the period is subject to a member vote. It is therefore considered that a contractual liability exists under IAS 32 'Financial Instruments: Presentation' in respect of 90% of the partnership profits and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

During the year, members receive monthly drawings, and, from time to time, additional profit distributions. The level and timing of the additional distributions are decided by the Executive Management Team, taking into account the partnership's cash requirements for operating and investing activities.

Both the monthly drawings and profit are reclaimable from members until profits have been allocated. Any such amounts paid in excess of the liability recognised in respect of 90% of the accounting profits of the partnership would be shown as 'Amounts due from members'. Profits available for discretionary allocation are classified as equity and shown as 'Other reserves'. In both cases, amounts that may be determined as due from and attributable to members who retired from the partnership in the year may be included.

Notes
Forming part of the consolidated financial statements

2 Accounting estimates and judgements

The Audit & Risk Committee has discussed the development, selection, application and disclosure of the group's critical accounting policies and estimates.

Key sources of estimation uncertainty

Revenue on service contracts

In calculating revenue on service contracts, the group and partnership makes certain estimates as to the stage of completion of those contracts. In doing so, the group and partnership estimates the remaining time and external costs to be incurred in completing contracts and clients' willingness and ability to pay for the services provided. A different assessment of the outturn on a contract may result in a different value being determined for revenue and also a different carrying value being determined for unbilled amounts for client work.

Trade and other receivables

The total carrying amount of trade receivables and unbilled amounts for client work is £610 million (2013: £617 million) for group and £554 million (2013: £536 million) for partnership. These amounts are net of impairment losses on trade receivables and after giving consideration to the clients' willingness to pay those amounts accrued in respect of incomplete contracts. A different assessment of the recoverability of either balance, with reference to either the ability or willingness of the client to pay, may result in different values being determined.

Retirement benefits

The net defined benefit liabilities of the group's pension plans of £151 million (2013: £138 million) are based on certain assumptions as to mortality (note 20), based on current published tables, discount rates reflecting current market trends and inflation rates reflecting current expectations. If any were to change, there is a risk that there would be further variance in the actuarial gains and losses and financial expense.

Former members' annuities

The partnership has used certain assumptions in assessing the provision for former members' annuities of £61 million (2013: £60 million) as set out in note 18. The assumptions used are consistent with those used for valuation of the retirement benefit liability. If any of those assumptions were to change, the assumptions used in calculating the provision would no longer be appropriate. The resulting variation in the underlying assumptions may result in a value for the provision that is different from that disclosed.

Claims

The group from time to time receives claims in respect of professional service matters. It defends such claims where appropriate but makes provision for the possible amounts considered likely to be payable, up to the deductible amount under the group's related insurance arrangements. A different assessment of the settlement prospects of each case or of the possible cost involved may result in a different provision and cost.

Acquisition accounting

Under IFRS 3, 'Business Combinations', the acquirer is required to determine fair values (reflecting conditions at the date of the business combination and its terms) for the identifiable assets, liabilities and contingent liabilities acquired. Within such items will be intangible assets reflecting the current value of anticipated income streams from the framework contracts, customer relationships and the trademark of the party acquired. In assessing the value of such items, the group has to make assumptions on matters such as the future profits likely to arise after reflecting charges for the services of the workforce as well as the anticipated period over which benefits from existing customer relationships may endure.

Critical accounting judgements in applying the group's accounting policies

Member retirement provisions

The group and partnership have assessed that no provision is required in respect of member retirement arrangements since there are no contractual obligations in respect of these arrangements. A different assessment of the obligation arising under the remuneration model may result in a recognised provision.

Notes
Forming part of the consolidated financial statements

3 Segmental reporting

The group has voluntarily adopted IFRS 8 'Operating Segments'. Accordingly, segment information is presented in respect of the group's segments, reflecting the group's principal management and internal reporting structures.

The group is primarily managed internally through the functions of Audit, Tax, and Advisory. The Advisory function is further split into Transactions & Restructuring (T&R), Risk Consulting (RC) and Management Consulting (MC). Therefore, these are considered as separate operating segments for the purposes of presenting segment information under IFRS 8.

The segments are identified for internal reporting purposes according to the nature of services provided; principal services provided by each segment include:

Audit:		Provision of statutory and regulatory attestation services, advice in compliance with changing reporting and regulatory requirements, and non-statutory assurance services.
Tax:		Advice and compliance assistance in relation to tax, remuneration planning and pensions.
Advisory:	**T&R**	Deal support from pre-deal evaluation to completion including strategy, due diligence, debt and equity advice, valuations, separation and integration; provision of restructuring and recovery advice, including corporate and personal insolvency; financial advice on public and private transactions including mergers and acquisitions, flotations and valuations.
	RC	Provision of advice on embedding governance, risk management and internal controls and on compliance with changing regulatory requirements; provision of accounting, investigation and business skills to assist clients involved in contentious financial matters.
	MC	Advice and support to improve business performance through transforming operations, business intelligence and finance transformation, working capital and cash management, revenue enhancement and cost optimisation, IT-enabled transformation, embedding risk and regulatory management and deal services.

Segmental reporting 2014

Information by segment is as follows:

	Audit	Tax	Advisory			
			T&R	RC	MC	**Total**
	£m	£m	£m	£m	£m	**£m**
Net sales (as reported internally)	445	351	339	288	223	1,646
Recoverable expenses (as reported internally)	49	51	53	37	46	236
Gross revenue (as reported internally)	494	402	392	325	269	1,882
Elimination of intragroup trading						(8)
Revenue of entities reported internally						**1,874**
Revenue of entities not reported internally						35
Total group revenue						**1,909**
Segmental contribution (as reported internally)	181	129	137	125	62	634
Members' remuneration adjustments						156
Costs not allocated to segments						(384)
Net financial expense						(9)
Profit before tax of entities not reported internally						6
Total group profit before taxation and members' profit shares						**403**
Segmental assets (as reported internally)	43	114	55	50	56	318
Assets of entities not reported internally						4
Assets not allocated to segments						932
Total assets, excluding members' interests						**1,254**

Notes
Forming part of the consolidated financial statements

3 Segmental reporting continued

Segmental reporting 2013 (restated)

Information by segment is as follows:

	Audit	Tax	Advisory			
			T&R	RC	MC	**Total**
	£m	£m	£m	£m	£m	**£m**
Net sales (as reported internally)	435	344	343	238	221	1,581
Recoverable expenses (as reported internally)	48	46	48	27	39	208
Gross revenue (as reported internally)	483	390	391	265	260	1,789
Elimination of intragroup trading						(7)
Revenue of entities reported internally						**1,782**
Revenue of entities not reported internally						32
Total group revenue						**1,814**
Segmental contribution (as reported internally)	178	140	146	94	68	626
Members remuneration adjustments						155
Costs not allocated to segments						(321)
Net financial expense						(10)
Profit before tax of entities not reported internally						5
Total group profit before taxation and members' profit shares						**455**
Segmental assets (as reported internally)	48	107	50	65	49	319
Assets of entities not reported internally						29
Assets not allocated to segments						874
Total assets, excluding members' interests						**1,222**

Net sales and recoverable expenses for the prior year were adjusted for the purposes of internal reporting following a change to the internal recording of certain third party costs. There was no impact on gross sales by function as a result of this change.

Gross revenue and profit before taxation not reported internally arise from the subsidiary entity in Saudi Arabia and (following adoption of IFRS 11) the joint operations in India; assets of entities not reported internally arise from entities in both Saudi Arabia and India for the year ended 30 September 2013 but only reflect those assets in India for the year ended 30 September 2014 following disposal of the Saudi entity during the year (see note 8). Financial information for these entities are provided to management periodically but is not included for the purposes of UK internal reporting.

As discussed in note 1, members have a contractual right to receive 90% of partnership profits under the revised partnership agreement. However, this is not reflected for internal reporting purposes, which reflects a notional charge for members, intended to equate to a salary equivalent.

Costs not allocated to segments represent the costs of central support and infrastructure such as those relating to property, IT costs, marketing, training and other general overhead expenses (including depreciation, amortisation and other non-cash items). These are not directly controllable by the segments and are not allocated to them in the group's internal reporting. Allocation of such items to the segments would involve subjective assessments and it is not therefore considered appropriate.

Assets attributed to the segments for internal reporting purposes comprise trade receivables and unbilled amounts for client work. All other assets, including non-current assets, balances with members and cash are controlled centrally and are not allocated across segments. There is no internal reporting of liabilities by segment; hence no segmental disclosures are given.

The group operates almost entirely in the UK; subsidiary entities based outside the UK are immaterial for the purposes of presenting separate geographical segment information. Accordingly, no separate geographical segment information is presented.

Notes
Forming part of the consolidated financial statements

3 Segmental reporting continued

In order to maximise the efficacy of our offerings to clients, the group is managed using a matrix structure. This matrix structure considers the functions of Audit, Tax and Advisory on one hand and the nature of the market on the other.

Net sales by market is as follows:

	Group 2014 £m	Group 2013 £m
Financial Services	**594**	559
Sectors	**439**	438
Regions	**586**	556
KPMG International	**27**	28
	1,646	1,581

Major clients
The group has no reliance on any one client – no more than 5% (2013: 5%) of group revenue and 6% (2013: 6%) of partnership revenue is attributable to the largest client.

Statutory audit work
The UK Statutory Auditors (Transparency) Instrument 2008 requires disclosure of financial information that shows the importance of statutory audit work to the overall results.

In addition, the Consultative Committee of Accountancy Bodies (CCAB) issued the Voluntary Code of Operative Practice on Disclosure of Audit Profitability in March 2009 requiring disclosures in respect of audit and directly related services, where audit and directly related services meet the definition of 'reportable segment' as set out in the Voluntary Code.

The disclosures below meet both requirements and are consistent with the segmental information presented on pages 84 and 85 except for the further allocation of intragroup revenues and other financial adjustments.

Revenue 2014	**KPMG Audit Plc £m**	**KPMG LLP £m**	**Other entities and adjustments £m**	**Total £m**
Audit and directly related services	**132**	**305**	**1**	**438**
Other assurance work	**3**	**54**	**–**	**57**
	135	**359**	**1**	**495**
Tax	**–**	**385**	**(4)**	**381**
Risk Consulting	**1**	**304**	**22**	**327**
Management Consulting	**–**	**224**	**47**	**271**
Transactions & Restructuring	**1**	**368**	**31**	**400**
	137	**1,640**	**97**	**1,874**
Operating profit 2014				
Audit and directly related services	**19**	**49**	**1**	**69**

Revenue 2013	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	189	235	2	426
Other assurance work	4	51	–	55
	193	286	2	481
Tax	–	378	(3)	375
Risk Consulting	1	254	9	264
Management Consulting	–	205	61	266
Transactions & Restructuring	6	372	18	396
	200	1,495	87	1,782
Operating profit 2013				
Audit and directly related services	22	37	1	60

Notes
Forming part of the consolidated financial statements

3 Segmental reporting continued

As set out on page 85, segmental contribution does not allow for the allocation of a significant element of central support costs since these are not allocated for internal reporting purposes. However, under the requirements of the Voluntary Code, we are required to disclose operating profit for the reportable segment. This is calculated based on direct costs recorded in engagements falling within that segment, together with the allocation of certain relevant overheads, such as property and IT costs. These costs have been allocated on a pro-rata basis, based on headcount.

The total revenues are further analysed on the following basis:

	Group	
	2014 £m	2013 £m
Audit and directly related services for audit clients	**438**	426
Non-audit services for audit clients	**257**	276
Non-audit services for non-audit clients	**1,178**	1,080
	1,874	1,782

4 Other operating income

Included in other operating income are the following items:

	Group	
	2014 £m	2013 £m
Charges to other KPMG International member firms	**59**	58
Rental income	**2**	2
Other items	**10**	16
	71	76

Charges to other KPMG International member firms reflect charges for staff and the provision of other services.

5 Members and staff

The average number of members (being those who are members of the partnership) and staff of the group and partnership during the year were as follows:

	Group		**Partnership**	
	2014 Number	2013 Number	**2014 Number**	2013 Number
Members	**588**	583	**588**	583
Staff	**11,341**	10,752	**–**	–
	11,929	11,335	**588**	583

KPMG LLP employs no staff; all UK staff are employed by KPMG UK Limited, a subsidiary of the partnership (see note 26).

The average number of members and staff by function were as follows:

	Group	
	2014	2013
Audit	**3,163**	3,215
Tax	**2,223**	2,106
T&R	**1,565**	1,479
RC	**1,490**	1,352
MC	**1,218**	1,184
Central	**2,270**	1,999
	11,929	11,335

Employment costs

The aggregate employment costs of staff are set out below. These costs exclude amounts in respect of members receiving an allocation of profit of the partnership.

Notes
Forming part of the consolidated financial statements

5 Members and staff continued

	Group 2014 £m	Group 2013 Restated £m
Salaries (including bonuses)	**732**	673
Social security costs	**75**	69
Cost of retirement benefits (note 20)	**36**	35
Staff costs per income statement	**843**	777
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 20)	**6**	6
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**15**	(10)
Total staff related costs	**864**	773

Members' profit shares

The allocation of partnership profits to those who were members of the partnership during the financial year occurs at the discretion of the Board following the finalisation of these financial statements. However, following a change to the LLP Partnership Agreement during the year, the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the accounting profits of the partnership for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the partnership for the period is subject to a member vote. It is therefore considered that a contractual liability exists under IAS 32 'Financial Instruments: Presentation' in respect of 90% of the partnership profits and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

After taking account of amounts withheld and released from profit distribution, including amounts to allow investment into future growth areas and services, average partner remuneration for the year (including both members' profit shares charged as an expense and profits available for discretionary allocation) totalled £714,800 (2013: £712,500).

The remuneration model is designed to drive and reward one-firm behaviour consistent with our strategy and values, reflect an individual's medium-term value rather than focusing solely on current year performance, and promote clarity and transparency amongst members regarding their own remuneration and that of other members at the start of the year.

A member's remuneration generally comprises two elements:

Benchmark pay – This is communicated to members in November each year and is determined in relation to an individual's medium term value to the group. Each member's benchmark pay is determined by taking into consideration factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group. For the year to 30 September 2014, the benchmark pay component was approximately 80% of an individual member's remuneration.

Profit share – This is communicated to members shortly after the end of the financial year when the final performance of the group and all of its constituent parts is known. Each member will receive the same percentage of benchmark pay as profit share, therefore re-enforcing our commitment and drive to delivering excellence to our clients through a one-firm approach. For the year to 30 September 2014, the profit share component was approximately 20% of an individual member's remuneration.

These two elements account for 95% of the total profit allocated to members. The remaining 5% was allocated to those members who retired in the year, and who received an additional profit share in line with the LLP agreement.

In addition to the above, a small number of members receive a special award. This is a reward for exceptional in year behaviour or performance. For the year to 30 September 2014, special awards were given to 15 members. This component was approximately 0.3% of the profit allocation to individual members. In addition, a deduction is made from the total pay for any members if their behaviour or performance has fallen below the levels expected by the group, as indicated by adverse risk metrics (see Appendix 2.4.3) with such amounts donated to the KPMG Foundation.

As set out in note 1, during the year, members receive monthly drawings, and, from time to time, additional profit distributions. The level and timing of the additional distributions are decided by the Executive Management Team, taking into account the partnership's cash requirements for operating and investing activities. Both the monthly drawings and profit are reclaimable from members until profits have been allocated.

Further disclosures are given in note 25 regarding transactions with members who are considered to be key management and the remuneration of the highest paid member.

Notes
Forming part of the consolidated financial statements

6 Other operating expenses

Other operating expenses include property and IT costs, marketing, training and other general overhead expenses. Also included in other operating expenses are impairment reversals on trade receivables of £1 million (2013: £1 million reversal) (see note 14).

	Group	
	2014 £000	2013 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**194**	208
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
– Audit of financial statements of subsidiaries	**121**	142
– Audit related assurance services provided to the group	**27**	19
– Audit of certain group pension plans	**30**	34
	372	403

In 2014, audit related assurance services were provided in respect of group sustainability reporting, grant claim reporting assurance work and expenses verification work (2013: group sustainability reporting and expenses verification work).

