KPMG

A clear insight

UK Annual Report 2016
(including the Transparency Report)

December 2016

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BUS
STOP

Contents

Strategic report

Governance

Financials

Appendices

Highlights

Our people:
UK employees

13,112

Partners:

615*

Community support:
Organisations supported

881

Profit before tax and members' profit shares:

£374m

(2015: £383m)
(2014: £414m)

2014 2015 2016

Average partner remuneration:

£582k

(2015: £623k)
(2014: £715k)

2014 2015 2016

Total revenue:

£2,068m

(2015: £1,958m)
(2014: £1,909m)

Total tax payable to HMRC:

£790m

(2015: £786m)
(2014: £711m)

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 615* Partners and 13,112 outstanding professionals working together to deliver value to our clients across our 22 offices.

*Figure as at 1 November 2016

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.

Strategic report

1

Chairman's statement

Simon Collins

Chairman

Average partner remuneration

£582K

(2015: £623k)

Chairman's remuneration

£1.8m

(2015: £2.2m)

To thrive in an increasingly disrupted world, the professional services industry needs to move from being a provider of individual services to creating broad and imaginative solutions which truly harness expert thinking for the biggest challenges our clients face. KPMG is making a reality of that migration, increasingly differentiating us as the clear choice for our clients.

We are seeing more geopolitical change and disruption than in living memory, not least the UK's decision to extricate itself from the European Union and the incredible presidential battle we saw play out in the United States. President-elect Trump has pledged to introduce tariffs and other protection measures in a further example of a backlash against globalisation. The continued volatility of the political agenda and its effect on our clients, combined with underlying trends such as technological change, is changing the demand for professional services. It changes the types of services we offer but we're also working with a wider group of organisations, ranging from start-ups, to big multinational businesses.

In 2016 we continued the programme of a substantial transformation of our business to help us focus with greater agility on our clients' most burning issues and to make us the clear choice in the professional services market for the businesses we serve and the people we employ.

The work to reposition the Firm has involved a process of patient transformation that we began four years ago and which is now beginning to bear real fruit.

In fact, I cannot remember a time of greater change within KPMG in the UK.

The steps we've taken to invest in the business and to re-organise our people and capabilities puts us in a position to serve our clients in ways a traditional 'Big 4' Firm hasn't worked historically. I firmly believe that working with clients to solve the big picture macro issues is the path to achieving significantly higher growth.

Change, particularly on this scale, is always unsettling and difficult to execute. As we've continued to invest heavily in technology and people and focused on tackling the key issues our major clients face, we've continued to grow the top line – 6 percent to £2.07 billion – but sacrificed some profit, which dropped 2 percent to £374 million during the year. I expect this position to change in 2017 as the underlying growth of the services and capabilities we are now devoting our energies to is significantly stronger than our overall results might imply. Some transformational wins secured in 2016 will generate fees in 2017.

We are holding our course and moving ahead with a Firm conviction that KPMG in the UK is now positioned for what could well be the most exciting period of its history.

A Firm and a profession in transition

The changes we have made are a result of significant new trends in a politically uncertain and technologically disrupted world.

We've worked in close collaboration with colleagues across KPMG globally to really understand our clients' key concerns as they confront these trends, sharing knowledge and using sophisticated analytics to dig below the surface.

Increasingly there are familiar themes that preoccupy company leadership teams – how to grow in a low-growth environment; cyber security; regulation; harnessing the power of Big Data to improve efficiency and build more dynamic relationships with customers; and making a success of disruptive business models.

As a Firm – and, more widely, as a profession – it is vital that we organise ourselves in a way that allows us to tackle these issues in a more holistic way.

The old norm was to market services to clients, point-to-point. Now, increasingly, we are taking a managed service approach, our work directly tied to the issues individual clients are grappling with. In simple terms that means taking a client's problem and working shoulder-to-shoulder with them to create solutions and some of our most exciting wins during the year are a direct result of that approach.

A great example is the three-year contract we won from Civil Service Learning* to provide varied, relevant and cost-effective training to some 400,000 people across the UK Civil Service, acting as lead contractor in a consortium of academics and other service providers. Together we are taking the problem of delivering a vast, high quality training programme away from people who have a government to run and passing it to an expert consortium that does this work for a living.

The cross-border technology work we are doing with a major bank to transform its back-office function and the way we have used KPMG Nunwood's Voice of the Customer technology to drive action from 'real time' customer feedback to help one of the UK's leading building societies increase customer satisfaction by 12 percent, are great examples of the transformative work we are now doing with clients.

This is precisely the kind of support clients now demand from professional services Firms. By creating an issues-led, market-focused business we are now in a position to respond powerfully to this demand and that is increasingly setting us apart in the marketplace.