7 Financial income and expense

	Group	
Recognised in the income statement:	**2014 £m**	2013 £m
Interest income on bank deposits	**–**	1
Net change in fair value of financial assets at fair value through profit or loss	**1**	1
Exchange gains	**3**	6
Other financial income	**3**	1
Financial income	**7**	9
Net interest on defined benefit pension plan liabilities (note 20)	**6**	6
Discount on provisions (note 18)	**3**	2
Interest expense on short-term bank borrowings	**1**	3
Exchange losses	**4**	8
Other financial expense	**2**	–
Financial expense	**16**	19

The total interest income on financial assets that were not classified as fair value through profit or loss was £3 million (2013: £2 million). The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £3 million (2013: £3 million).

Notes
Forming part of the consolidated financial statements

8 Acquisitions and disposals

Acquisitions

The detail set out below provides information required under IFRS 3 'Business combinations' for those acquisitions occurred during the year ended 30 September 2014 together with summary information in respect of those occurred during the year ended 30 September 2013.

The group's strategy is to acquire third party businesses, where the activity and client base of those businesses are such that the group could expect to benefit from synergies to be obtained in enhanced client service delivery and cost efficiency. This strategy is evident in the acquisitions made by the group in both the current and prior years.

Acquisitions – year ended 30 September 2013

On 30 June 2013, the group acquired 100% of the shares in Makinson Cowell Limited, a UK-based company that provides independent capital market advisory services mainly to European companies, for consideration of £11 million. Revenue and loss after taxation of £2 million and £300,000 respectively for the period from acquisition to 30 September 2013 are included within these consolidated financial statements in respect of this company.

Acquisitions – year ended 30 September 2014

On 30 September 2014, the group acquired the UK practice of the Identity and Access Management division of Qubera Solutions Limited for a consideration of £1 million. The consideration represented payment for transfer of employees and certain client relationships. It is intended that both are immediately integrated fully into the current group structure and the cost has therefore been written off to the income statement.

Disposals

In May 2014, the UK member firm entered into a termination agreement to transfer its interest in the ELLP member firms in Saudi Arabia, Kuwait and Jordan back to local ownership. As a result, the group's call options to acquire shares in these entities were terminated and the shareholding in the Saudi member firm was transferred to local members for a cash consideration of £32,000.

Accordingly, this transaction is considered to be a disposal under IFRS 10 and the net assets of KPMG Saudi Arabia have been deconsolidated at the date of disposal. The income statement includes consolidated results of KPMG Saudi Arabia for the period until deconsolidation, including revenue of £35 million and profit of £6 million.

This disposal had the following impact on the group's assets and liabilities at the date of the disposal:

		De-recognised at the date of disposal
	Note	**Total £m**
Property, plant & equipment	10	1
Intangible assets	11	2
Trade and other receivables		20
Cash and cash equivalents		5
Trade and other payables		(20)
Net identifiable assets, liabilities and contingent liabilities		8
Non-controlling interest		(8)
Group share of net assets		–
Consideration received		–
Total gain on disposal		–

Notes
Forming part of the consolidated financial statements

9 Tax expense

The partnership is not subject to taxation as the relevant tax is a personal liability of the members individually. The charge to tax arises in the corporate subsidiaries included within these financial statements and comprises:

	Group	
	2014 £m	2013 £m
Current tax expense		
Current year	**12**	10
Deferred tax (see note 19)	**(1)**	–
	11	10
Compensation payment to be received from members of KPMG LLP	**–**	(10)
Total tax expense in income statement	**11**	–

Corporation tax charges in the group arise largely as a result of the impact of UK transfer pricing legislation. The compensation payment arising in the year ended 30 September 2013 was a payment made by the members of KPMG LLP in order to compensate the UK subsidiaries for this increased corporation tax charge. Following changes to the UK transfer pricing legislation, effective October 2013, this compensation payment no longer arises.

The group is required under IAS 12 'Income taxes' to present the following tax reconciliation in respect of group profits:

	Group	
	2014 £m	2013 £m
Profit before taxation and members' profit shares	**414**	455
Less profit arising in partnership, on which tax is payable by the members personally	**(366)**	(436)
Profit before taxation arising in group companies	**48**	19
Tax at 22% (2013: 23.5%) being the average rate of corporate taxes levied on the profits of group companies	**11**	4
UK corporation tax arising on UK transfer pricing arrangements	**–**	10
Impact of tax exempt items	**1**	(4)
Taxes payable by subsidiary undertakings	**12**	10
Deferred tax (see note 19)	**(1)**	–
Compensation payment to be received from members of KPMG LLP	**–**	(10)
Total tax expense in income statement	**11**	**–**

There was no tax (credit)/charge recognised in the statement of comprehensive income (2013: £nil).

Factors affecting the tax charge in future periods
A reduction in the corporation tax rate from 23% to 21% (effective from 1 April 2014) and a further reduction to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the group's future current tax charge accordingly.

Notes
Forming part of the consolidated financial statements

10 Property, plant and equipment

Group

	Leasehold land and buildings £m	Computer and communications equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	**Total £m**
Cost					
Balance at 1 October 2012	270	48	154	12	484
Additions	–	9	7	3	19
Disposals	–	(9)	(7)	(3)	(19)
Balance at 30 September 2013	270	48	154	12	484
Additions	–	18	16	7	41
Disposals	–	(9)	–	(4)	(13)
Disposal of subsidiary	–	(2)	(2)	–	(4)
Balance at 30 September 2014	**270**	**55**	**168**	**15**	**508**
Depreciation and impairment					
Balance at 1 October 2012	11	38	51	5	105
Charge for the year	4	7	16	2	29
Disposals	–	(9)	(6)	(2)	(17)
Balance at 30 September 2013	15	36	61	5	117
Charge for the year	5	9	15	3	32
Disposals	–	(9)	–	(2)	(11)
Disposal of subsidiary	–	(2)	(1)	–	(3)
Balance at 30 September 2014	**20**	**34**	**75**	**6**	**135**
Net book value					
At 1 October 2012	259	10	103	7	379
At 30 September 2013	255	12	93	7	367
At 30 September 2014	**250**	**21**	**93**	**9**	**373**

The leasehold land and buildings at 30 September 2014 relate entirely to the group's premises at 15 Canada Square, London, held by the partnership, as set out on page 93.

Notes
Forming part of the consolidated financial statements

10 Property, plant and equipment continued

Partnership

	Leasehold land and buildings £m	Computer and communications equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	**Total £m**
Cost					
Balance at 1 October 2012	270	46	153	12	481
Additions	–	9	6	3	18
Disposals	–	(9)	(7)	(3)	(19)
Balance at 30 September 2013	270	46	152	12	480
Additions	–	18	16	7	41
Disposals	–	(9)	–	(4)	(13)
Balance at 30 September 2014	**270**	**55**	**168**	**15**	**508**
Depreciation and impairment					
Balance at 1 October 2012	11	36	50	5	102
Charge for the year	4	7	16	2	29
Disposals	–	(9)	(6)	(2)	(17)
Balance at 30 September 2013	15	34	60	5	114
Charge for the year	5	9	15	3	32
Disposals	–	(9)	–	(2)	(11)
Balance at 30 September 2014	**20**	**34**	**75**	**6**	**135**
Net book value					
At 1 October 2012	259	10	103	7	379
At 30 September 2013	255	12	92	7	366
At 30 September 2014	**250**	**21**	**93**	**9**	**373**

The leasehold land and buildings at 30 September 2014 relate entirely to the group's premises at 15 Canada Square, London. The leasehold interest, including land, falls to be classified as a finance lease, since it has a term of 999 years and so represents the majority of the useful economic life of the asset. This lease is pledged as a security for the revolving credit facility (see note 22). The net book value of assets owned under a finance lease was £250 million (2013: £255 million).

Notes
Forming part of the consolidated financial statements

11 Intangible assets

	Group				Partnership
	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	**Total £m**	**Internally generated software £m**
Cost					
Balance at 1 October 2012	65	13	4	82	65
Acquisition of subsidiaries	–	4	7	11	–
Additions	7	–	–	7	7
Disposals	(3)	–	–	(3)	(3)
Balance at 30 September 2013	69	17	11	97	69
Additions	10	–	–	10	10
Disposals	(6)	–	–	(6)	(6)
Disposal of subsidiary	–	(2)	–	(2)	–
Balance at 30 September 2014	**73**	**15**	**11**	**99**	**73**
Amortisation and impairment					
Balance at 1 October 2012	32	3	–	35	32
Charge for the year	10	2	–	12	10
Disposals	(3)	–	–	(3)	(3)
Balance at 30 September 2013	39	5	–	44	39
Charge for the year	9	3	–	12	9
Disposals	(6)	–	–	(6)	(6)
Balance at 30 September 2014	**42**	**8**	**–**	**50**	**42**
Net book value					
At 1 October 2012	33	10	4	47	33
At 30 September 2013	30	12	11	53	30
At 30 September 2014	**31**	**7**	**11**	**49**	**31**

Internally generated software mainly comprises components of the SAP based ERP system, held by the partnership, which has a remaining amortisation period of two years (2013: three years).

Goodwill was generated on the acquisition of the following entities:

Entity	**Year of acquisition**	Note	**Goodwill £m**
KPMG Sourcing Limited (formerly EquaTerra Europe Limited)	30 September 2011		2
KPMG CIO Advisory Limited (formerly Xantus Limited)	30 September 2012		2
Makinson Cowell group of companies	30 September 2013	8	7

The recoverable amount of goodwill has been determined using the 'value in use' basis, using cash flow projections of the relevant cash generating unit (assessed individually for each acquisition) based on budgets approved by management covering a period of four years. The discount rate applied is based on a pre-tax estimated weighted average cost of capital of 6% (2013: 6%).

Notes
Forming part of the consolidated financial statements

12 Investments

The net book value of investments held by the group and partnership were as follows:

	Group		Partnership	
	2014	2013 Restated	**2014**	2013
	£m	£m	**£m**	£m
Shares in subsidiary undertakings	**–**	–	**13**	13
Other investments	**3**	–	**1**	–
	3	–	**14**	13

Group
The group is a 33.33% partner in KPMG Global Resources Private Limited, a joint arrangement formed with KPMG US and KPMG India to provide advisory support services for KPMG International member firms. The group is also a 50% partner in KPMG Resource Centre Private Limited, a joint arrangement formed with KPMG India to provide support services for KPMG International member firms.

The principal place of business for both entities is India.

Although both KPMG Global Resources Private Limited and KPMG Resource Centre Private Limited are legally separated from their shareholders (as detailed above), the group has classified them as joint operations. This is on the basis that the Partners are the recipients of substantially all the services provided by the entities and will be the only source of funding to settle their liabilities.

During the year, the group has invested £3 million in third party investments where the shareholding is less than 20% in each case and the group exercises neither significant influence nor control.

Partnership
The principal subsidiaries of KPMG LLP are set out in note 26 along with summary financial information in respect of the associate undertakings disposed during the year.

At 30 September 2014, the cost of shares in subsidiary undertakings held by the partnership totalled £23 million (2013: £23 million) against which there was a provision for impairment of £10 million (2013: £10 million).

13 Other non-current assets and liabilities

	Group		Partnership	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Other non-current assets:				
Amounts due from KPMG International member firms (2013: ELLP group undertakings)	**14**	15	**–**	–
Other prepayments	**–**	–	**55**	–
Other receivables	**–**	–	**30**	–
	14	15	**85**	–
Other non-current liabilities:				
Amounts owed to other UK group undertakings	**–**	–	**90**	–
Amounts due to KPMG International member firms (2013: ELLP group undertakings)	**14**	15	**–**	–
	14	15	**90**	–

Group
Amounts due from KPMG International member firms are denominated in euros and attract interest at a rate of 3% above Euribor. On 22 September 2014, the repayment date of the loans was extended by 12 months from 30 September 2018 to 30 September 2019.

The loans receivable are matched by a loan advanced by another entity within the same member firm. The loan payable is also denominated in euros, is subject to the same repayment terms as the loans receivable and so is classified as a non-current liability. The loan attracts interest at a rate of 1% above Euribor.

Partnership
Under the ABF, the partnership prepaid £60 million into the defined benefit plans; £52 million in the pre-2000 fund and £8 million in the TMcL fund (see note 20). £55 million of this prepayment is non-current, whilst the remaining £5 million is current, classified as other prepayments within trade and other receivables. In addition, the partnership contributed £30 million to the SLP which it expects to recover on future termination of the ABF.

Also under the ABF, the partnership has transferred £90 million of its invoices to the SLP (see note 20). As the partnership retains the risks and rewards of those receivables it has a corresponding liability, reflecting the amount owed to the SLP under this agreement.

Notes
Forming part of the consolidated financial statements

14 Trade and other receivables

	Group		Partnership	
	2014	2013 Restated	**2014**	2013
	£m	£m	**£m**	£m
Trade receivables	**335**	367	**306**	315
Unbilled amounts for client work	**275**	250	**248**	221
Amounts due from other UK group undertakings (2013: other ELLP group undertakings)	**–**	9	**32**	41
Other prepayments	**38**	34	**43**	32
Other receivables	**11**	12	**10**	7
Amounts due from other KPMG International member firms	**54**	20	**37**	20
	713	692	**676**	636

Trade and other receivables are due within 12 months.

Trade receivables are shown net of impairment losses amounting to £5 million (2013: £6 million) for the group and £5 million (2013: £5 million) for the partnership. The movement for the year is recognised in 'Other operating expenses' in each case. An aged analysis of overdue trade receivables and the movement in the allowance for impairment in respect of trade receivables are given below.

Impairment losses
The ageing of receivables that were overdue at the reporting date was:

Group

	Gross 2014 £m	**Impairment 2014 £m**	Gross 2013 £m	Impairment 2013 £m
Trade receivables				
Overdue 1-30 days	**43**	**–**	50	–
Overdue 31-180 days	**55**	**–**	55	–
More than 180 days	**8**	**5**	11	6
	106	**5**	116	6

Partnership

	Gross 2014 £m	**Impairment 2014 £m**	Gross 2013 £m	Impairment 2013 £m
Trade receivables				
Overdue 1-30 days	**36**	**–**	42	–
Overdue 31-180 days	**52**	**–**	47	–
More than 180 days	**7**	**5**	9	5
	95	**5**	98	5

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Balance at 1 October	**6**	7	**5**	5
Impairment reversal recognised in the income statement	**(1)**	(1)	**–**	–
Balance at 30 September	**5**	6	**5**	5

Notes
Forming part of the consolidated financial statements

15 Other investments

		Group		Partnership	
		2014 £m	2013 £m	**2014 £m**	2013 £m
Bonds	Fair value through profit or loss	**38**	35	**–**	–
Equities	Fair value through profit or loss	**16**	15	**–**	–
Derivative financial assets	Fair value through profit or loss	**–**	1	**–**	–
		54	51	**–**	–

16 Cash and cash equivalents

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Bank balances	**48**	44	**13**	9

17 Trade and other payables

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Accruals	**212**	202	**209**	194
Amounts billed on account	**240**	213	**211**	184
Other taxes and social security	**49**	55	**28**	34
Other payables	**7**	11	**7**	4
Trade payables	**30**	18	**28**	17
Amounts due to other UK group undertakings (2013: other ELLP group undertakings)	**–**	2	**58**	27
Amounts due to other KPMG International member firms	**6**	6	**6**	4
	544	507	**547**	464

Included in accruals are amounts payable to staff in respect of bonuses.

18 Provisions

Group

	Annuities £m	Property provisions £m	Other £m	**Total £m**
Balance at 1 October 2013	60	10	24	**94**
Utilised during the year	(4)	(1)	(2)	**(7)**
Income statement:				
– Provisions made during the year	2	1	20	**23**
– Provisions reversed during the year	–	(3)	–	**(3)**
– Unwinding of discounted amounts	3	–	–	**3**
Balance at 30 September 2014	**61**	**7**	**42**	**110**
Non-current	57	5	42	**104**
Current	4	2	–	**6**

Notes
Forming part of the consolidated financial statements

18 Provisions continued

Partnership

	Annuities £m	Property provisions £m	Other £m	**Total £m**
Balance at 1 October 2013	60	10	10	**80**
Utilised during the year	(4)	(1)	(2)	**(7)**
Income statement:				
– Provisions made during the year	2	1	2	**5**
– Provisions reversed during the year	–	(3)	–	**(3)**
– Unwinding of discounted amounts	3	–	–	**3**
Balance at 30 September 2014	**61**	**7**	**10**	**78**
Non-current	57	5	10	**72**
Current	4	2	–	**6**

Group and partnership

The provision for former members' annuities reflects conditional commitments to pay annuities to certain former members (and dependants) of KPMG LLP or its predecessor partnership and is recorded gross of basic rate tax (see note 1).

The provision for former members' annuities is expected to be utilised as follows:

	2014 £m	2013 £m
Within 12 months of the year end	**4**	4
Between one and five years	**13**	13
Between five and fifteen years	**23**	23
In more than fifteen years	**21**	20
	61	60

The principal actuarial assumptions used in assessing the provision for former members' annuities are that increases in annuities payable will continue to follow the retail price index as this is the specific obligation set out in the underlying commitment and that, after application of mortality rates, the resulting amounts are discounted at the rates set out below:

	2014 %	2013 %
Discount rate	**3.80**	4.30
Inflation rate (retail price index)	**3.40**	3.45

The mortality tables used for the former members' annuities provision at both 30 September 2014 and 2013 were consistent with those applied in respect of the defined benefit pension plans (see note 20).

The assumed discount rate and inflation rate both have a significant effect on the provisions. The following table shows the sensitivity of the value of the member annuities to changes in these assumptions.

Assumption	Change in assumption	Impact on annuity provision increase/(decrease) £m	%
Discount rate	Increase by 0.25%	(2)	(3)
Inflation rate	Increase by 0.25%	3	5

Property provisions represent the cost of office space which is not currently used by the group or will become redundant as a result of steps to which the group is committed and dilapidation costs anticipated on exiting those properties. Provision is made for the net obligation under such leases; property provisions of £2 million (2013: £1 million) will be utilised within 12 months and the balance is expected mainly to be utilised within the next five years.

Other provisions represent provisions for partner disability costs and for professional service claims brought against the partnership and group by third parties. Where appropriate, provision is made for the uninsured cost (including related legal costs) to the partnership and group of settling professional service claims. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the commercial interests of the partnership and group. These provisions are expected mainly to be utilised within five years.

Notes
Forming part of the consolidated financial statements

19 Deferred tax

Deferred tax liabilities relating solely to intangible assets of the group are recognised in these financial statements. There was no deferred tax arising in the partnership.

	Group
	£m
Balance at 1 October 2013	3
Amortised during the year	(1)
Balance at 30 September 2014	**2**

Deferred tax assets of £200,000 have been recognised in respect of tax losses totalling £1 million (2013: no deferred tax assets recognised on tax losses totalling £2 million, given uncertainty of profits arising in the relevant entity).

20 Retirement benefits

Group and partnership
The cost of employee benefits included within personnel costs for the year was:

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Contributions to defined contribution schemes	**36**	34	**–**	–
Current service cost for defined benefit pension plans	**–**	1	**–**	1
Cost of retirement benefits	**36**	35	**–**	1

The net financing cost of £6 million (2013: £6 million) and remeasurement losses of £15 million (2013: £10 million gains) relating to defined benefit pension plans are also considered to be a part of the net cost of retirement benefits.

Defined Contribution Plans
The group has two defined contribution pension plans operating in the UK: the stakeholder pension plan; and the KPMG Staff Pension Fund – post-April 2000 fund, which is closed to new entrants. The charge for the year for these plans represents those contributions payable to them in respect of the accounting period.

No contributions to the defined contribution pension plans were outstanding at the end of either financial year.

Defined Benefit Plans
The group and partnership sponsor two defined benefit pension plans. Both pension plans are HMRC registered pension plans and subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the plans are subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension plans have appointed Trustees who are independent of the group. The Trustees of both pension plans are required by law to act in the best interests of the plans' participants and are responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the plans. The assets of each pension plan are held separately from those of the group, administered by AON Trust Corporation Limited and Grant Suckling as independent trustee directors of KPMG Pension Trust Company.

The Trustees invest the assets of the plans with the aim of ensuring that all members' accrued benefits can be paid. The Trustees of the plans make all major strategic decisions including, but not limited to, the plans' asset allocation and the appointment and termination of fund managers. When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees have established an Investment Committee to monitor the operation of the plans' investment strategy, make day-to-day decisions as necessary for the smooth running of the plans, and make recommendations to the Trustees on overall strategy. This structure has been established in order to ensure that decisions are taken by those who have the appropriate training and expertise.

Notes
Forming part of the consolidated financial statements

20 Retirement benefits continued

The KPMG Staff Pension Fund – pre-April 2000 fund

The KPMG Staff Pension Fund – pre-April 2000 fund (the pre-2000 fund) provides benefits based on members' average salary. It was closed to new entrants and ceased future service accrual on 1 April 2000. The weighted average duration of the defined benefit obligation for the pre-2000 fund is approximately 17 years.

The most recent full triennial actuarial valuation of the pre-2000 fund was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2014. The preliminary results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2014. This valuation resulted in an actuarially assessed funding deficit of £105.3 million. The Trustees of the pre-2000 fund and the group agreed a recovery plan to address this deficit which included payments of £4.4 million p.a. from 1 October 2014 until 30 September 2022 and an assumption that some of the deficit will be recovered through investment returns, together with a special contribution on 29 September 2014, which was immediately reinvested in an Asset Backed Funding arrangement (further information below).

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group.

The KMG Thomson McLintock Pension Scheme

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan, closed to new entrants, providing benefits based on final pensionable pay. The plan is contributory for members and the group's contributions are the balance of the cost of providing the benefits. The weighted average duration of the defined benefit obligation for the TMcL plan is approximately 16 years.

The most recent full triennial actuarial valuation of the TMcL plan was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2014. The preliminary results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2014. This valuation resulted in an actuarially assessed deficit of £17.3 million. The Trustees of the TMcL plan and the group agreed an employer contribution rate in respect of future service of 36.4% of pensionable salaries and a recovery plan to address this deficit which included payments of £0.6 million p.a. from 1 October 2014 until 30 September 2022 and an assumption that some of the deficit will be recovered through investment returns, together with a special contribution on 29 September 2014, which was immediately reinvested in an ABF arrangement (further information below).

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group.

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided on an IAS 19 R basis as at 30 September 2014 and 30 September 2013 by KPMG's professionally qualified in-house actuaries.

Minimum funding requirements

The group and partnership have determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans, the future contributions that the group has committed to make to the plans have a lower present value than the current deficit within each of the plans respectively. As such, no adjustment has been made for potential additional liabilities at 30 September 2014 (2013: £nil).

Risks

The pension plans expose the group to several key risks, the most significant of which are detailed below:

- Investment risk – the pre-2000 fund and the TMcL plan invest a proportion of assets in return-seeking assets. There is a risk that the higher returns targeted through such a strategy are not achieved in practice, therefore increasing the deficit and potentially requiring further contributions from the group at the next funding valuations. There is also a risk that the investment strategy does not match the cash flows and liabilities of the plans, or the risk of not being able to reinvest the assets at the assumed rates. These risks are managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The Trustees of the plans review the investment strategy on a regular basis to minimise these risks.
- Yield risk – a fall in government bond yields will increase both the assets and liabilities of the pre-2000 fund and the TMcL plan, although this is likely to have a greater impact on the liabilities. Therefore a fall in government bond yields would be expected to increase the funding deficit in the plans, potentially requiring further contributions from the group at the next funding valuations.
- Mortality risk – the assumptions adopted by the group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the pre-2000 fund and the TMcL plan and consequently increases in the liabilities. The group and Trustees of each plan review the mortality assumptions on a regular basis to minimise the risk of using an inappropriate assumption.

Notes
Forming part of the consolidated financial statements

20 Retirement benefits continued

Other matters

The group expects to contribute approximately £10 million (which includes payments of £4.5 million from the ABF arrangement – see below) to its defined pension plans in the next financial year.

Further to the funding plans agreed with the Trustees, KPMG LLP has entered into an ABF agreement with the plans, effective from 29 September 2014, through the establishment of a Scottish Limited Partnership (SLP). Under this agreement, the beneficial interest in certain trade receivables to a fair value of £90 million was transferred to the SLP. The transfer was effected via a receivables purchase agreement, which sets out how £90 million of the group's receivables will be transferred to the SLP for a 25 year period.

The plans have a limited interest in the SLP and are entitled to a combined annual distribution from the profits of the partnership of £4.5 million (£3.9 million pre-2000 fund; £0.6 million TMcL plan) payable monthly for 25 years. These payments will be in addition to the group's ongoing deficit reduction contributions as per the funding plans. This distribution is linked to the funding level within the plans, whereby the payments will cease to a plan if it reaches a fully funded status determined using a low risk measure of the plan's liabilities.

The SLP is controlled by the group and its results are consolidated by the group. The investment held by the plans in the SLP does not qualify as a plan asset for the purposes of the group's and partnership's financial statements and is therefore not included within the fair value of plan assets. The value of the assets transferred to the SLP remain on the group's statement of financial position. The group's statement of financial position, IAS 19 Revised deficit and income statement are therefore unchanged by the establishment of the SLP.

As a result of the transactions under the ABF, the partnership statement of financial position is changed to reflect its receivable from the SLP of £30 million, prepayment of contributions to the pension funds of £60 million and a liability of £90 million arising under the receivables purchase agreement. The IAS 19 Revised deficit and income statement are unchanged.

Because taxation in the partnership is a personal liability of the individual members, no deferred tax on the plans' balances falls to be recorded in the financial statements of both the group and partnership.

Plan assets and liabilities

The fair values of the plans' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the plans' liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	TMcL plan		Pre-2000 Fund	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Quoted in an active market				
Equities				
UK	**23**	22	**90**	89
World developed (ex UK)	**35**	34	**126**	122
Emerging market	**7**	6	**27**	25
Bonds				
Domestic Corporate	**12**	10	**100**	92
Domestic Government, Index-linked	**30**	17	**90**	40
Other				
Active currency fund	**5**	5	**19**	18
Non quoted in an active market				
Fund of hedge funds	**–**	11	**1**	44
Global macro fund	**6**	5	**23**	21
Distressed debt fund	**4**	3	**18**	13
Cash and cash equivalents	**–**	–	**3**	1
Fair value of plans' assets	**122**	113	**497**	465
Present value of funded defined benefit obligations	**(143)**	(135)	**(627)**	(581)
Present value of net obligations being the net liability in the statement of financial position	**(21)**	(22)	**(130)**	(116)

The plans assets do not include any of the group's own transferable financial instruments, property occupied by, or other assets used by the group.

Notes
Forming part of the consolidated financial statements

20 Retirement benefits continued

Movements in the present value of the funded defined benefit obligations for the plans were as follows:

Movements in present value of obligations

	TMcL plan		Pre-2000 fund	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Balance at 1 October	**(135)**	(124)	**(581)**	(553)
Current service cost	**–**	(1)	**–**	–
Interest on obligations	**(6)**	(5)	**(25)**	(24)
Actuarial gain arising from changes in demographic assumptions	**2**	1	**8**	2
Actuarial loss arising from changes in financial assumptions	**(10)**	(10)	**(46)**	(18)
Actuarial loss arising from experience on the plan's liabilities	**2**	(1)	**(2)**	(4)
Benefits paid	**4**	5	**19**	16
Balance at 30 September	**(143)**	(135)	**(627)**	(581)
Of which: amounts owing to active members	**(13)**	(19)	**–**	–
Of which: amounts owing to deferred members	**(74)**	(70)	**(451)**	(439)
Of which: amounts owing to pensioner members	**(56)**	(46)	**(176)**	(142)

The split of the defined benefit obligation between active, deferred and pensioner members has been based on the proportions set out in the preliminary results for the actuarial valuation of the plans as at 31 March 2014.

During the reporting period there have been no plan amendments, curtailments or settlements.

Movements in the fair value of the plans' assets were as follows:

Movements in fair value of assets

	TMcL plan		Pre-2000 fund	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Balance at 1 October	**113**	103	**465**	425
Interest income	**5**	4	**20**	19
Return on plans assets, excluding interest income	**6**	9	**25**	31
Contributions by employer	**2**	2	**6**	6
Benefits paid	**(4)**	(5)	**(19)**	(16)
Balance at 30 September	**122**	113	**497**	465

The amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follows:

Components of pension expense in the income statement

	2014 £m	2013 £m
Personnel costs:		
– Current service cost	**–**	1
Finance income and expense:		
– Net interest expense on net defined benefit obligations	**6**	6
	6	7

Notes
Forming part of the consolidated financial statements

20 Retirement benefits continued

Remeasurements recognised in the statement of comprehensive income

	TMcL plan		Pre-2000 fund	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Actuarial gains arising from changes in demographic assumptions	**2**	1	**8**	2
Actuarial loss arising from changes in financial assumptions	**(10)**	(10)	**(46)**	(18)
Actuarial gain/(loss) arising from experience on the plan's liabilities	**2**	(1)	**(2)**	(4)
Return on plan assets, excluding interest income	**6**	9	**25**	31
Total remeasurements recognised in the statement of comprehensive income	**–**	(1)	**(15)**	11

Actuarial gains and losses arise as a result of changes in assumptions or represent experience adjustments. Actuarial gains and losses are recognised in the statement of comprehensive income in the period in which they occur.

Assumptions

Under IAS 19 R, measurement of plan liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions. The assumptions used are applied for the purposes of IAS 19 R only.

The significant financial and other assumptions used to calculate the liabilities over the life of the plans on an IAS 19 R basis were:

Actuarial assumptions

	2014 %	2013 %
Discount rate	**3.80**	4.30
Future salary increases (TMcL plan only)	**4.40**	4.45
Increase of pensions in payment (RPI linked)	**3.25**	3.25
Increase for deferred pensioners (CPI)*	**2.40**	2.45

*Applies to TMcL only. There are no increases in deferment for the pre-2000 fund.

Both plans have been valued using mortality assumptions which retain an allowance for future improvement in longevity. The mortality tables used for the plans at 30 September 2014 were the SAPS Series 2 Lights tables with CMI 2013 projections using a long-term trend rate of 1.25% for both males and females (2013: SAPS Series 1 Light tables with CMI 2013 projections, 1.25% male/ 1% female long-term trend rates).

These tables lead to life expectancies as follows:

	2014 Years	2013 Years
Retiring today at age 60		
Males	**28.3**	28.7
Females	**29.4**	29.6
Retiring at age 60, currently aged 45		
Males	**29.7**	30.2
Females	**30.9**	30.8

Notes
Forming part of the consolidated financial statements

20 Retirement benefits continued

Sensitivity analysis

The principal actuarial assumptions all have a significant effect on the valuation of the defined benefit obligations. The following table shows the sensitivity of the value of the plan liabilities to changes in these assumptions.

Assumption	Change in assumption	Impact on scheme liability increase/ (decrease) TMcL plan £m	Pre-2000 fund £m	**Total £m**
Discount rate	Increase by 0.25%	(5)	(23)	**(28)**
Increase of pensions in payment (RPI linked)	Increase by 0.25%	1	5	**6**
Increase for deferred pensioners (CPI)*	Increase by 0.25%	1	–	**1**
Life expectancy	Increase by 1 year	4	16	**20**

*Applies to TMcL only.

These sensitivities are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the benefit obligation.

21 Equity, members' capital and other interests

a) Equity

Group and partnership

Equity includes members' other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members. Also included in members' other reserves are remeasurement gains and losses arising on the defined benefit pension plans (see note 20). Other movements in members' other reserves mainly represent compensation amounts payable to subsidiary undertakings for corporation tax liabilities arising from the impact of UK transfer pricing legislation (see note 9).

Equity also includes the translation reserve, being those exchange differences arising on the translation of non-sterling subsidiaries.

b) Members' capital

Group and partnership

The group is financed by members' capital. In addition, the short-term working capital requirements of the group will be met by the bank facilities (see note 22c). The phasing of member distributions may also be altered to give further flexibility to meet finance requirements. The group's capital structure is regularly reviewed to ensure it remains relevant for the business.

Movements in members' capital was as follows:

	£m
Balance at 1 October 2012	52
Capital introduced by members	4
Repayments of capital	(6)
Balance at 30 September 2013	50
Capital introduced by members	6
Repayments of capital	(4)
Balance at 30 September 2014	**52**

Notes
Forming part of the consolidated financial statements

21 Equity, members' capital and other interests continued

c) Other interests
Members' other interests comprise amounts due from/(to) members as follows:

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amounts due from members	**40**	140	**40**	135
Amounts due to members	**(294)**	(25)	**(299)**	(25)
	(254)	115	**(259)**	110

Amounts due from members relate to amounts advanced to members in their first year of appointment, to cover the liabilities arising for those individuals as a result of the change in tax basis to self-employed. These balances are repayable by the member upon retirement or earlier cessation of membership.