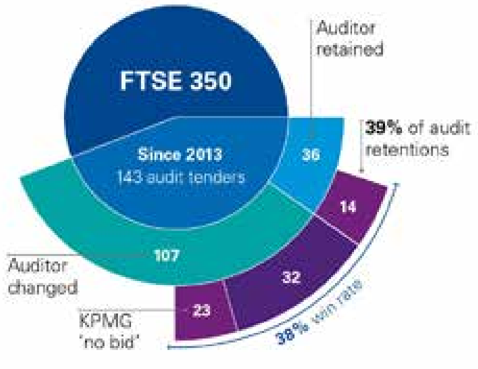
*Client case study: Civil Service Learning expanded upon on page 12

Audit remains at the core

Our profession is facing other important disruptive challenges and none more significant than the new world of mandatory audit rotation.

We are now at the epicentre of the storm of audit rotation, with around 170 FTSE 350 companies still to go through the process. In fact as I write this, there are currently nine FTSE 100's tendering their audits. To give you a sense of the scale of this challenge, we will see more than one listed company put its audit out to tender every week for the next three years.

We prepared well for this seismic change in our market and to date we have fared extremely well, increasing our share of the FTSE 350 audit market more than any other Firm and we remain the leading auditor of listed companies in the UK. During the year we maintained our impressive pitch/win rate of over 38 percent and were delighted to win some important new mandates, including John Lewis Partnership, Standard Life, Balfour Beatty and Wood Group.



FTSE 350 Audit Rotation

We have two main goals in this environment: to emerge with our market-leading position in the audit market intact; and, where we are no longer in an audit role, establishing new client relationships in non-audit work.

Providing new tax and advisory services to companies we previously audited is vital. It's clear to us that regulators will not in future tolerate auditors providing anything but very limited non-audit services to the companies they audit.

But it's important in another more fundamental way.

Audit will always be core to our business. It is the aspect of our business that underpins our reputation for quality and trust and it is what gives our brand its credibility and substance. It is, if you like, the trunk of the oak tree at the heart of our business.

That's why we have worked hard to foster a dialogue with investors and Audit committees about building deeper levels of trust in the audit process and co-operate closely with our regulators to address any issues they find with our work.

The KPMG Story and the UK strategy

During the year, we launched the 'KPMG Story' around the world. This builds on our well-established Values to set out a unifying vision, purpose and strategy for KPMG internationally. Against a global backdrop of increased regulatory pressure, increasingly complex international engagements, the 'war for talent' and the disruptive effects of technology, our KPMG Story is helping us bolster unity, clarity, confidence and pride in the Firm internationally. The launch has been received with enthusiasm by tens of thousands of colleagues as we all seek to bring together the vital components of differentiation in the market, public trust and talent.

The UK Firm has played a significant role in shaping the story and bringing it to life, and we have now refined our own strategy as part of that process. That's allowed us to be clearer than ever before about how we will balance our investment in new services and those we are already famous for to help us achieve higher profitable growth this year and next.

We've made changes in the leadership of the Firm, not least with the welcome appointment of Philip Davidson as Managing Partner of the Firm, a role which is bringing increased focus to the job of putting our strategy to work.

A number of partners left the Firm during the year as part of our transformation programme. The changes in our leadership reflect our commitment to ensuring we have the skills needed to help our clients succeed in the evolving marketplace. While we saw our partner numbers drop for part of the year, we then supported the promotion of internal talent and continued to hire externally in new and developing services, resulting in a broadly flat number by 1 November.

Changes in our operating model mean our client lead partners are now becoming the conductors of the KPMG orchestra, with more time to be out in the market. They are building the sort of strong and knowledgeable relationships in company boardrooms that we need to do really useful work for our clients.

People

It's now two years since we launched Our Deal, our ground breaking benefits and reward programme, which enhances flexible working and supports our employees with access to preferential mortgage rates. But it's not just about reward. We've always been clear that we need to keep building on all aspects of our people programme, including recruitment and inclusion and diversity.

Claire Harvey, Diversity and Inclusion Senior Consultant, KPMG, training for the Paralympics, Rio 2016

KPMG in the UK remains one of the most popular employers of graduates and apprentices in the UK, receiving some 28,000 applications in 2016 for just 1,200 places.

We know from research we carried out among 'millennials' during the year that they often find the recruitment process frustratingly drawn out and often receive little or no feedback. It's a particular issue for young people from less advantaged backgrounds who need to find work and start earning quickly.

As a result we've announced our Launch Pad scheme*, concentrating the final assessment and interview session into just one day and guaranteeing applicants that they will receive a job offer, or feedback on why they were not successful, within two working days. This approach will not only benefit candidates, it should help us to attract a more diverse range of potential recruits to the Firm as a protracted recruitment process can be unappealing to less advantaged applicants.

For the third year in a row a third of our newly promoted partners were women. I'm delighted too that 30 percent of our Executive Committee posts are now held by women.

I am proud that we have set a clear goal of fostering an environment which allows our people to bring their whole selves to work and I'm personally committed to delivering this ambition, but getting inclusion and diversity right remains really difficult, not just within KPMG in the UK and in fellow professional services Firms, but across society.