Amounts due to members that are classified as current liabilities relate to tax withheld from allocated profits and 90% of partnership accounting profits which fall to be recognised as a liability (2013: tax withheld from allocated profits only), less amounts paid to members during the year as drawings or profit shares. There are no loans or other amounts payable to members. In the event of a winding up, amounts due to members may be set-off against amounts due from members but would otherwise rank (with individual members' capital) after unsecured creditors.

22 Financial instruments

The group's principal financial instruments arise directly from its operations. Members' capital and amounts due to and from members also fall to be treated as financial instruments. The main purpose of these financial instruments is to finance the operations of the group. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The group has exposure to market risk, credit risk and liquidity risk arising from its use of financial instruments. This note presents information about the exposure of both the group and partnership to each of the above risks and the objectives, policies and processes for measuring and managing risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The group, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Further quantitative disclosures are included throughout these financial statements.

a) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group uses derivatives on a case-by-case basis in order to manage market risks. The group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk
The group faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations. The group uses interest rate options to manage exposure to interest rate risk; an interest rate cap was entered into during the year ended 30 September 2011, to cap the interest arising on the short-term borrowing facility to 4.5%. This interest rate cap contract was still open at 30 September 2014 and had a fair value of £nil million (2013: £nil million).

Notes
Forming part of the consolidated financial statements

22 Financial instruments continued

The financial assets and liabilities of the group and partnership are non-interest bearing, with the exception of the following:

		Group		Partnership	
	Note	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Fixed rate instruments					
Bonds	15	**38**	35	**–**	–
Loans receivable	13	**14**	15	**–**	–
Loans payable	13	**(14)**	(15)	**–**	–
		38	35	**–**	–
Variable rate instruments					
Short-term bank borrowings	22c	**(67)**	(95)	**(33)**	(62)
Bank balances and cash deposits	16	**48**	44	**13**	9
		(19)	(51)	**(20)**	(53)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates during the year would have increased or decreased group profit by £0.4 million (2013: £2.1 million) and increased or decreased partnership profit by £0.4 million (2013: £1.1 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exchange rate risk

The functional currency of the partnership and its subsidiaries is pound sterling. However, certain expenses and charges from other KPMG International member firms or other international relationships are denominated in currencies other than the functional currency of the entities within the group. In addition, some fees are rendered in other currencies where this is requested by the clients involved.

The group maintains currency cash balances and uses currency swaps or forward foreign exchange contracts in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

As set out above, the group trades in its functional currency and so does not generally have material receivable and payable balances denominated in non-functional currencies. However, at 30 September 2014 the group had receivable balances, denominated in non-functional currencies as follows:

	Group		Partnership	
	2014	2013	**2014**	2013
US Dollar ($m)	**12**	13	**10**	9
Euro (€m)	**16**	10	**10**	9

Neither the group nor partnership had material payables denominated in non-functional currencies at either 30 September 2014 or 2013. A 5% movement in either the US dollar or euro closing exchange rates would have increased (or decreased) group profit by £2 million (2013: £3 million) and partnership profit by £1 million (2012: £2 million).

The net bank balances and cash deposits in non-functional currencies were as follows:

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
US Dollar	**8**	12	**8**	10
Euro	**–**	8	**–**	1
Swiss francs	**1**	3	**1**	3

There were open forward foreign exchange contracts at 30 September 2014 to sell US$2 million in exchange for pound sterling (2013: to sell US$1 million in exchange for pound sterling), to sell 66 million Saudi Riyals in exchange for pounds sterling (2013: to sell 63 million Saudi Riyals in exchange for pound sterling) and to sell 2 million Swiss francs in exchange for pounds sterling (2013: nil). The fair value of these contracts at 30 September 2014 was a loss of £355,000 (2013: £567,000 gain).

Notes
Forming part of the consolidated financial statements

22 Financial instruments continued

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	**2014**	2013
Euro	**1.2207**	1.1890	**1.2794**	1.1963
Swiss franc	**1.4903**	1.4573	**1.5443**	1.4644
US dollar	**1.6566**	1.5602	**1.6231**	1.6195

Equity price risk
Equity price risk arises from fair value through profit or loss equity securities. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by at least one Board member or the Chief Financial Officer.

The primary goal of the group's investment strategy is to maximise investment returns; management is assisted by external advisers in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The only financial assets which are considered to be exposed to equity price risk are equity securities, totalling £16 million (2013: £15 million).

b) Credit risk
Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from clients, securities and other investments.

Trade and other receivables
Exposure to credit risk is monitored on a routine basis and credit evaluations are performed on clients as appropriate. The group does not require security in respect of financial assets.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each client. Credit risk is monitored frequently, with close contact with each client and routine billing and cash collection for work done.

The group establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables and investments.

Impairment information is included in note 14. There are no significant impairment provisions against the other classes of assets, except investments in subsidiaries held by the partnership, as set out in note 12.

Securities, other investments and derivatives
Cash investments are made only in liquid securities, mainly fixed-term deposits or Government or high-quality corporate bonds, and are monitored regularly. Derivatives are concluded with high quality counterparties only and are monitored regularly.

The maximum exposure to credit risk is represented by the carrying amount of the group's and partnership's financial and other assets as set out in the table below.

		Group		Partnership	
		2014	2013 Restated	**2014**	2013
	Note	**£m**	£m	**£m**	£m
Trade receivables	14	**335**	367	**306**	315
Unbilled amounts for client work	14	**275**	250	**248**	221
Cash and cash equivalents	16	**48**	44	**13**	9
Amounts due from members	21c	**40**	140	**40**	135
Non-current loans and receivables	13	**14**	15	**30**	–
Other receivables	14	**11**	12	**10**	7
Amounts due from other UK group undertakings (2013: other ELLP group undertakings)	14	**–**	9	**32**	41
Amounts due from other KPMG International member firms	14	**54**	20	**37**	20
Loans and receivables		**777**	857	**716**	748
Fair value through profit or loss	15	**54**	51	**–**	–
Total financial assets		**831**	908	**716**	748

Notes
Forming part of the consolidated financial statements

22 Financial instruments continued

c) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the group's reputation.

The focus of the group's treasury policy is to ensure that there are sufficient funds to finance the business. Surplus funds are invested according to the assessment of rates of return available through the money market or from bonds or equities.

The Treasury function monitors the group's significant cash positions daily and it is the group's policy to use finance facilities or to invest surplus funds efficiently. Limits are maintained on amounts to be deposited with each banking counterpart and these are reviewed regularly in the light of market changes.

The group has access to committed overdraft and revolving credit facilities which are drawn down as required.

The group and partnership have the following non-derivative financial liabilities, measured at amortised cost:

	Note	Group 2014 £m	Group 2013 £m	Partnership 2014 £m	Partnership 2013 £m
Accruals	17	**212**	202	**209**	194
Amounts due to members	21c	**294**	25	**299**	25
Short-term bank borrowings		**67**	95	**33**	62
Members' capital	21b	**52**	50	**52**	50
Other payables	17	**7**	11	**7**	4
Trade payables	17	**30**	18	**28**	17
Amounts due to other UK group undertakings (2013: other ELLP group undertakings)	17	**–**	2	**58**	27
Amounts due to other KPMG International member firms	17	**6**	6	**6**	4
Other non-current liabilities	13	**14**	15	**90**	–
		682	424	**782**	383

The following are the remaining contractual maturities of financial liabilities at the reporting date:

Group

	Note	2014 carrying amount £m	Contractual cash flows 2014 within one year £m	Contractual cash flows 2014 2–5 years £m	2013 carrying amount £m	Contractual cash flows 2013 within one year £m	Contractual cash flows 2013 2–5 years £m
Non-derivative financial liabilities							
Accruals	17	**212**	**212**	**–**	202	202	–
Amounts due to members	21c	**294**	**294**	**–**	25	25	–
Short-term bank borrowings		**67**	**67**	**–**	95	95	–
Members' capital	21b	**52**	**52**	**–**	50	50	–
Other payables	17	**7**	**7**	**–**	11	11	–
Trade payables	17	**30**	**30**	**–**	18	18	–
Amounts due to other UK group undertakings (2013: other ELLP group undertakings)	17	**–**	**–**	**–**	2	2	–
Amounts due to other KPMG International member firms	17	**6**	**6**	**–**	6	6	–
Other non-current liabilities	13	**14**	**–**	**14**	15	–	15
		682	**668**	**14**	424	409	15

Notes
Forming part of the consolidated financial statements

Partnership

	Note	2014 carrying amount £m	Contractual cash flows 2014 within one year £m	Contractual cash flows 2014 more than 5 years £m	2013 carrying amount £m	Contractual cash flows 2013 within one year £m	Contractual cash flows 2013 more than 5 years £m
Non-derivative financial liabilities							
Accruals	17	**209**	**209**	**–**	194	194	–
Amounts due to members	21c	**299**	**299**	**–**	25	25	–
Short-term bank borrowings		**33**	**33**	**–**	62	62	–
Members' capital	21b	**52**	**52**	**–**	50	50	–
Other payables	17	**7**	**7**	**–**	4	4	–
Trade payables	17	**28**	**28**	**–**	17	17	–
Amounts due to other UK group undertakings (2013: other ELLP group undertakings)	17	**58**	**58**	**–**	27	27	–
Amounts due to other KPMG International member firms	17	**6**	**6**	**–**	4	4	–
Other non-current liabilities	13	**90**	**–**	**90**	–	–	–
		782	**692**	**90**	383	383	–

The group's financial liabilities that are interest bearing are the short-term bank borrowings (see below) and non-current loans payable (see note 13).

Committed borrowing facilities of £405 million (2013: £405 million) were available at 30 September 2014 to the group. Actual amounts drawn were £67 million (2013: £95 million) by the group and £33 million (2013: £62 million) by the partnership. Of the facilities available as at 30 September 2014, £5 million (2013: £5 million) expires in one year or less, revolving credit facility of £400 million (2013: £400 million) is due to expire in January 2020. Although the revolving facility expires in January 2020, the short-term bank borrowings drawn from time to time under the facility usually have a maximum term of three months. The availability of this revolving facility is dependent on certain conditions, including a minimum level of members' capital, all of which were satisfied at 30 September 2014 and 2013. The revolving credit facility is secured on the lease of 15 Canada Square, London.

d) Fair values

The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2014 and 2013, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1. The table below analyses financial instruments of the group carried at fair value, by valuation method. The partnership has no financial instruments carried at fair value at either 30 September 2014 or 30 September 2013.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes
Forming part of the consolidated financial statements

22 Financial instruments continued

	Note	Level 1 £m	Level 2 £m	Level 3 £m	Group Total £m
30 September 2014					
Bonds	15	**38**	**–**	**–**	**38**
Equities	15	**16**	**–**	**–**	**16**
		54	**–**	**–**	**54**
30 September 2013					
Bonds	15	35	–	–	35
Equities	15	15	–	–	15
Derivatives	15	–	1	–	1
		50	**1**	**–**	**51**

There have been no transfers between Level 1 and 2 during the year.

23 Operating leases

Total commitments under non-cancellable operating leases are as follows:

Non-cancellable operating lease rentals

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Within one year	**37**	34	**37**	33
Between one and five years	**79**	87	**79**	85
More than five years	**119**	121	**119**	118
	235	242	**235**	236

A number of office facilities are leased under operating leases. The periods of the leases vary; lease payments are generally subject to rent review every five years.

Group and partnership

	2014 £m	2013 £m
Amounts receivable from sub-let properties:		
– within one year	**2**	2
– within two to five years	**3**	5
Operating lease cost for the year in 'Other operating expenses'	**23**	22
Operating lease income for the year in 'Other operating income'	**2**	2

The group also leases certain computer equipment, office equipment and motor vehicles under operating leases. These leases typically run for a period of three years.

All amounts due under the group's finance lease (see note 10) have been accounted for and no future liability arises.

Notes
Forming part of the consolidated financial statements

24 Commitments and contingencies

Capital commitments for contracted purchases of property, plant and equipment at the end of the financial year, for which no provision has been made, were £54 million (2013: £7 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

The partnership has given a guarantee in favour of the bank providing borrowing facilities to the KPMG International member firm in Kuwait (previously an associated undertaking of the group) for a value of US$5 million (£3 million).

25 Related parties

Between 1 October 2013 and 26 September 2014, the group was wholly controlled by KPMG Europe LLP (ELLP), a limited liability partnership registered in England and Wales, which was the group's ultimate controlling party during that period. With effect from 26 September 2014, the UK member firm demerged from ELLP, and from that date was wholly owned by the UK members.

The largest group in which the results of this group were consolidated for the year ended 30 September 2013 was that of ELLP. The financial statements of ELLP for the year ended 30 September 2013 are available to the public and may be obtained from the principal place of business, 15 Canada Square, Canary Wharf, London E14 5GL.

The group has a related party relationship with its key management, considered to be the members of the Board and the Executive Management Team (as set out on pages 64 and 65) who were also individual members of the partnership.

Transactions with key management

The members of the UK Board and the Executive Management Team are responsible for planning, directing and controlling the activities of the group. The members of the UK Board and the Executive Management Team all share in the profits of the partnership and the following disclosures relate to those members only.

The partnership does not divide profits amongst members until after the financial statements have been finalised and approved by the members. The estimated profit entitlement due to the partnership's key management in respect of the current year totalled £23 million. The actual profit allocated in respect of the previous year was £22 million.

The estimated total profit share payable to the highest paid member is £2.5 million (2013: £2.4 million).

There were no balances due to or from key management at 30 September 2014 or 2013 save in respect of relevant shares of profit (or related taxation) and members' capital. As discussed in note 1, members receive monthly drawings and other distributions representing payments on account of current year profits. Following the change in the partnership agreement during the year, any such amounts paid in excess of the liability recognised in respect of 90% of the accounting profits of the partnership would be shown as 'Amounts due from members' until allocation of the current year profits. Amounts that are retained from allocated profits in respect of taxation liabilities that fall on members are classified as 'Amounts due to members' together with the 90% of partnership profits treated as a liability. All amounts are expected to be paid in the short term.

Amounts due from/(to) key management of the partnership (and also the group) are as follows:

	2014 £m	2013 £m
Amounts due from key management	**1**	5
Amounts due to key management	**(21)**	(2)
	(20)	3

Total members' capital invested by key management in the partnership amounted to £2 million at 30 September 2014 (2013: £2 million).

Notes
Forming part of the consolidated financial statements

25 Related parties continued

Transactions with fellow group entities

Transactions with fellow group entities mainly reflect appropriate charges for the cost of shared services.

The transactions and year end balances with fellow group entities are as follows:

				Group
	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts owed by fellow group entities £m	Amounts owed to fellow group entities £m
2014				
ELLP subsidiaries – costs relating to client engagements	**44**	**38**	**–**	**–**
KPMG ELLP – stewardship and central costs	**5**	**–**	**–**	**–**
2013				
ELLP subsidiaries – costs relating to client engagements	60	36	9	2
KPMG ELLP – stewardship and central costs	2	–	1	–

				Partnership
	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts owed by fellow group entities £m	Amounts owed to fellow group entities £m
2014				
UK subsidiaries – services provided	**–**	**84**	**25**	**–**
KPMG UK Limited – provision of staff	**682**	**–**	**–**	**56**
ELLP subsidiaries – costs relating to client engagements	**38**	**19**	**–**	**–**
KPMG ELLP – stewardship and central costs	**5**	**–**	**–**	**–**
2013				
UK subsidiaries – services provided	–	116	33	–
KPMG UK Limited – provision of staff	593	–	–	23
ELLP subsidiaries – costs relating to client engagements	51	23	5	–
KPMG ELLP – stewardship and central costs	2	–	1	–

Transactions with associates

During the year ended 30 September 2014, transactions with associated entities in Kuwait and Jordan, which are not eliminated on consolidation, are as follows:

	Group		Partnership	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Transactions with associates:				
Revenue	**–**	2	**–**	2
Balances outstanding with associates at the year end:				
Amounts owed by other KPMG International member firms	**–**	2	**–**	1

These transactions are settled in cash, are on an arm's length basis and follow KPMG UK's normal trade terms.

Notes
Forming part of the consolidated financial statements

26 Subsidiary and associated undertakings

At 30 September 2014 the principal subsidiaries of the partnership are those listed in the table below. A full list of subsidiaries is filed at Companies House alongside the KPMG LLP annual return.

All of the subsidiary undertakings make up their accounts to 30 September and are consolidated within these financial statements. All entities operate principally in their country of incorporation, save where noted.

Subsidiary undertakings	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
KPMG Holdings Limited	England	Holding company	UK Registered Auditor	100
KPMG Audit Plc	England	Statutory audits and related services	UK Registered Auditor	100[3]
KPMG United Kingdom Plc	England	Advisory services	None	100[3]
KPMG UK Limited[1]	England	Employment company	None	100[3]
KPMG IT Advisory Limited	England	Advisory services	None	100[3]
KPMG Business Intelligence Limited	England	Advisory services	None	100[3]
KPMG Sourcing Limited	England	Advisory services	None	100[3]
KPMG CIO Advisory Limited	England	Advisory services	None	100[3]
Makinson Cowell Limited	England	Advisory services	FCA Regulated	100[3]
KPMG Gulf Holdings Limited	England	Holding company	None	100[3]
Queen Street Mutual Company PCC Limited	Guernsey	Insurance	Guernsey Insurer	0[2]

1. This company employs the staff occupied in the businesses of KPMG LLP and other group companies.
2. KPMG LLP has a 100% interest in the UK related net assets of this company through its right to control the Board and its right to entitlement to benefit from future profits or existing retained reserves arising from those assets.
3. Held indirectly through intermediate holding companies.

The partnership has an interest in a Scottish Limited Partnership set up under the ABF which is fully consolidated into these group accounts (see note 12). The group also has joint arrangements in India with the KPMG International member firms in India and the US; the UK have a 50% interest in KPMG Resource Centre Private Limited and a 33% interest in KPMG Global Services Private Limited. Both entities are incorporated in India and provide support services to KPMG International member firms.

The following financial information reflects 100% of the associates of the group:

	2014 £000	2013 Restated £000
Assets	**–**	3
Liabilities	**–**	2
Revenues	**8**	5
Profits	**1**	1

As disclosed in note 8, in May 2014, the group disposed of its interest in KPMG Saudi Arabia and terminated the call options to acquire shares in KPMG Saudi Arabia, Kuwait and Jordan. KPMG Kuwait and KPMG Jordan were both considered associates of the group until the date of disposal.

The figures for 2013 have been restated to exclude those assets, liabilities, revenues and profits relating to joint arrangements in India following the adoption of IFRS 11 during the year ended 30 September 2014.

27 Events after the year end

Subsequent to the year end, the group has entered into a 10-year strategic alliance with McLaren Group.

Appendices

Appendix 1

1 Network arrangements

1.1 Legal structure

Our structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture nor in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Unless otherwise stated, the words 'member firm' or 'KPMG member firm' when used in this Annual Report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit that KPMG International has no share capital and, therefore, only has members, not shareholders).
- Those entities ('sub-licensees') that are not members of KPMG International as a matter of Swiss law but that have still entered into legal agreements with KPMG International and also an entity that is a 'member'. Such agreements mean that sub-licensees are member firms of the KPMG network. Generally, the rights and obligations of a sub-licensee as a KPMG member firm are exactly the same as if it had been a member. In particular, all rights and obligations of member firms that are described in this Appendix are rights and obligations of sub-licensees unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee's compliance with its obligations as a KPMG member firm.
- Those entities that are owned, managed, and controlled by an entity that is a member or a sub-licensee. The respective member or sub-licensee is responsible to KPMG International for such controlled entity's compliance with obligations to KPMG International as if it were a member or sub-licensee.

1.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

1.3 Professional indemnity insurance

Insurance cover is maintained in respect of professional negligence claims. The cover is principally written through a captive insurer under a programme that is available to all KPMG member firms worldwide.

In addition, member firms may enter into local insurance arrangements in respect of the amount below the deductible under the worldwide insurance programme.

1.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board and the Global Management Team.

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the Global Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 56 member firms that are 'members' of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International and approving policies and regulations. It also admits member firms and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, the Global Deputy Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of Senior Partners of member firms. It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Global Deputy Chairman, the Chairman of each of the regions and currently three other Senior Partners of member firms.

One of the other Global Board members is elected as the Lead Director by those Global Board members who are not also members of the Executive Committee of the Global Board ('Non-Executive' members). A key role of the Lead Director is to act as liaison between the Global Chairman and the 'Non-Executive' Global Board members.

The Global Board is supported in its oversight and governance responsibilities by several other committees, including a Governance Committee, an Operations Committee, an Investments Committee, a Quality & Risk Management Committee and a Professional Indemnity Insurance Committee. The Lead Director nominates the Chairs and members of certain Global Board committees for approval by the Global Board.

Global Management Team and Global Steering Groups

The Global Board has delegated certain responsibilities to the Global Management Team.

These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the Global Deputy Chairman, and includes the Global Chairman, the Global Deputy Chairman, the Global Chief Operating Officer, global function and infrastructure heads and the general counsel.

The Global Steering Groups are responsible for supporting and driving the execution of the strategy and business plan in their respective areas and act under oversight of the Global Management Team.

Regional structure

Each member firm is part of one of three regions (the Americas, ASPAC and EMA). Each region has a Regional Board comprising a regional Chairman, regional Chief Operating or Executive Officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Appendices continued

Appendix 2

2 System of quality control

KPMG International has policies of quality control based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and to help our personnel act with integrity and objectivity, and perform their work with diligence.

KPMG UK supplements KPMG International policies and procedures with additional policies and procedures that are designed to address rules and standards issued by the Financial Reporting Council (FRC) and other relevant regulators such as the US Public Company Accounting Oversight Board (PCAOB).

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities.

While many of our quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relates to audit and the remainder of this Appendix focuses on what we do to ensure the delivery of quality audits.

In the case of the Audit function, the Audit Leadership Team meets on a monthly basis and these meetings include regular discussions (led by the Audit Quality & Risk Management Partner) about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams and other quality matters identified from a variety of sources. These are debated, other observations collected from client-facing teams are considered and actions agreed. Typically most of these actions are short-term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to our global audit methodology or audit tools) these will be developed in conjunction with our Global Services Centre and International Standards Group.

In addition to these regular meetings, within the Audit function our Audit Quality Council considers matters relating to maintaining and improving audit quality. The Audit Quality Council comprises the UK Head of Audit, the Audit Chief Operating Officer, the Audit Quality & Risk Management Partner, the UK Quality Performance Review Liaison Partner, the leaders of the Department of Professional Practice (DPP) Auditing and DPP Accounting & Reporting, and, from September 2014, the Business Unit Heads of Audit. The Audit Quality Council met five times during the year ended 30 September 2014, and considered the detailed findings (and related actions) from external regulatory reviews, the internal Quality Performance Review programme and other quality control programmes, as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement. These included consideration of enhancements to how we monitor, assess and reward quality; the appointment and capacity of Engagement Quality Control Review Partners; trend analysis around the quality performance metrics for engagement leaders and managers; and developments related to long form audit reports.

The UK Audit function is also a key contributor to our global thinking with representatives on all major global audit quality and development councils and teams. We use these forums to look for ways to better address local emerging issues by understanding how other member firms have tackled similar issues, contribute to our global knowledge management by sharing our experiences and facilitate common solutions to comparable matters.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. This framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Audit quality framework

Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our Firm. All of the other drivers are presented within a virtuous circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly.

Each of the seven drivers is described in more detail in the following sections of this Appendix.

The policies and practices set out in this Appendix also ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

2.1 Tone at the Top

KPMG's Tone at the Top provides a clear focus on quality through:

- Culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
- A strategy with quality at its heart;
- Standards set by leadership; and
- Governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

Our leadership demonstrates and communicates their commitment to quality, ethics and integrity. Our Audit Matters publication is released every month to all Partners and staff in the UK Audit function as well as, by request, to some others outside of the Audit function. In addition to Audit Matters, we issue regular technical bulletins addressed to all audit professionals to cover emerging issues, new developments and key technical and quality messages.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – "Above all, we act with integrity". For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to our clients and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices at KPMG. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to Partner. Our Values are set out in Appendix 5.

Our Code of Conduct incorporates our Values, and defines the standards of ethical conduct that we require from our people. The Code of Conduct was most recently updated in 2012 to reflect changes in laws, regulations and professional ethics. It sets out KPMG's ethical principles and helps Partners and employees to understand and uphold those principles. The Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her job function and level of responsibility. It has provisions that require KPMG people to:

- Comply with all applicable laws, regulations and KPMG policies;
- Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;
- Report breaches of risk management policies by KPMG firms or people;
- Uphold the highest levels of client confidentiality; and
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The commitments in our Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities.

We operate a whistle-blowing hotline in the UK which is available for our personnel, clients and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by members of the group itself, those who work for KPMG UK and the senior leadership of the Firm. The whistle-blowing hotline allows people to report their concerns (via telephone, secure internet lines or surface mail) to a third party organisation. Our people can raise matters anonymously and without fear of retaliation. During 2014, 19 matters which required investigation were reported to the UK hotline (2013: 12 cases investigated). Matters reported to the hotline are investigated under the supervision of our external ombudsman, Richard Pratt. Richard has reported to the Audit & Risk Committee on the operation of the hotline in the year. His 2014 report concluded that all matters reported to the hotline were treated seriously and extensive investigations undertaken.

Appendices continued

2.2 Association with the right clients

2.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

2.2.2 Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This evaluation is completed through our SAP enabled engagement management system and involves an assessment of its principals, its business and other service-related matters.

This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management as a prospective client. A second Partner, as well as the Evaluating Partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' a Risk Management Partner is involved in approving the evaluation. Each prospective engagement is also evaluated. In practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The engagement leader evaluates this in consultation with other senior personnel and decisions are reviewed by quality and risk management leadership as required.

A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement including, for audit services, the competence of the client's financial management team. Controls are built into our SAP system to help ensure that a valid client and engagement acceptance process has been completed as appropriate.

In addition, when taking on a statutory audit for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the entity for whom we are considering providing audit services and of other relevant relationships. Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated. Appendix 2.3.2 provides more information on our independence and conflict-checking policies.

2.2.3 Continuance process

An annual re-evaluation of all clients is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation. Audit services are reviewed at least annually.

This re-evaluation serves two purposes. Firstly, we will decline to act for any client we consider it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagements we perform for that client (this may include the assignment of additional professionals or the need to involve additional specialists in the case of audit).

2.3 Clear standards and robust audit tools

All of our professionals are expected to adhere to KPMG's policies and procedures (including independence policies) and we provide a range of tools to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

2.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The methodology is set out in KPMG International's KPMG Audit Manual (KAM) which all member firms are obliged to follow and includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality of our audits. KPMG UK also adds local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements specific to the UK and our own internal policies in the UK.

Our audit methodology is supported by eAudIT, KPMG's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform efficient and focused quality audits. eAudIT has been deployed to all audit professionals in KPMG UK and is regularly updated to add additional functionality to support the efficient and effective delivery of quality audit services. eAudIT's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to our stakeholders.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages the use of specialists when appropriate and also requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements. The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual that is applicable to all KPMG member firms, functions and personnel and is tailored in the UK for any local policies and procedures.

2.3.2 Independence, integrity, ethics and objectivity

2.3.2.1 Overview

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics (the IESBA Code) and incorporate, as appropriate, the US Securities & Exchange Commission (SEC), the PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with standards issued by the FRC's Audit & Assurance Council (formerly known as the Auditing Practices Board).

These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. In the UK, the Head of Quality and Risk Management is designated as the Ethics Partner and in turn is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are set out on our intranet-hosted Quality & Risk Management Manual, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm and its personnel must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors and significant owners.

In the event of failure to comply with the Firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics (see Appendix 2.4.3). The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our newly formed Ethics Committee oversees policies and procedures in relation to ethical matters and breaches of requirements (see page 54).

2.3.2.2 Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audit client securities to every member firm Partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International, we use a web-based independence tracking system (KICS) to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and all client-facing staff who are manager grade or above are required to use this system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted. Subsequent to the end of the year covered by this Annual Report, we have introduced a process whereby Partners are required to obtain specific clearance from a newly formed Partner Independence Team (PIT) for any investment and centralised the maintenance of Partners' KICS accounts with the PIT.

We monitor Partner and manager compliance with this requirement as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2014, 195 (2013: 208) of our people were subject to these audits (this included approximately 10% (2013: 10%) of our Partners). In addition to these, all new Partners are subject to a compliance audit as a condition of their admission. A number of actions have been taken to improve compliance, including the formation of the PIT.

Any professional providing services to an audit client is also required to notify the Ethics and Independence Partner if they intend to enter into employment negotiations with that audit client. During the year we extended the scope of our internal policy in relation to retiring, or recently retired, Partners to go beyond the requirements of the FRC Audit & Assurance Council's Ethical Standards (Ethical Standards).

2.3.2.3 Firm financial independence

KPMG UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in the web-based independence tracking system. This record is monitored through our compliance process.

2.3.2.4 Business relationships/suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with both the Ethical Standards and the IESBA Code. Detailed guidance is maintained covering, inter alia, business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an audit client or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

Appendices continued

2.3.2.5 Independence training and confirmations

We provide all relevant personnel (including all Partners and client service professionals) with annual independence training appropriate to their grade and function and provide all new personnel with relevant training when they join the Firm.

All personnel are required to sign an independence confirmation upon joining the Firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

2.3.2.6 Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for audit clients under applicable laws and regulations and independence rules. These limit the number of years that engagement leaders in certain roles may provide audit services to an audit client. KPMG rotation policies are consistent with the IESBA Code and also require our Firm to comply with any stricter applicable rotation requirements, which in the UK means we also comply with the Ethical Standards (and, where applicable for certain engagements, the rules of the PCAOB).

We monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement, including the Engagement Quality Control Reviewer (see Appendix 2.6.5) and have transition plans to enable us to allocate Partners with the necessary competence and capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

2.3.2.7 Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the Ethical Standards and the IESBA Code, and, where applicable, the rules of the SEC and PCAOB. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Group audit engagement leaders are required to maintain group structures for all publicly traded and certain other entities and their affiliates for whom we are auditors in Sentinel™, which facilitates compliance with KPMG policies. Every engagement intended to be entered into by a KPMG member firm is required to be included in Sentinel™ prior to starting work. Sentinel™ enables lead audit engagement Partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

To maintain auditor independence, the remuneration of any member of the audit team may not include any compensation based on the team member's success in selling non-audit services to entities for whom we are auditors.

2.3.2.8 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise if the total fees from an entity which we audit represent a large proportion of the total fees of the member firm expressing the audit opinion.

In particular, these policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- A Senior Partner from another KPMG member firm would be appointed as the engagement quality control reviewer.

No entity to whom we provide audit services accounted for more than 10% of the total fees received by the Firm in either of the last two years.

2.3.2.9 Conflicts of interest

Conflicts of interest may prevent our Firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

2.3.2.10 Compliance with laws, regulations, and anti-bribery and corruption

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct to all client-facing Partners and employees on joining the Firm, and every two years thereafter. The same training is also provided to certain other non-client-facing personnel (such as those who work in finance, procurement or sales and marketing). The most recent training took place in 2013 and will take place again in 2015.

We keep under review our anti-bribery systems and controls to ensure that these meet the requirements of legislation.

2.4 Recruitment, development and assignment of appropriately qualified personnel

We are totally committed to equipping our people with the skills and tools they need to cut through the complexity of today's world – complexity that sees our people increasingly working across borders, collaborating on a global basis and taking on challenging and innovative projects.

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the client. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

We believe it is essential to attract and retain the best people. The staff turnover rate for our exceptional rated performers in the year ended 30 September 2014 remains low at 10% (2013: 9%).

2.4.1 Recruitment

All candidates applying for professional positions are required to submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing and qualification/reference checks.

The Firm recruited over 3,000 new people in the year ended 30 September 2014 (2013: approximately 2,300).

Upon joining the Firm, new personnel are required to participate in an on-boarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures.

Our on-boarding procedures are designed to help ensure that any independence or conflicts of interest are addressed before the individual's employment or partnership commences.

2.4.2 Personal development

Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise (see Appendix 2.5.1).

An international and UK Partner development framework provides blended learning solutions via coaching, mentoring and senior level training programmes across the partnership. Partners are encouraged to make use of these development opportunities, and also to actively identify and manage talent and to act as role models for the development of other Partners and staff.

All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. The Career Paths portal provides information about roles and career options across the Firm, along with learning paths and tools to help individuals and their managers progress their careers. To support career and professional development there is a range of core skills programmes covering skills and behaviours that provide performance improvement and ensure that individuals reach their full potential. The Firm uses a model for learning and development which focuses learning on critical and stretching experiences, learning through others and informal learning with more formal learning for the development of key technical, leadership and business skills.