And we mustn't lose sight of our goal to keep building a civilised working environment for all our people, reducing the stress that inevitably comes from the sort of high-pressured work we do and offering people ways to achieve a good balance between work and the rest of their lives. I am really proud of the networks which have developed within the Firm to offer colleague support – whether this is coaching for mothers returning to work after maternity leave or mental health sessions which seek to diminish any taboos and support those who need it. I'm acutely aware of the demands on our people, personally and professionally and deeply committed to fostering a supportive and positive working environment.

Building trust

Our central role as auditors is to provide trust in the capital markets and I've always been clear that we need to be utterly rigorous in building and maintaining public trust in the work that we do.

The plain truth is we operate in a culture that requires us to meet higher ethical and independence standards than are often required of other professions. There's a tendency – easy to understand after the financial crisis and the many corporate scandals of recent years – for people to see the failing of one set of practitioners in our industry as a failure of the industry as a whole.

That's why we have worked hard to provide added levels of scrutiny and assurance in our extended audit reports and why we work closely with our regulators to address any issues they find with our work.

*Graduate Recruitment: Launch Pad expanded upon in People and resources

We've taken the same approach regarding the tax advice we give to our clients, at a time when corporate tax practices remain a concern, internationally. We've been active in stimulating public debate about the future of tax with a wide range of stakeholders and in publishing our tax principles. We, along with many other advisers, recognise the need to adopt an ethical and responsible approach to giving tax advice.

Building trust involves doing the hard, right thing. We have parted company with a number of partners who did not, for instance, meet the very high standards we expect within KPMG in the UK.

But it also means having the courage to take on potentially contentious audit work because we have the quality, scale and experience to identify potential problems and to call them out, rather than opting for a quiet life.

And it means being willing to give opinions on issues that are of real concern to society and the UK economy, even when they are potentially divisive. We have, for instance, given evidence to Parliamentary committees on tax, legislation regulating the bus networks, High Speed Two (HS2) and on the collapse of BHS.

Citizenship

Through our citizenship programme we have demonstrated over the years that, by having the courage to speak out on issues that are of real concern to society, we can have an impact on improving social and economic justice. We're proud to have been a leading voice on the Living Wage campaign and in advocating radical measures to tackle the UK's continuing housing crisis.

I'm particularly passionate about the work we are doing on lifelong learning in our own right as a Firm and in working closely with the KPMG Foundation, which I chair.

The Foundation's work focuses on four key areas – children in or on the edge of care, child sexual exploitation, education and employability. Mirroring our great work as a Firm on literacy, these programmes are founded on the belief that if we intervene early enough we can make a real and lasting difference to young people's lives, particularly those from less privileged backgrounds. I'm particularly proud of the KPMG Family For Literacy project, a global Corporate Citizenship programme which has seen not only KPMG staff, but their families and friends become involved in providing books and reading support to disadvantaged young people in five countries.

Gauging sentiment

One of the great joys and privileges of my role is the chance it gives me to go out and spend time with clients, both in the UK and internationally. It gives me the chance to really understand their concerns and their aspirations at first hand and to think about the role KPMG in the UK can play in society more widely.

Our new meeting place in London's Grosvenor Street is proving a wonderful venue for hosting industry networking, giving guests and clients access to excellent facilities in the heart of the West End. We've staged a vast array of events there, hosting clients, leading politicians from across the world, events led by international academics, and sessions on burning issues of the day, not least Brexit. The feedback we receive from our guests on events such as a debate for the '100 Group' of top 100 Chief Financial Officers (CFOs) on Brexit, and a session for Chief Executive Officers (CEOs) hosted by an academic from Harvard on how to shift the dial on women in the workplace, has been overwhelmingly positive. Our clients not only enjoy the intellectual stimulation and opportunity to connect but are telling us that, in this uncertain world, they really want to hear our expert opinion on how to tackle the biggest issues in the market.

Bringing people together in this way is an excellent way to gauge sentiment in the business community. And the signals are mixed.

While economic indicators remain relatively benign in many markets, it's clear that CEOs are increasingly uncertain about the outlook, not least following the Brexit vote in the UK, after the rancorous US presidential election race, with growth still slowing in China and doubts about when and by how much US interest rates will rise in the months ahead.

Indeed, while business leaders remain pretty confident about the state of their own operations, the UK and wider global economy, they are making contingency plans, such as considering relocating operations or headquarters overseas. Overall deal flow this year would suggest that things are not that gloomy, although the trough we saw just after the Brexit vote shows that deal activity can be paused in a heartbeat.

I know it will be a long time before we get real clarity on what shape Brexit will take. We have been at the forefront of this debate, working closely with thousands of our clients to help them understand the implications of this profoundly important moment in the UK's economic history. We were delighted to appoint Karen Briggs as Head of Brexit on our Executive Committee to bring greater focus to this work.

The Brexit situation remains highly volatile and it is possible that we may not have clarity until elections in Germany and France are completed in 2017.

But, in the absence of political certainty, some businesses are beginning to make their own assumptions about what the future holds and acting on this. In aggregate, those assumptions may drive political leadership in the months ahead, rather than the other way round – a pretty extraordinary turn of events.

> "Well researched and robust business solutions borne of extensive experience and an ability to focus on the key issues."
>
> Pennon Group Plc

Outlook

Given the current political and economic uncertainty we are experiencing, the years ahead will, inevitably, present huge challenges for our clients.

Add to that the significant disruptive trends they are having to contend with and it's clear to see how important it is that we mobilise the tremendous skills and talents of our extraordinary people in new ways to support them through these dislocated times.

I'm convinced we are now better placed to do that than at any time in our history. We are ready to rise to the challenge. Difficult times lie ahead, but I have no doubt that for KPMG in the UK they will be very exciting.

My term as Chairman of KPMG in the UK ends in the next financial year and I have informed my partners that I will not be seeking re-election. It has been a great honour to serve the Firm and I look forward to supporting the new Chair, who will be nominated and elected by the partners in 2017, as he or she transitions into the role.

Yours,

Simon

Simon Collins

Chairman and Senior Partner
KPMG in the UK

Client case study: Civil Service Learning

Sector:
Government

Over the course of three years, more than 400,000 civil servants will benefit from an improved learning and development curriculum, courtesy of an innovative contract between KPMG in the UK and the UK Government.

Drawing on expertise from across the Firm, and backed by a consortium of over 30 suppliers, we are providing a comprehensive training programme to Civil Service Learning ('CSL'), incorporating everything from the design of individual learning activities through to managing bookings and evaluating results.

We believe that this end-to-end approach, combining our people, technology and intellectual property with the specialist skills of our consortium partners, represents an innovative solution to the age-old client question of "How do I best provide my employees with the training they need?"

Our commitment to this programme is long term. Our fees are wholly dependent on people attending the CSL training courses, meaning that – as a Firm – we are committed to stimulating demand for these courses among UK civil servants.

Those civil servants will now benefit from a wide-ranging curriculum, covering topics as diverse as leadership and management, customer service, finance and policy. Blended learning is the cornerstone of the programme's ideology, meaning that digital learning activities feature just as prominently as (if not more than) traditional face-to-face workshops.

At KPMG, we believe that the CSL programme represents a blueprint for how to deliver an entire learning and development curriculum; a blueprint we hope to use for other clients in the future. Initially, we aim to do this in the Government and Infrastructure sector but also intend to roll this out to financial services clients in the UK and internationally in due course.

Managing Partner statement

Philip Davidson

Managing Partner and Interim Head of People in the UK

To make a success of our strategic vision for the business we are making deep and far-reaching changes to how we operate day to day. This transformation is already having a big impact on our clients and our people and we expect it to boost our growth considerably in 2017 and beyond.

The Managing Partner role is a new position for the UK Firm that reflects the growing complexity of running a business as large and sophisticated as ours.

My appointment means we are emulating a more familiar plc leadership model and it follows a growing trend within the professional services sector. As the day-to-day leader of our Executive Committee, my role brings extra weight to the leadership team. My specific task is to oversee and implement the transformation strategy that Simon, as Chairman and Senior Partner, has laid out. From a governance perspective this new, more balanced leadership structure also brings strong advantages.

Turning the vision into reality

I began the role in December, having previously served as Chief Operating Officer (COO) at KPMG International.

It was immediately clear to me that Simon had a big and exciting vision for the UK Firm. As he has described in his statement, the transformation we are undertaking will fundamentally change the way our experts work with clients, breaking down boundaries between different parts of our business so we can really focus on creating bespoke solutions to our clients' challenges, rather than selling them different types of KPMG products.

In simple terms we have flipped the model of selling around 460 products and services to our clients, instead focusing on our clients' issues first and then tailoring the services they need accordingly.

Supporting Simon and the partners in achieving this vision, has, for me, meant focusing on the mechanics of the Firm.

My role, if you like, is to act as the structural engineer making a reality of the architect's design and my team and I have been putting the infrastructure in place to help our partners and colleagues win the kinds of work we would never have previously been selected for.

We are now seeing the benefits of change in a number of ways, including:

– the rapid growth in work for financial services clients as we've developed and implemented a global shared services platform for them;

– growth across the whole of our banking and business-to-business segments in International Markets & Government;

– strong growth in National Markets as a result of clear focus on our local client base, bolstered by recent acquisitions, such as KPMG Boxwood and KPMG Crimsonwing, and investments in Enterprise and Small Business Accounting.

A year of significant achievements

I am incredibly proud of the work partners and colleagues have done in the last financial year.

Pushing through a substantial transformation project is inevitably distracting – change is always difficult.

But they have continued to concentrate on helping clients tackle their most pressing challenges, and their work is allowing us to differentiate ourselves and win in the marketplace.

There are many highlights I could mention but among the most important in my view include our success in winning more than our share in the audit retendering market and winning fantastic plaudits from clients on how we have handled that transition. We've also achieved outstanding growth in providing Tax advice to our National Markets clients. We have won innovative and transformational engagements with some of our major clients and played a central role in many of the biggest transactions at a time of booming activity in the merger and acquisition ('M&A') market.