Development centres and feedback tools enable our Firm to identify high performers who also have the potential to take on more senior or more complex roles. We also have long-term development programmes to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and Partner roles.

In recognition that some of our professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

In relation to Audit we provide specific opportunities from graduate upwards for professionals to develop and maintain the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, country rotational and global mobility opportunities and client secondments.

2.4.3 Performance evaluation and compensation

At KPMG our commitment to the professionalism, openness and quality and risk management principles enshrined in the Audit Firm Governance Code starts at the very top with our Partners but also extends throughout the people processes.

All professionals undergo annual goal-setting and performance reviews. Each professional is evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a SAP-based application. These evaluations are conducted by performance managers and Partners who are in a position to assess performance. In preparation for their counselling all of our staff are required to seek evidence of their performance during the year. As part of the year end counselling process they discuss their achievement of agreed goals, strengths and development areas. Any colleagues who are not meeting expected levels of performance are clearly given this message by their performance managers. The performance discussion influences the total amount of remuneration that they are paid. The results of the annual counselling are also considered when promotion decisions are being made.

Similarly, each year, Partners are also required to agree objectives for the coming year which are specific to their individual role. They do this using a goal setting form which records both their objectives and their performance against those objectives at year end, including their performance related to quality and risk matters (which is of course important for all of our services but absolutely critical for statutory audit). As for staff, as part of the year end counselling process our Partners discuss achievement of agreed goals, strengths and development areas with particular focus on the delivery and personal development of the Partner attributes. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics which are described in further detail below.

All engagement leaders are issued with standardised quality and risk metrics which are one of the inputs to the annual counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. As part of these metrics, an overall red, amber or green grading is awarded. The 2014 results indicate generally a good level of quality and risk compliance across our whole Firm and are consistent with those arising in 2013 – in particular 90% of our engagement leaders were awarded green metrics, 9% amber and 1% red.

The action taken in respect of any Partner with amber and red ('adverse') quality and risk metrics is dependent upon the cause of the adverse metric initially. The range of actions that can be taken includes remediation of the initial deficiency giving rise to the adverse metric, remedial training, one-to-one counselling with functional leadership and/or Quality and Risk Partners on the issue arising, or, ultimately, the suspension of signing rights. As explained in Note 5 to the financial statements, adverse risk metrics result in a reduction in the overall compensation paid to the Partner concerned.

Appendices continued

We use the same system of quality and risk metrics for manager grade staff to reinforce the message that the responsibility for engagement quality extends beyond the engagement leader.

2.4.4 Compensation and promotion

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return.

2.4.5 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. This procedure includes a business case and a personal case for the individual candidate. KPMG also engage with an external provider to gain an independent assessment of the candidates against a range of criteria/competencies. Our key criteria for admission to Partner are consistent with a commitment to professionalism and integrity, quality and being an employer of choice. Anyone who is being considered for promotion to Partner is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values. Similarly, attitude to quality and risk is explored for any external Partner hires that we are considering.

In the year ended 30 September 2014, KPMG LLP recruited 22 new Partners from the external market (2013: 9) and promoted 30 from within the Firm (2013: 30).

2.4.6 Assignment

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement on the basis of their skills, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the Partner assignment process. Key considerations include Partner experience, accreditation and capacity based on the results of the annual Partner portfolio review (see below) to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving local specialists or those from other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the audit engagement leader's considerations may include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory requirements;
- Appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgement; and
- An understanding of KPMG's quality control policies and procedures.

As an additional control in Audit, the UK Audit Quality & Risk Management Partner oversees an annual review of risks facing the Audit function which involves the UK Head of Audit, the UK Audit Chief Operating Officer and each UK regional Head of Audit. Each regional Head of Audit (or their approved delegate) meets every audit engagement leader in their region to perform a review of their portfolio and workload (the Partner Portfolio Review process). The purpose of this process is to understand the risks being faced by the Audit function and ensure any remediation measures are put in place. As part of the individual engagement leader meetings the regional Head of Audit will look at the complexity and risk of each audit against the backdrop of other factors relating to the individual and their workload, and will consider whether or not taken as a whole the specific engagement leader has the appropriate time, suitable experience and the right level of support to enable them to perform a high-quality audit for each client. This process takes into account the findings of internal and external reviews and the quality and risk metrics.

2.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need, including access to networks of specialists and technical experts, in particular DPP Accounting & Reporting and DPP Auditing which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

2.5.1 Technical training

In addition to personal development discussed at 2.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Our technical training curriculum covers all grades of staff with a core training programme for junior staff and periodic and appropriate ongoing training for qualified and experienced staff and Partners. In recognition of the continued focus on audit quality, we also run Audit Quality Workshops for engagement leaders which covers key messages regarding quality, and actions in respect of the internal and external monitoring.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme.

The Audit Learning and Development team works with subject experts to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis. In developing training materials they have regard to emerging market developments, matters identified through internal and external reviews and common queries raised through internal consultation processes.

Delivery of training is through a blend of classroom, e-learning and virtual classroom. Certain training programmes also include a test that is required to be passed prior to completion of the training.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements (see 2.5.2). Non-attendance or the late completion of mandatory training is captured as one of the measures in the quality and risk metrics.

In addition to structured technical training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

2.5.2 Accreditation and licensing

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services (including for US audit and accounting work, Transactions Services, Corporate Finance services and Reporting Accountant work) which ensure that only Partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

All Audit professionals are also required to maintain accreditation with their professional body and satisfy the Continuing Professional Development requirements of that body. Our policies and procedures are designed to ensure that those individuals who require a licence to undertake their work are appropriately licensed.

2.5.3 Access to specialist networks

Our engagement teams have access to a network of specialists (including, where necessary, in other KPMG member firms). Engagement leaders are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (for example, Information Technology, Tax, Treasury, Pensions, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process, as well as during the risk assessment and planning stage of each audit. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

2.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting which is crucial in terms of the support that it provides to the Audit function. It provides technical guidance to client service professionals on specific engagement-related matters, develops and disseminates specific topic-related guidance on emerging local technical and professional issues and disseminates international guidance on International Financial Reporting Standards (IFRS) and ISAs (UK & Ireland).

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists via a technical or client panel. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP Accounting & Reporting, Head of Quality & Risk Management or ultimately the national Senior Partner (or appropriate nationally qualified delegates).

Technical support is also available through the International Standards Group (ISG) as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting Group based in London.

The ISG works with global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis.

2.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAudIT. We, along with other KPMG member firms, provide specialist input into the development of global industry knowledge and deploy it via the use of eAudIT.

2.6 Performance of effective and efficient audits

How an audit is conducted is as important as the final result. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. These behaviours are discussed below.

KPMG audit process

As already described, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are:

- Timely partner and manager involvement;
- If relevant, appropriate and timely involvement of specialists;
- Critical assessment of audit evidence;
- Exercise professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate and timely involvement of the Engagement Quality Control reviewer (EQC reviewer);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

Appendices continued

2.6.1 Timely partner and manager involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the Partner's experience and skill. Timely involvement of the Engagement Partner at other stages of the engagement allows the Engagement Partner to identify and appropriately address matters significant to the engagement, including critical areas of judgement and significant risks.

The engagement leader is responsible for the final audit opinion and reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities and in the day-to-day liaison with the client and team.

2.6.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Professional Judgement Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

The KPMG Professional Judgement Framework

We have developed a Professional Judgement Framework that provides audit professionals with a structured approach to making judgements. Our Professional Judgement Framework has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, consider alternatives, critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information and document the rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

Professional judgement training is embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff. We continue to deliver training on professional judgement for senior staff and Partners as necessary.

2.6.3 Ongoing mentoring and on-the-job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit include:

- Engagement leader participation in planning discussions;
- Tracking the progress of the audit engagement;
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective monitoring, coaching and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

2.6.4 Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is usually not longer than 45 days from the date of the audit report.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- The nature, timing, and extent of audit procedures performed to comply with the ISAs;
- Applicable legal and regulatory requirements;
- The results of the procedures performed;
- The audit evidence obtained;
- Significant findings and issues arising during the audit and actions taken to address them (including additional audit evidence obtained); and
- The basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA rules as well as other applicable regulatory bodies' standards and regulations.

2.6.5 Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

Our EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the engagement team. They are experienced audit professionals who are independent of the engagement team and are required to be involved at crucial stages throughout the audit. They offer an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Head of Quality & Risk Management or the UK Head of Audit. Accreditation to act as an EQC reviewer is granted to appropriate individuals by the UK Audit Quality & Risk Management Partner and the EQC reviewers for individual engagements are proposed by the regional Heads of Audit and ratified by the UK Audit Quality & Risk Management Partner. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and client communications;
- Appropriateness of the financial statements and related disclosures; and
- The significant judgements that the engagement team made and the conclusions it reached with respect to the audit.

The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- Incorporating specific procedures into eAudIT to facilitate effective reviews;
- Releasing periodic mandatory e-learning modules covering EQC reviews); and
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review process (see Section 2.4.6 of this Appendix) to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

2.6.6 Clear reporting of significant findings

Auditing standards and the Companies Act 2006 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material respects.

Experienced audit engagement leaders arrive at all audit opinions based on the audit performed. In preparing audit reports, Engagement Partners have access to extensive reporting guidance and technical support through consultations with DPP Accounting & Reporting, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

As part of commitment to restoring trust, we have recently announced a new approach to our audit reports which go beyond these minimum requirements. Our Firm has invited all our listed audit clients to include KPMG findings in the long form audit report following our field testing of the approach earlier this year.

2.6.7 Insightful, open and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. Often the Audit Committee will be the body identified as being charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at Audit Committee or Board meetings and ongoing discussions with members of the Audit Committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our Audit Committee Institute (ACI) aims to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes. The ACI operates in the UK as well as many other KPMG member firms and provides Audit Committee members with authoritative guidance (such as the ACI Audit Committee Handbook); updates on issues like audit reform, changes to accounting standards and other matters of interest to Audit Committees; and the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Today the ACI in the UK has more than 3,000 members across both the private and public sectors and our FTSE 100 Audit Committee Chairs' Group included representatives from 65% of the FTSE 100. We provided more than 40 seminars, workshops and roundtables for Audit Committee members, Risk Committee members and other Non-Executive Directors during 2014. We live in a world where a succession of governance mishaps have ensured the spotlight continues to shine on the role of the Audit Committee and the expectations placed upon the role continue to increase.

This year, changes to the UK Corporate Governance Code and the audit reform agenda have added to Audit Committees' workload and as such the work of the ACI is more relevant than ever.

2.6.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The Group Audit Engagement Partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits, e.g. emerging markets and business environments that may be subject to heightened fraud risks.

Appendices continued

2.6.9 Client confidentiality, information security and data privacy

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties.

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

Our security requirements are set out in the Global Information Security Policies and Standards published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Risk and Security Office.

As part of these Global requirements, the Firm has a National IT Security Officer (NITSO), with the necessary authority, skills and experience to lead the information security function. Our NITSO is in charge of our information security programme and works closely with Quality and Risk Management. The NITSO also reports to IT Senior Management and also to the Global IT Security Officer and Global Head of Information Protection.

In addition, KPMG LLP is certified to ISO27001, the international standard for Information Security Management. The scope of our certification includes our IT processes, IT business assets, client data in core systems, offices and physical locations. Obtaining and maintaining ISO27001 is part of our commitment to information security. We are independently audited against the standard at six monthly intervals by an accredited external third party.

An Information Security Oversight Committee (ISOC) is in place to provide overall direction and monitoring on information security matters. This Committee is chaired by a senior member of the Quality & Risk Management team and has representatives from a number of departments including; IT Services (including our NITSO), HR, Facilities, Business Continuity and a representative from Forensic Technology. The ISOC reports to the Head of Quality & Risk Management.

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training.

Our personnel are required to comply with our Acceptable Use Policy – this policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG and client confidential information. Data privacy policies are also in place governing the handling of personal information.

2.7 Commitment to continuous improvement

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

2.7.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms to assess the relevance, adequacy and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures and meets the ISQC1 monitoring requirements. The results and lessons from the programmes are communicated to all Partners and staff of the Firm, and the overall results and lessons from the programmes are considered and appropriate actions taken, within our group as well as at regional and global levels. Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- Compliance with KPMG International's policies and procedures;
- The effectiveness of training and other professional development activities; and
- Compliance with applicable laws and regulations as well as our standards, policies, and procedures.

We use two formal inspection programmes conducted annually by each member firm across the Audit, Tax and Advisory functions, the Quality Performance Review (QPR) Programme and the Risk Compliance Programme (RCP). Both programmes are developed and administered by KPMG International.

Additionally all KPMG member firms are covered once in a three-year cycle by cross-functional Global Compliance Reviews (GCRs) performed by reviewers in the Global Compliance Group who are independent of the member firm and report to Global Quality & Risk Management. These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network (see Appendix 1 for further details).

We also perform ongoing compliance testing, the results of which are presented to the Executive Management Team and the Audit & Risk Committee on a periodic basis.

2.7.1.1 Quality Performance Reviews (QPRs)

The QPR Programme is the cornerstone of KPMG's efforts to monitor engagement quality and one of the primary means of ensuring that member firms collectively and consistently meet both KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at functional level, overseen by a Lead Reviewer from outside of the UK firm, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and operating firm level. We disseminate our findings from the QPR Programme to our professionals through written communications, internal training tools and periodic Partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

Overview of 2014 Quality Performance Review results

	Number of engagements reviewed (2013)	% of engagement leaders reviewed (2013)
Audit	116 (124)	36% (39%)
Tax	232 (229)	44% (42%)
Advisory	210 (196)	29% (31%)

Audit

KPMG International continues to refine and strengthen the Audit QPR programme in light of latest developments. Our ultimate aspiration is that as a result of this continual strengthening of our Audit QPR programme, external regulatory inspections do not identify incremental issues not previously identified by our own internal reviews. In order to obtain greater visibility of how the process operates, the FRC's Audit Quality Review team monitored our Audit QPR process performed during 2014. We welcome their feedback on this key process.

All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' and 'Unsatisfactory'. A 'Satisfactory' grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to comply substantially with our internal policies, applicable auditing standards and legal and regulatory requirements and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate.

A 'Performance Improvement Necessary' grading is attributed where the auditor's report is generally supported by the work performed, and is not incorrect in any material respect but where improvements are necessary in some areas, including with respect to the documentation of the work performed. An 'Unsatisfactory' grading is attributed where the engagement was not performed in accordance with the Firm's policy and professional standards in a significant area, in particular where there are significant deficiencies either in the financial statements themselves, the audit work paper documentation or the actual work undertaken.

In our 2014 Audit QPR Programme we split the reviews into batches to accelerate feedback from the process, performing a portion of the reviews much earlier in the cycle than we would have historically. This change allowed us to feed back findings on a more timely basis thus driving continuous improvement and also provided new insights into our work.

In 2014, 83% of engagements reviewed were graded as 'Satisfactory' (2013: 87%), 12% of engagements were graded as 'Performance Improvement Necessary' (2013: 6%) and 5% of engagements were graded as 'Unsatisfactory' (2013: 7%). As noted in prior years, year-on-year comparisons should be viewed with some caution as the mix of engagements reviewed will vary year by year and furthermore as we extend the depth of these reviews.

Despite the lower proportion of 'Satisfactory' engagements there was a general decrease this year in the absolute number of issues raised per engagement reviewed and several of the themes identified previously were identified to a much lesser extent this year. Some recurrent themes remain and to address the root causes for these we have developed a set of actions, including working with engagement leaders in Audit Quality Workshops (see Appendix 2.5.1).

In terms of remedial actions, all engagement leaders receiving a 'Performance Improvement Necessary' grading are considered for review either in the current year or in the following year and engagement leaders receiving an 'Unsatisfactory' rating will generally be subject to a review of another of their engagements in the current year and are subject to review in the following year. In addition, the ratings from the annual QPR programme are included in the annual quality and risk metrics issued for all engagement leaders for all functions (as described in Section 2.4.3).

Tax & Advisory

In Tax and Advisory, the functions follow a similar three-tier engagement grading system of 'Satisfactory', 'Performance Improvement Necessary' or 'Unsatisfactory'. In 2014, 93% of Tax engagements were graded as 'Satisfactory', 7% graded as 'Performance Improvement Necessary' and 0% of engagements were graded as 'Unsatisfactory'. This compares with comparative scores for the 2013 programme of 85% graded as 'Satisfactory', 14% graded as 'Performance Improvement Necessary' and 1% of engagements graded as 'Unsatisfactory'.