On top of changing how we go to market, we have also invested in essential IT to equip our teams with the very best technology and systems. We have reviewed our investments to consider how we can make the most of market opportunities – such as satisfying the huge demand for Management Consulting across our National Markets clients with our KPMG Boxwood capability or harnessing the power of data and analytics right across our business, drawing on a growing roster of leading alliance partners.

Investment in new buildings has also continued apace with an accent on creating a collegiate, colourful and open working environment and on reducing our impact on the environment.

But it's not just a case of investing. We also had to make some difficult decisions in 2016.

As technology has developed and automation increased, our traditional back office requirements have diminished. We therefore took the decision to rebalance this area of our business, making 100 redundancies in our business support unit in February.

The professional services sector has become a hot market. New and existing players are looking to build their capability to meet rising demand and there has been an increasing spate of M&A activity in the sector.

This has brought challenges right to our very doorstep. In February, a US Consultancy, seeking to grow its UK operations, made a bid for our restructuring practice. As one of the leading practices in the country, if not the world, we defended the bid and retained this important part of our business. However, three restructuring partners did leave as part of that process.

2016

Times Top 50 Employers for Women

One

KPMG in the UK employee listed in the Telegraph Out at Work list

2016

KPMG in the UK ranked in Stonewall Top 100 Employers

The talent challenge

The 'war for talent' is a well-worn phrase I've heard time and time again but it can certainly feel like a war at times. I saw this at very close quarters during the year by taking on an additional vital role as Interim Head of People. Bringing together this and my Managing Partner role for just under a year, has allowed me to really get under the bonnet of our human resources strategy and approach.

There is huge demand for bright people, particularly in high growth areas such as cyber and risk technology.

One way we can attract the best people is by winning the most exciting client projects in the market. But we must also retain our best people by creating a stimulating environment where we are all constantly learning.

We invest significantly each year in learning and development but we live in a fast changing world and our strategy and execution in this area needs to evolve constantly.

I therefore brought all the different strands of learning, development and knowledge management together into one UK learning function and appointed Anna Purchas, until recently the COO at KPMG in Denmark, to lead a transformation of our activities in this area. Anna's key goals will be to ensure our people are not left behind by technology, but view technology as a powerful enabler, and to build on our learning culture to drive future performance. We will have particular focus on supporting our colleagues going through transitions in their careers, whether due to promotion, a lateral move within the Firm, joining KPMG in the UK or preparing for – and returning from – parental leave.

Inclusion and diversity

Our job is about putting extraordinarily talented people in front of our clients. But, to be relevant, it is essential that our people reflect the diversity that exists not just within our clients' businesses, but in society as a whole.

Increasingly, research is showing that integrating diversity and inclusion into the bones of a business is a more successful approach than just trying to win 'hearts and minds'.
I have therefore integrated our own inclusion and diversity team into our people function to ensure our aspirations in this area become woven into all our business processes and practices. Ultimately, this will help us meet our ambitious diversity targets and make a reality of our deep commitment to make KPMG in the UK a truly inclusive business.

“Our job is about putting extraordinarily talented people in front of our clients... The true test is that our clients see a difference in us and we become the clear choice for them. After an extraordinary year of progress, I’m very optimistic.“

A real success story from the year was our new approach to graduate hiring – Launch Pad*.

Shortening the time it takes to recruit graduates from months to a few days makes us more attractive to a much wider group of people. We will reap immediate rewards when this necessarily more diverse group of people start working for the Firm. Longer term, it means we will have a much more diverse pipeline of potential future leaders to choose from. This is just one example where my work to reshape our operations can really help us achieve our strategic aims.

I've also searched widely in the external market for a permanent Head of People to take on the work I've been doing and am delighted that Ann Brown joined us in November from Nationwide.

Ann brings a strong background in human resources in both the private and public sector and a deep understanding of the importance of including diverse thinkers within the business. I know she will use her deep knowledge and expertise to challenge and make a success of our people strategy.

In another important leadership change, I have appointed Sarah Willows our new CFO and Head of Operations. Sarah, who returned to the Firm in September after 14 months' maternity leave, is a highly regarded partner and a highly respected expert in the energy marketplace. She will support us in balancing our investment and transformation programmes.

Outlook

We have achieved a great deal this year to put us in a strong position for the year ahead.

We have gone into the new financial year confident that we are increasingly well positioned to win in the marketplace and ready to build on the important changes we have made within our own operations.

The true test is that our clients see a difference in us and we become the clear choice for them. After an extraordinary year of progress, I'm very optimistic.

Managing Partner and Interim Head of People
KPMG in the UK

"We have gone into the new financial year confident that we are increasingly well positioned to win in the marketplace and ready to build on the important changes we have made within our own operations."

*Launch Pad expanded upon in People and resources

This is KPMG and this is our story

When we unify behind our story we perform at our best.

This is why we're here

Inspire Confidence.
Empower Change.

This is our Purpose.

This is what we believe in

- Lead by example
- Respect the individual
- Work together
- Communicate openly and honestly
- Seek the facts and provide insight
- Improve communities
- Act with integrity

These are our Values.

This is what we want to be

The Clear Choice:

- Our people are extraordinary
- Our clients see a difference in us
- The public trust us

This is our Vision.

This is how we'll get there

Globally we will:

- Drive a relentless focus on quality and excellent service
- Take a long-term, sustainable view
- Act as a multi-disciplinary Firm, collaborating seamlessly
- Invest together in our chosen global growth priorities
- Continuously improve quality, consistency and efficiency
- Maintain a passionate focus on our clients
- Deploy globally our highly talented people
- Bring insights and innovative ideas
- Build public trust

This is our Strategy.

This is how we want the world to see us

With passion and purpose, we work shoulder to shoulder with you, integrating innovative approaches and deep expertise to deliver real results.

This is our Promise.

Performance indicators

"The KPMG Story provides us with our blueprint – helping us harness and unleash the potential we all know exists within KPMG. It's a catalyst, it provides an unparalleled opportunity to transform ourselves and the professional services sector."

Simon Collins

Issues led

Focused on the issues that keep our clients awake at night.

Public Trust

Focused on the market, listening to our clients and responding to them as one Firm.

People

Achieved gender parity in our graduate hires and our entire early careers population E and D grades.

Clients

Focused on secure and sustainable profitability by being as efficient, agile and cost-effective as we can be.