In 2014, 86% of Advisory engagements were graded as 'Satisfactory', 12% were graded "Performance Improvement Necessary' and 2% of engagements were graded as 'Unsatisfactory'. This compares with scores for the 2013 programme of 89% graded as 'Satisfactory', 7% as 'Performance Improvement Necessary' and 4% as 'Unsatisfactory'.

As in Audit, receiving an 'Unsatisfactory' or 'Red' grading does not necessarily mean that the advice issued was incorrect. In the majority of instances the 'less than satisfactory' ratings were generally in relation to internal compliance issues rather than underlying significant quality related matters.

2.7.1.2 Risk Compliance Programme (RCP)

In the RCP, member firms are required to self-assess their overall levels of compliance as 'Green', 'Yellow' or 'Red'. A 'Green' grade indicates that the Firm is substantially compliant with KPMG's policies and procedures and where there are issues identified these are minor and isolated and are acted on promptly. A 'Yellow' grade also indicates that the Firm is substantially compliant with KPMG policies and procedures. Although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the Firm as a whole. A 'Red' grade indicates that there are serious deficiencies. The Firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs. We have self-assessed our overall levels of compliance as 'Green' indicating substantial compliance with KPMG's policies and procedures, where issues identified are minor and isolated and are acted upon promptly (2013: Yellow).

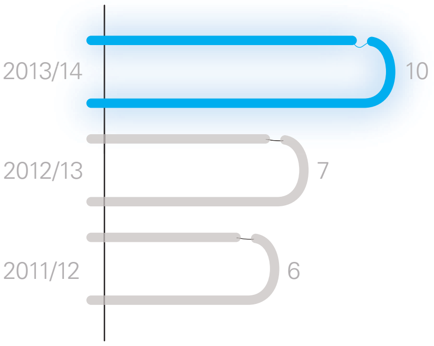
2.7.1.3 Global Compliance Review (GCR) programme

The GCRs focus on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the Firm's RCP Programme). In the event that a GCR identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate. The UK firm was subject to its last GCR inspection in January 2013 which identified a small number of opportunities for improvement, including some areas identified by the UK firm's own compliance and quality control processes. The next inspection is expected in the second half of 2015.

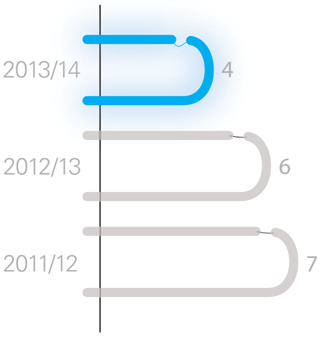
Appendices continued

AQR results

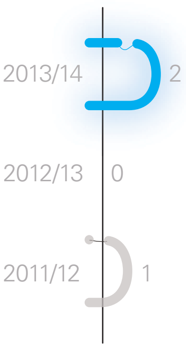
Good with limited improvements required



Improvements required



Significant improvements required



2.7.2 External monitoring

2.7.2.1 Audit Quality Review (AQR)

In the UK, the Audit Quality Review team (part of the FRC's Conduct Division) has been carrying out independent inspections for a number of years. They completed their work on the 2013/14 inspection of the Firm in January 2014 and the Firm's audit registration was renewed in June 2014. The public report on the inspection was released in May 2014 and the report and our response, included within Appendix B of the report, are available on the FRC website.[1]

In its latest report, the AQR concluded that our Firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. It also identified certain areas where improvements are required to those policies and procedures which are set out below.

The AQR's key messages were that KPMG should:

- Develop and implement a detailed and appropriate action plan in response to the recommendations of the external report commissioned by the Firm into its ethical policies, procedures, guidance and training.
- Take further action to ensure that all Partners in the Firm are fully aware of, and comply with, the requirements under ethical standards and the Firm's policies and procedures relating to the holding of financial interests in audited entities.
- Take appropriate and timely action to ensure that the Firm's guidance requires audits of letterbox companies to be undertaken in accordance with the requirements of auditing standards.
- Take further steps to reinforce the Firm's approach to the audit of specific and collective impairment provisions in financial services entity audits, in particular the need for audit teams to demonstrate appropriate challenge of management and exercise of professional scepticism in this area.
- Review and enhance the Firm's guidance on materiality in the light of the findings in the AQR's report and the thematic review report issued by the FRC in December 2013.
- Ensure the results of the Firm's annual assessment of compliance and quality for each Audit Partner and manager (the quality and risk metrics) are consistently and appropriately reflected in performance evaluation discussions and remuneration decisions.

We have already taken action in all these areas and in the other areas where the AQR has made recommendations.

2.7.2.2 ICAEW Quality Assurance Department and Practice Assurance reviews

In addition, the Quality Assurance Department (QAD) of the ICAEW undertakes inspections of those audits which sit outside the remit of the AQR team. The Firm receives a private annual report from the QAD documenting their findings.

The overall conclusion in this report was that there is inconsistent quality of audit work on the files they reviewed. Six of the 11 files were either satisfactory or generally acceptable. Two files reviewed required some improvement and three files reviewed required significant improvement. The reviews identified a number of areas for action (which we have plans in place to address).

1 FRC website: https://frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2014.aspx.

2.7.2.3 Other

We are also required to be registered with the Jersey and Guernsey Financial Services Commissions in respect of Crown Dependency registered Market Traded Companies. As part of this registration the AQR are required to include in their annual inspection one or more of the audit engagements meeting these criteria.

In the 2013/14 inspection one such entity was subject to review and included within the AQR report referred to in Section 2.7.2 above.

We were notified that our re-registration with both the Jersey and Guernsey Financial Services Commissions was successful during 2014.

Our Firm is also registered with the US PCAOB, the Japanese Financial Services Authority and the Canadian Public Accountability Board (CPAB).

The PCAOB inspected KPMG Audit Plc during 2012 and issued its report in relation to that review on 10 November 2014.[2] The review considered four audits, including one where KPMG UK was the principal auditor and three where it was not the principal auditor. The review identified four deficiencies, namely the failure to perform sufficient procedures to test:

- the allowance for loan losses;
- the operating effectiveness of controls related to the valuation of financial instruments and the completeness of derivative instruments and, due to the resulting unsupported level of reliance on controls, the valuation of financial instruments;
- the completeness of derivative instruments; and
- revenue.

We have already taken action in relation to these areas and will work with the PCAOB to ensure our action plan meets their remediation requirements.

2.7.2.4 Regulatory investigations

During the year, the FRC commenced a disciplinary investigation into the preparation, approval and audit of the financial statements of The Co-operative Bank plc, up to and including the year ended 31 December 2012.

In December 2014, tribunals considered two Formal Complaints made by the Financial Reporting Council (FRC) against KPMG and two KPMG Partners. The tribunals follow investigations previously announced by the FRC on 9 May 2013 and relate to compliance with certain aspects of Ethical Standards in 2010–2012. The tribunals are only to determine any possible sanctions, since KPMG has admitted the Formal Complaints. The decisions of the tribunals are currently outstanding. In relation to both matters we have investigated the underlying reasons giving rise to the issues and taken steps to enhance our processes.

The FRC investigation in relation to our audit of the accounts of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2007, 2008 and 2009 announced in March 2012 remains open.

We have co-operated fully with all of the above investigations and will continue to do so.

2.7.2.5 Client feedback

In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this programme is considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the Engagement Partner to ensure that concerns on quality are dealt with on a timely basis.

During late 2012, a Client Council was established to both challenge and support the new UK Senior Partner and leadership ensuring that clients and quality of client service are at the heart of decision-making. The work of the Client Council includes consideration of the client service review processes and continued innovation to anticipate and influence client issues.

2.7.2.6 Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received from clients relating to the quality of our work. These procedures are detailed on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Head of Quality & Risk Management.

2.7.2.7 Interaction with regulators

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level.

In the UK, the Head of Audit and Audit Quality & Risk Management have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities. These meetings are to discuss reviews of the Firm and our audits as well as changes in regulation and the audit arena.

2 The report from the PCAOB inspection in the UK is not yet available but will be published at the following link: www.pcaobus.org/Inspections/Reports/Pages/Default.aspx.

Appendices continued

Appendix 3

Public interest entities listing

The list of public interest entity audit clients for which KPMG LLP or KPMG Audit Plc has signed an audit opinion in the year ended 30 September 2014 is given below. The definition of a public interest entity for this purpose is that given under the provisions of the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board of the Financial Reporting Council, being an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of Section 1210 of the Companies Act 2006.

Entity name

The 600 Group PLC
A.G. Barr plc
Aberdeen Asset Management Plc
Aberdeen New Dawn Investment Trust Plc
Aberdeen New Thai Investment Trust Plc
Aberdeen Smaller Companies High Income Trust plc
Aberdeen UK Tracker Trust plc
Admiral Group Plc
Advanced Computer Software plc
Affinity Sutton Capital Markets PLC
African Copper Plc
Al Noor Hospitals Group Plc
Alba 2005-1 plc
Alba 2006-1 plc
Alba 2006-2 plc
Alba 2007-1 plc
Alba 2011-RP1 Plc
Alba 2012-1 Plc
Albermarle & Bond Holdings Plc
Alent plc
Alpha Credit Group plc
Altitude Group plc
Alumasc Group plc
Amati VCT plc
Andrews Sykes Group plc
Animalcare Group plc
Annes Gate Property Plc
Arbuthnot Banking Group plc
Ariana Resources PLC
Artemis Alpha Trust Plc
Artemis VCT plc
Aseana Properties Limited
Ashmore Group plc
Aspen Insurance Holdings Limited
Aspen UK Holdings Limited
Aspire Defence Finance plc
Associated British Foods plc
Aston Martin Capital Limited
AstraZeneca PLC
Autolink Concessionaires (M6) plc
Avacta Group Plc
Avanti Communications Group Plc
Bae Systems Plc
Bank of England
Bank of London and The Middle East PLC
Baring Emerging Europe Plc
Baronsmead VCT 2 Plc
Baronsmead VCT 3 Plc
Baronsmead VCT 4 Plc
Baronsmead VCT 5 plc
Baronsmead VCT Plc
Bart Spices Holdings Limited
Bellway PLC
Berkeley Group Holdings Plc, The
Betfair Group plc
BHP Billiton Plc
Bid Foodservice (Europe) Limited
Bifold Group Limited
Bloomsbury Publishing Plc
Bluestone Securities plc
BMW (UK) Capital Plc
Booker Group plc
Bovis Homes Group Plc
Bowling Acquisitions Holdings Limited
Braemar Shipping Services plc
British Polythene Industries Plc
BroomCo 4146 Limited
BTG Plc
Bunzl Plc
BUPA Finance plc
Business Mortgage Finance No 1 plc
Business Mortgage Finance No 2 plc
Business Mortgage Finance No 3 plc
Business Mortgage Finance No 4 plc
Business Mortgage Finance No 5 plc
Business Mortgage Finance No 6 plc
Business Mortgage Finance No 7 plc
By Chelmer plc
Cable & Wireless Communications plc
Caledonia Investments PLC
Caledonian Trust Plc
Cambria Automobiles plc
Camco Clean Energy Plc
The Capita Group Plc
Capital Hospitals (Issuer) Plc
Carclo Plc
Cardiff Property plc
Care UK Health & Social Care Plc
Care UK Health and Social Care Finance Limited
Carillion Plc
Caspian Holdco Limited
Catalyst Healthcare Manchester Financing plc
Catalyst Healthcare Romford Financing plc
Catalyst Healthcare Worcester plc
Catalyst Higher Education Sheffield plc
Central Nottinghamshire Hospital plc
Central Rand Gold Limited
Chambertin Finance Limited (Indirect)
Charles Stanley Group PLC
Cherry Midco Limited
Chromalloy UK Holdings Limited
Cineworld Group plc
Circle Anglia Social Housing PLC
City Greenwich Lewisham Rail plc
City Natural Resources High Yield Trust Plc
Clarke Energy Operations Limited
Clarke Energy Topco Limited
Cohort plc
Computer Associates Holding Limited
Consort Healthcare (Blackburn) Funding PLC
Co-operative Bank PLC
Co-operative Group Limited
Costain Group Plc
Coventry & Rugby Hospital Co plc
Crawshaw Group plc
Credit Suisse International
Crest Nicholson Holdings Plc
Cross London Trains Finance Company Limited
CTRL Section 1 Finance Plc
Cuba Midco Limited
Cupid plc
Cycene Limited
Daejan Holdings Plc
Daniel Thwaites Plc
Darrowby No 1 plc
Darrowby No 2 plc
Dart Group Plc
De La Rue plc
Dechra Pharmaceuticals Plc
Derby Healthcare plc
DFS Furniture Holdings plc
Diageo Capital Plc
Diageo Finance plc
Diageo Investment Corporation
Diageo Plc
Dialight Plc
Discovery Education plc
Dunedin Claret Midco Ltd
Dunedin Enterprise Investment Trust plc
Dunedin Income Growth Investment Trust PLC
Dunedin Smaller Companies Investment Trust Plc
Dunelm Group plc
DX Finance Limited
E2v Technologies PLC
Eckoh Plc
Edinburgh Dragon Trust Plc

Entity name continued

Edinburgh Investment Trust Plc
Edinburgh Worldwide Investment Trust Plc
Electric Word plc
Electrocomponents Plc
Electronic Data Processing Plc
Elementis Plc
Ellenbrook Developments plc
Elli Finance (UK) Plc
Elli Investments Limited
EMH Treasury PLC
EMIS Group plc
Emporiki Group Finance PLC
ENSCO PLC
Essentra Plc
Esure Group Plc
e-therapeutics plc
Eversholt Funding plc
F&C Asset Management plc
Falkland Islands Holdings Plc
fastjet Plc
Fidessa Group plc
Filtronic Plc
Findel plc
Finsbury Food Group plc
Foresight 2 VCT plc
Foresight 3 VCT plc
Foresight 4 VCT plc
Foresight VCT plc
Forest Holidays Group Limited
French Connection Group Plc
Fulcrum Utility Services Limited
Fusion IP plc
G4S International Finance plc
G4S plc
Genfinance II Limited
Genghis Midco Ltd
GESB plc
GLH Hotels Ltd
Global Graphics SE
Goals Soccer Centres Plc
Goodwin Plc
Gosforth Funding 2012-1 plc
Gosforth Funding 2012-2 plc
Gosforth Funding 2014-1 plc
Gosforth Fundings 2011-1 plc
Grafenia PLC
Greggs Plc
Haco Limited
Halcyon Midco Limited
Halfords Group plc
Hargreaves Services Plc
Hastings Insurance Group (Finance) Plc
Hastoe Capital Plc
Havelock Europa Plc
Hawthorn Finance Ltd
Headlam Group Plc
Heritage Oil Plc
Hidong Estate Plc
Hill & Smith Holdings Plc
HSBC Bank plc
HSBC Holdings Plc
ICICI Bank UK PLC
Imagination Technologies Group Plc
Impax Asset Management Group plc
Indigo Vision Plc
Infinis Energy Plc
Infinis PLC
Innospec Inc
Inspired Education (South Lanarkshire) plc
Intelligent Energy Holdings plc
Interactive Hotel Services Holdings plc
Intertek Group Plc
iO Adria Limited
Ipreo UK Holdings Limited
Irida plc
ITV PLC
James Cropper plc
James Fisher & Sons plc
JD Sports Fashion plc
Jewel UK TopCo Limited
Johnson Matthey Plc
Katanalotika plc
Kazakhmys PLC
Keller Group Plc
Kemble Water Eurobond plc
Kenrick No.1 Plc
Kier Group Plc
Kodak Alaris Holdings Limited
Kolar Gold Limited
LAB Investments plc
LAH Jersey Limited
LBBW Capital Markets Plc
LCR Finance Plc
Lend Lease Europe Finance plc
Lend Lease PFI/PPP Infrastructure Finance Limited
LGS Investments plc
Lighthouse Group plc
Limecay Limited
L-J Finco Limited
LMS Capital plc
The Local Shopping REIT plc
London Security plc
Lonmin plc
Low & Bonar Plc
M&C Saatchi plc
Macfarlane Group PLC
Marshalls Plc
Matalan Finance plc
Matchtech Group plc
Maven Income & Growth VCT5 plc
MBL Group plc
McKay Securities Plc
MedicX Fund Limited
Merlin Entertainments PLC
Metrix Funding No 1 plc
Metrix Securities plc
Midland Heart Capital plc
Millennium & Copthorne Hotels Plc
Mitsubishi UFJ Securities International plc
MJ Gleeson Group Plc
Moat Homes Finance Plc
Molins Plc
Moneysupermarket.com Group plc
Montanaro UK Smaller Companies Investment Trust plc
Morgan Advanced Materials plc
Morrison (WM) Supermarkets Plc
Murgitroyd Group Plc
Mwana Africa Plc
Nando's Group Limited
Nasstar plc
New World Resources Plc
Newday Funding Limited
Newday Partnership Funding plc
NewHospitals (St Helens and Knowsley) Finance PLC
The North American Income Trust plc
North Atlantic Smaller Companies Investment Trust plc
Northern 2 VCT Plc
Northern 3 VCT Plc
Northern Investors Company plc
Northern Petroleum plc
Northern Venture Trust Plc
Nottingham Building Society
Novae Group Plc
Ocean Wilsons Holdings Limited
Octagon Healthcare Funding plc
Odeon & UCI Finco Plc
office2office plc
Old Mutual Plc
OneSavings Bank Plc
Opera Finance (Metrocentre) plc
Opsec Security Group plc
Optare Plc
Oxford Instruments Plc
Pace plc
Pacific Assets Trust plc
PAM Subco Ltd
Panmure Gordon & Co Plc
Parity Group PLC
Pendragon Plc
Persimmon Plc
Personal Group Holdings Plc
Petards Group plc
Pets at Home Group Plc
Phones4u Finance plc
Photo-Me International plc
Pisti 2010-1 Plc
Places for People Capital Markets plc
Places for People Homes Limited
Plastics Capital plc
Poplar Harca Capital PLC
Proactis Group plc
Promethean World plc
ProPhotonix Limited
Prudential Plc
Punch Taverns plc
PuriCore plc
QED Finance Plc
QinetiQ Group Plc
Quattro Bidco Limited
Quindell PLC
Quintain Estates and Development Plc
Quixant Plc