Revenue Growth

6%

AQR figure

64%*

Gender balance

50:50

Improving Net Promoter Score

7.0%

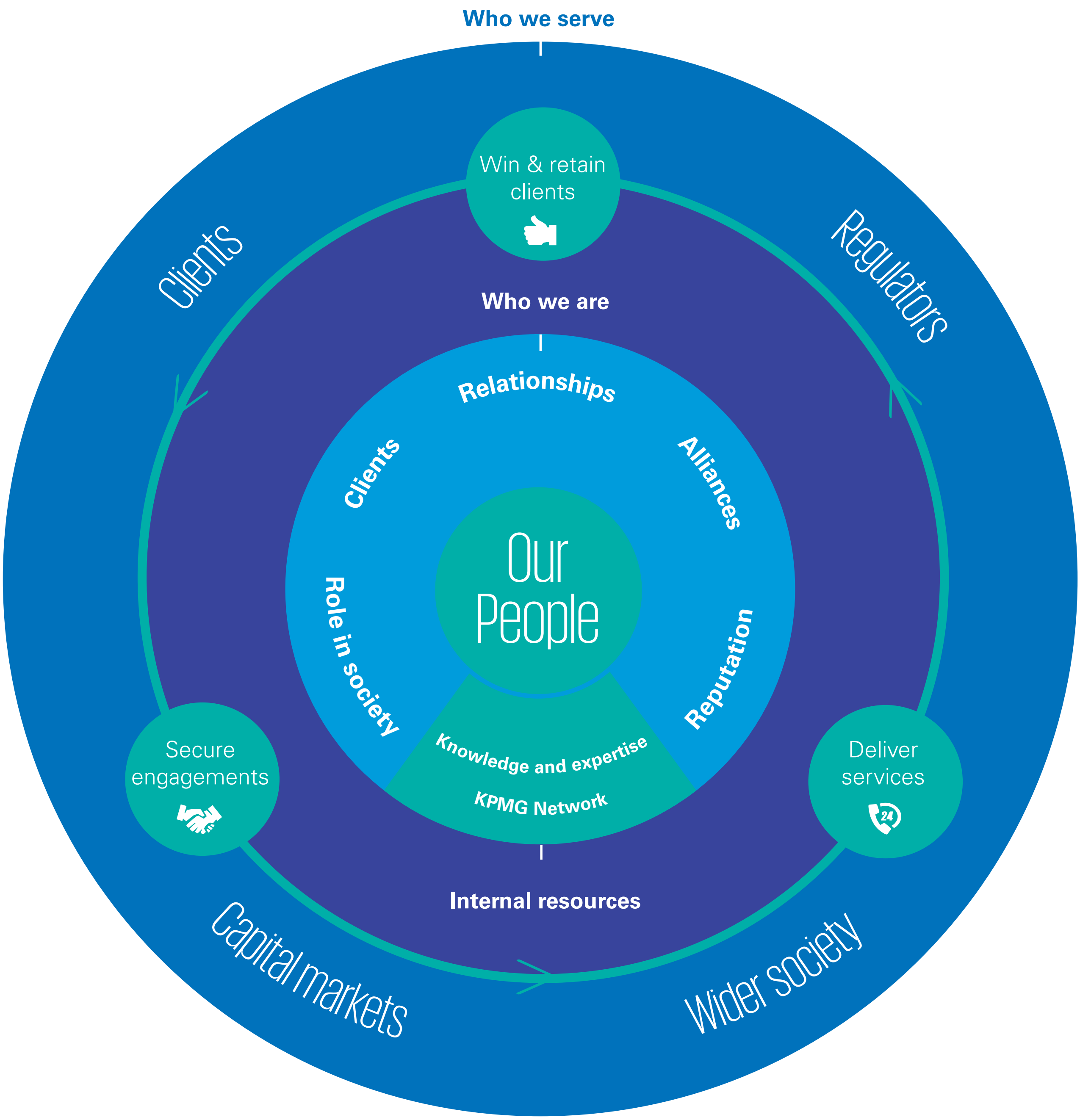
Growth Drivers

A number of areas in our business saw growth during the year. Our Audit practice continued to consolidate its position in a rapidly changing market, succeeding in the new world of mandatory audit rotation. It maintained its position as the leading auditor of listed companies and played a key role in transitioning former audit clients to advisory accounts.
In Tax we continued to focus on the complex compliance issues facing companies of all sizes brought about by significant changes in the international tax landscape, but our growth was particularly strong amongst our National Markets clients.
After a period of deep investment in acquisitions and alliances our Management Consulting business returned strongly to growth. We have established a higher revenue base for our Deal Advisory practice, finding new ways to harness our skills across Transaction Services and Restructuring. Close collaboration between our Tax and Deal Advisory and Consulting businesses, now gathered together as our Solutions business, provides us with a powerful platform to address our clients' most pressing issues in a more targeted way and will, we believe, allow us to achieve much higher levels of growth in future.

*64 percent of our engagements reviewed (14 out of 22) were rated as good (grade '1') or requiring limited improvements (grade '2a')

"The global KPMG Story provides us with our blueprint – helping us harness and unleash the potential we all know exists within KPMG internationally. It's a catalyst, it provides an unparalleled opportunity to transform ourselves and the professional services sector."

Our business model



Our business model

Who we serve

"We are a people led business that depends on a network of high quality resources and relationships that add value to our clients, the capital markets and wider society."

Win and retain clients

We have a broad client base made up of individuals to blue chip companies. It is important to have recurring relationships built on mutual trust. Increasingly our audit work for investors in our audit clients is limited to a number of years whereas tax and advisory work in our Solutions practice is typically project based.

Secure engagements

Our reputation, quality and credentials are important components for our buyers but our engagements originate from the relationships our people foster with our client base. Drawing from our broad range of services, we work with our clients and their procurement teams to put the right solution together.

Deliver services

We are an issues led business. Our success depends on applying our expertise to the specific circumstances of our clients. We often need to work across KPMG to combine individual services to provide a tailored solution to meet the needs of our clients.

Our business model
Who we are

> "Our success depends on the quality of the resources and relationships that underpin our business."

Internal

Key values:
- We respect the individual
- We work together
- We seek the facts and provide insight

Associated risks:
- Financial risk
- Failure of another network Firm
- Change overload

Our people

People are at the heart of our business. Our culture and our approach to the recruitment, reward and engagement of talented people, and our efforts to build a truly diverse and inclusive business, are central to achieving our strategic goal to be the clear choice employer.

KPMG network

Our global network of member Firms operating in 155 countries enables us to provide assurance and other services, consistently, to global and small national clients alike. Our scale provides the opportunity to invest in global tools and solutions which underpin our knowledge and expertise.

Knowledge and expertise

The exceptional knowledge and expertise demonstrated by our people is achieved through a combination of technical expertise and application experience. Training, staff retention and development are key to that.

We also rely on proprietary intellectual property embedded in our processes and in our centres of excellence, notably Accounting, Audit and Tax. When dealing with smaller clients, the depth and breadth of our expertise can be a key differentiator and we must constantly invest to ensure we can access this cost effectively.

Relationships

Key values:

- We are committed to our communities
- We lead by example

Associated risks:

- Delivering inappropriate services
- Working with the wrong clients

Role in society

The long-term future of our business depends on our ability to contribute to the efficient functioning of capital markets, the organisations that operate within them, and society at large. The provision of high quality audits which enhance investor confidence is critical to the functioning of capital markets. We are regulated and we take this seriously. Compliance is important but at a wider level we also aim to maintain positive and pro-active relationships with regulators and professional bodies. More broadly we recognise the importance of operating to a set of values that are consistent with society's needs.

Client relationships

Our business model depends on recurring relationships. We must manage the client relationship whilst remaining focused on delivering a service and opinion that meets the needs of these clients. We have a sector based approach to meeting client needs. Combining our expertise across multiple areas to deliver multidisciplinary solutions is important for us, and a key differentiator when we compete with Firms outside the accountancy sector.

Alliances

Niche expertise is important to deliver integrated solutions and our response can be organic or enhanced through alliances and acquisitions.

Trust and reputation

Key values:

- We are open and honest in our communications
- We act with integrity

Associated risks:

- Data loss
- Major or multiple audit failures
- Major litigation or regulatory investigation
- Major regulatory change impacting our business model

Reputation

The value of our opinion is derived from our reputation which in turn is built on our integrity and the quality of the work we undertake. Our reputation must be central to everything we do. We deliver many opinions and projects and are acutely aware that even one failure can have a significant impact on our reputation. Trust is at the heart of all our relationships. Clients often cannot assess the quality of our offering until it's been delivered and therefore reputation is key. Our reputation is also central to our ability to attract talent.

Financial overview

Sarah Willows

Chief Financial Officer and Head of Operations

2016 saw us maintain our market focus and continue to be issues led, growing as one Firm along with our people and continuing to transform our business.

Revenue

£2,068m

(2015: £1,958m) +5.6%

Profit before tax and members' profit shares

£374m

(2015: £383m) -2%

Looking at our two markets, for our International Markets and Government ('IMG') business overall our net sales for the year were on a par with the prior year at £893 million. For our National Markets ('NM') business overall net sales were up by 10 percent at £884 million fuelled in particular by 13 percent growth in our Regions business. In 2016, recoverable expenses totalled £298 million (2015: £253 million); these are the recoverable costs incurred from other KPMG International member Firms and third parties in respect of client work.

Secondly, looking at the business through the lens of the functions within the two markets, with the exception of our Risk Consulting business (where we had a known reduction in net sales on several, multi-year bank remediation projects) all functions increased their net sales in the year. Excluding KPMG Crimsonwing, net sales grew in the year by 4.2 percent with double digit growth in NM Tax and Corporate Finance, Transactions Services in IMG and in Management Consulting across both markets; the latter partly fuelled by acquisitions made in 2015.

Audit net sales grew overall by 3 percent year on year, but IMG saw a reduction due to some large clients moving to become advisory clients post audit rotations and the timing difference between appointment as a company's new auditor to commencing work (sometimes two calendar years). NM grew at 9 percent over the same period.

Tax grew by 4 percent overall, with growth coming from offerings on increased international tax reforms, managed services and our legal practice. NM enjoyed significant growth across all areas of the Tax business.

Deal Advisory grew in both markets, despite uncertainty caused by Brexit, with Restructuring and Transaction Services both reporting high levels of growth in both markets.

Risk Consulting shrunk overall by 5 percent as we have not seen the same levels of large forensic investigations or regulatory remediation works as in previous years. Technology, however has grown well in both markets.

Management Consulting has grown well in both markets as our investments in strategic growth initiatives and acquisitions begin to drive net sales growth. Significant time is also being spent investing in major projects which will form a significant part of net sales next year.

As reported in our Chairman's statement, we've continued to invest heavily in technology and people and focused on tackling the key issues our major clients face; whilst revenue increased by 6 percent we have sacrificed some profit. Profit before tax (and members' profit shares) declined from £383 million to £374 million, which also benefitted from favourable outturns on a small number of long-term client engagements and contingencies.

Net sales

International Markets & Government

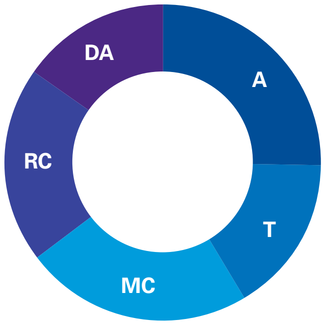
Audit
£226m
(2015: £231m) -2%

Tax
£144m
(2015: £164m) -12%

Management Consulting
£208m
(2015: £185m) +12%

Risk Consulting
£181m
(2015: £192m) -6%

Deal Advisory
£134m
(2015: £127m) +6%



Total net sales
£893m
(2015: £899m) -1%

National Markets

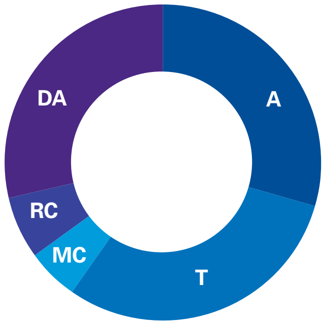
Audit
£262m
(2015: £241m) +9%

Tax
£266m
(2015: £231m) +15%

Management Consulting
£49m
(2015: £42m) +17%

Risk Consulting
£55m
(2015: £56m) -2%

Deal Advisory
£252m
(2015: £237m) +6%



Total net sales
£884m
(2015: £807m) +10%

Total* net sales by

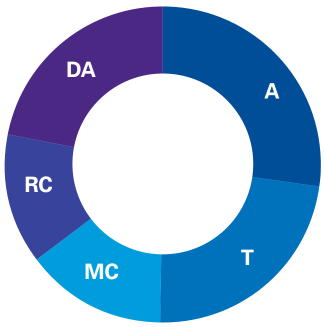
Audit
£488m
(2015: £472m) +3%

Tax
£410m
(2015: £395m) +4%

Management Consulting
£257m
(2015: £227m) +13%

Risk Consulting
£236m
(2015: £248m) -5%

Deal Advisory
£386m
(2015: £364m) +6%



Total net sales
£1,777m
(2015: £1,706m) +4%