Appendices continued

Entity name continued

R&R Ice Cream plc
R&R PIK plc
Raglan Finance Plc
Rathbone Brothers plc
Redhall Group plc
Regenersis plc
Renaissance US Growth & Income Trust Plc
Renew Holdings plc
Renishaw Plc
Rensburg AIM VCT plc
Rentokil Initial plc
Rightmove Plc
Riviera Acquisitions Limited
RM plc
RMPA Services plc
Road Management Services (A13) plc
Rockhopper Exploration Plc
Rolls-Royce Holdings plc
Rolls-Royce PLC
Rotork Plc
RPC Group Plc
RSA Insurance Group Plc
Safestyle UK plc
Sandwell Commercial Finance No 1 plc
Sandwell Commercial Finance No 2 plc
Satellite Financing Plc
SciSys plc
Scottish American Investment Company Plc
Scottish Amicable Finance plc
Scottish Mortgage Investment Trust Plc
SDL plc
Secure Trust Bank plc
Secured Property Developments plc
Sheffield City Trust
Shires Income plc
Silence Therapeutics Plc
Skipton Building Society
Source BioScience plc
Spectris Plc
Speedy Hire Plc
Spirax-Sarco Engineering Plc
Spirit Issuer plc
Spirit Pub Company PLC
SSE PLC
Standard Bank Plc
Standard Chartered Bank
Standard Chartered Plc
Stobart Group Limited
Sumitomo Corporation Capital Europe plc
Superglass Holdings plc
Surface Transforms Plc
Sutton & East Surrey Water Plc
Synectics plc
Synergy Health plc
Synexus Clinical Research Finance Limited
Tangguh Hiri Operating Limited
Tangguh Sago Operating Limited
Ted Baker Plc
Tenterden Funding PLC
Tethys Petroleum Limited
Thames Water (Kemble) Finance Limited
Thames Water Utilities Cayman Finance Limited
Thames Water Utilities Finance Limited
Thrones 2013-1 plc
Tissue Regenix Plc
Top Right Group Ltd
Towergate Finance Plc
Tracsis plc
Transense Technologies plc
Transport for London (TFL)
Trifast Plc
TT Electronics plc
Turquoise Card Backed Securities plc
UK WIG II Limited
Ukraine Opportunity Trust plc
Unite Group Plc
United Utilities Group PLC
United Utilities PLC
United Utilities Water PLC
Utilico Emerging Markets Limited
Utilico Finance Limited
Utilico Investments Limited
Vancouver Midco 1 Limited
Vesuvius plc
Victrex Plc
Virgin Media Finance PLC
Virgin Money Holdings (UK) PLC
Virgin Money plc
Vitec Group Plc
Volga Gas Plc
Vp Plc
Walsall Hospital Company plc
WANdisco Plc
Wessex Water Service Finance plc
Williams Grand Prix Holdings PLC
Wincanton plc
Wolfson Microelectronics Plc
Wynnstay Group Plc
Zanaga Iron Ore Company

Appendix 4

Disclosure and Audit Firm Governance Code requirements

Under The Statutory Auditors (Transparency) Instrument 2008 we are required to disclose certain information. The table below shows where these disclosures may be found in this Annual Report.

	Provision of the Instrument	How KPMG LLP and Audit Plc comply with the Instrument
1	A description of the legal structure and ownership of the transparency reporting auditor.	A description of our legal structure and ownership is set out on page 52.
2	Where the transparency reporting auditor belongs to a network, a description of the network and the legal and structural arrangements of the network.	A description the network and the legal and structural arrangements of the network are set out on page 52 and in Appendix 1.
3	A description of the governance structure of the transparency reporting auditor.	A description of our governance structure is set out on pages 52–55.
4	A description of the internal quality control system of the transparency reporting auditor and a statement by the administrative or management body on the effectiveness of its functioning.	A description of our internal quality control systems is set out on pages 55–58, in Appendix 2 and the statement by the Board on the effectiveness of internal controls is included on page 61.
5	A statement of when the last monitoring of the performance by the transparency reporting auditor of statutory audit functions within the meaning of paragraph 13 of Schedule 10 to the Act (as amended by regulation 23 of the Statutory Auditors and Third Country Auditors Regulations 2007 (S.I. 2007/3494)) took place.	A description of the external monitoring process is set out in Appendix 2 and the statement at 2.7.2.1.
6	A list of public interest entities in respect of which an audit report has been made by the transparency reporting auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	A list of relevant public interest entities is set out in Appendix 3.
7	A description of the transparency reporting auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	A description of our independence procedures is set out in Appendix 2 at section 2.3.2 and the confirmation in relation to the review of independence practices by the Board is included on page 61.
8	A statement on the policies and practices of the transparency reporting auditor designed to ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	A statement of the policies and practices applied is included on page 117 and are described in Appendix 2.
9	Financial information for the financial year of the transparency reporting auditor to which the report relates, including the showing of the importance of the transparency reporting auditor's statutory audit work.	Financial information is included within this Annual Report in the financial statements including the importance of statutory audit work in note 3 to the financial statements.
10	Information about the basis for the remuneration of Partners.	A description of the basis for Partner remuneration is set out in note 5 of the financial statements.

Appendices continued

The Audit Firm Governance Code consists of 20 principles and 31 provisions. These principles and provisions are organised into six areas and we have set out in the table below where you can find how we comply with these principles and provisions:

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
A – Leadership	A.1: Owner accountability principle – The management of a firm should be accountable to the Firm's owners and no individual should have unfettered powers of decision. A.1.1: The Firm should establish Board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team. A.1.2: The Firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take. A.1.3: The Firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details. A.1.4: The Firm's governance structures and management team and their members should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	A.1.1 and A.1.2: Details of our governance structures and management team are set out on pages 52–55. A.1.3: Biographical details of those members of our governance bodies are set out on pages 64–66. A.1.4: The appointment process for Executive and Non-Executive roles is set out on page 52 and 53. The governance structure was evaluated in Autumn 2013 and as a result refinements were put in place in early 2014 as set out on page 53.
	A.2: Management principle – A Firm should have effective management which has responsibility and clear authority for running the Firm. A.2.1: The management team should have terms of reference that include clear authority over the whole Firm, including its non-audit businesses and these should be disclosed on the Firm's website.	A.2.1: The summary terms of reference for the Executive Management Team are available on our internet site[3] and elsewhere during the year and are summarised in this report.
B – Values	B.1: Professionalism principle – A Firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration. B.1.1: The Firm's governance structures and management team should set an appropriate tone at the top through its policies and practices and by publicly committing themselves and the whole Firm to quality work, the public interest and professional judgement and values. B.1.2: The Firm should have a Code of Conduct which it discloses on its website and requires everyone in the firm to apply.	B.1.1: Quality is one of our key strategic priorities. Our Global Audit Quality Framework (which is described in Appendix 2) provides a solid framework by which we can uphold the values of integrity, objectivity, professional competence and ethics and is fully endorsed by our leadership team. B.1.2: Our Code of Conduct (which incorporates the relevant key principles of the Code) is available our internet site at the following link[4] and is summarised in Appendix 2.1.
	B.2: Governance principle – A Firm should publicly commit itself to this Audit Firm Governance Code. B.2.1: The Firm should incorporate the principles of this Audit Firm Governance Code into an internal Code of Conduct.	B.2.1: Our Code of Conduct incorporates the relevant principles of the Code.

3 Executive Management Team Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/terms-of-reference-for-EXCO.pdf
4 Code of Conduct: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/KPMGUKCodeofConduct.aspx

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
B – Values (continued)	B.3: Openness principle – A Firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	B.3: One of our seven core values is "We are open and honest in our communication" (see Appendix 5). We openly encourage our people to share information, insight and advice frequently and constructively and to manage tough situations with courage and candour. Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged (refer to Appendix 2.5.4).
C – Independent Non-Executives	C.1: Involvement of independent Non-Executives principle – A Firm should appoint independent Non-Executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the Firm's decision-making, stakeholder dialogue and management of reputational risks including those in the Firm's businesses that are not otherwise effectively addressed by regulation. C.1.1: Independent Non-Executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the Firm. They should also meet as a separate group to discuss matters relating to their remit. C.1.2: The firm should disclose on its website information about the appointment, retirement and resignation of independent Non-Executives, their duties and the arrangements by which they discharge those duties and the obligations of the Firm to support them. The Firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent Non-Executives. C.2: Characteristics of independent Non-Executives principle – The independent Non-Executives' duty of care is to the Firm. They should command the respect of the Firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. C.2.1: The Firm should state in its transparency report its criteria for assessing the impact of independent Non-Executives on the Firm's independence as auditors and their independence from the Firm and its owners. C.3: Rights of independent Non-Executives principle – Independent Non-Executives of a Firm should have rights consistent with their role, including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the Firm to its owners and, where ultimately this cannot be resolved and the independent Non-Executive resigns, to report this resignation publicly. C.3.1: Each independent Non-Executive should have a contract for services setting out their rights and duties. C.3.2: The Firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent Non-Executive. C.3.3: The Firm should provide each independent Non-Executive with sufficient resources to undertake their duties including having access to independent professional advice at the Firm's expense where an independent Non-Executive judges such advice necessary to discharge their duties. C.3.4: The Firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent Non-Executives and members of the Firm's management team and/or governance structures.	C.1, C.1.1 and C.2: See pages 54 and 66 for details of our Public Interest Committee membership. C.1.2, C.3, C.3.3 and C.3.4: The summary terms of reference for the Public Interest Committee, and other details, are available on our internet site[5] at the following link and are summarised in this report. Further details of the Non-Executives are provided in this Report at pages 53 and 65. C.2.1: This is covered on page 54. C.3.1: Each independent Non-Executive has a contract. C.3.2: Our Firm has appropriate indemnity insurance in place for our Non-Executives.

5 Public Interest Committee Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/terms-of-reference-uk-public-interest-committee.pdf

Appendices continued

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations	D.1: Compliance principle – A Firm should comply with professional standards and applicable legal and regulatory requirements. D.1.1: The Firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence. D.1.2: The Firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits, including reliance on other auditors whether from the same network or otherwise. D.1.3: The Firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest. D.1.4: The Firm should take action to address areas of concern identified by audit regulators in relation to the Firm's audit work.	Our operational Firms comply with professional standards and applicable legal and regulatory requirements in their country. D.1.1, D.1.2 and D.1.3: Appendix 2 of this Report discusses our policies and procedures in this area including in respect of internal control and internal quality control systems in detail with reference to KPMG Audit Manual (KAM) and the Global Quality & Risk Management Manual. D.1.4: Appendix 2.7.2 sets out the main findings from the most recent publicly available regulators' reports. The regulatory findings are monitored and a summary of key issues arising and the associated action plans was presented at the Board.
	D.2: Risk management principle – A Firm should maintain a sound system of internal control and risk management over the operations of the Firm as a whole to safeguard the owners' investment and the Firm's assets. D.2.1: The Firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems. D.2.2: The Firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary. D.2.3: In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the Firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	D.2.1, D.2.2 and D.2.3: Details of the internal controls review are set out in Appendix 2 of this Report and the confirmation by the Board is included on page 61.
	D.3: People management principle – A Firm should apply policies and procedures for managing people across the whole Firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code. D.3.1: The Firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement. D.3.2: Independent Non-Executives should be involved in reviewing people management policies and procedures.	D.3.1: Appendix 2.4 covers disclosures in this area. D.3.2: The Public Interest Committee have been involved in a number of areas with regard to people management.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations continued	D.4: Whistle-blowing principle – A Firm should establish and apply confidential whistle-blowing policies and procedures across the Firm which enable people to report, without fear, concerns about the Firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. D.4.1: The Firm should report to independent Non-Executives on issues raised under its whistle-blowing policies and procedures and disclose those policies and procedures on its website.	D.4.1: We operate a whistle-blowing hotline. Quarterly reports were made to our Audit & Risk Committees on new reports in the period. (Refer to Appendix 2.1)
E – Reporting	E.1: Internal reporting principle – The management team of a firm should ensure that members of its governance structures, including owners and independent Non-Executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	E.1: Our key governance bodies (including the Public Interest Committee) received timely and relevant information to enable them to discharge their duties.
	E.2: Financial statements principle – A Firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP. E.2.1: The Firm should explain who is responsible for preparing the financial statements and the Firm's auditors should make a statement about their reporting responsibilities. E.2.2: The Firm should report that it is a going concern, with supporting assumptions or qualifications as necessary. E.3: Management commentary principle – The management of a Firm should publish on an annual basis a balanced and understandable commentary on the Firm's financial performance, position and prospects. E.3.1: The Firm should include in its management commentary its principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.	E.2: KPMG LLP publishes audited financial statements prepared in accordance with IFRS, which are included within this Report. E.2.1, E.2.2, E.3 and E.3.1: These disclosures are all included in, or referenced from, pages 68 and 69 of this Report.
	E.4: Governance reporting principle – A Firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance. E.4.1: The Firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.	E.4: This Appendix sets out the required disclosure in this area. E.4.1: All disclosures are included in this Report and will be available on our internet site www.kpmg.co.uk
	E.5: Reporting quality principle – A Firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the Firm's auditors. E.5.1: The Firm should establish an Audit Committee and disclose on its website information on the Committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the Firm's auditors. On an annual basis, the Firm should publish a description of the work of the committee in discharging its duties.	E.5 and E.5.1: A report on the activities of the Audit & Risk Committee covering the requirements in this area is set out on page 60. Information on the Audit & Risk Committee, including its terms of reference, were on our internet site www.kpmg.co.uk at the following link[6] during the year and are summarised in this Report on page 53.

6 Audit & Risk Committee Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/audit-risk-terms-of-reference.pdf

Appendices continued

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
F – Dialogue	F.1: Firm dialogue principle – A Firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns. F.1.1: The Firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of independent Non-Executives in such dialogue.	F.1 and F.1.1: Details on the dialogue our independent Non-Executives have had this year with key stakeholders is summarised in the report from the chair of the Public Interest Committee on pages 62 and 63. Contact details for dialogue about matters covered by the Audit Firm Governance Code was provided on our external website during the year.
	F.2: Shareholder dialogue principle – Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	Not applicable for Auditing firms.
	F.3: Informed voting principle – Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	Not applicable for Auditing firms.

Appendix 5

KPMG's Values

We lead by example	At all levels we act in a way that exemplifies what we expect of each other and our clients
We work together	We bring out the best in each other and create strong and successful working relationships
We respect the individual	We respect people for who they are and for their knowledge, skills and experience as individuals and team members
We seek the facts and provide insight	By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers
We are open and honest in our communication	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour
We are committed to our communities	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities
Above all, we act with integrity	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence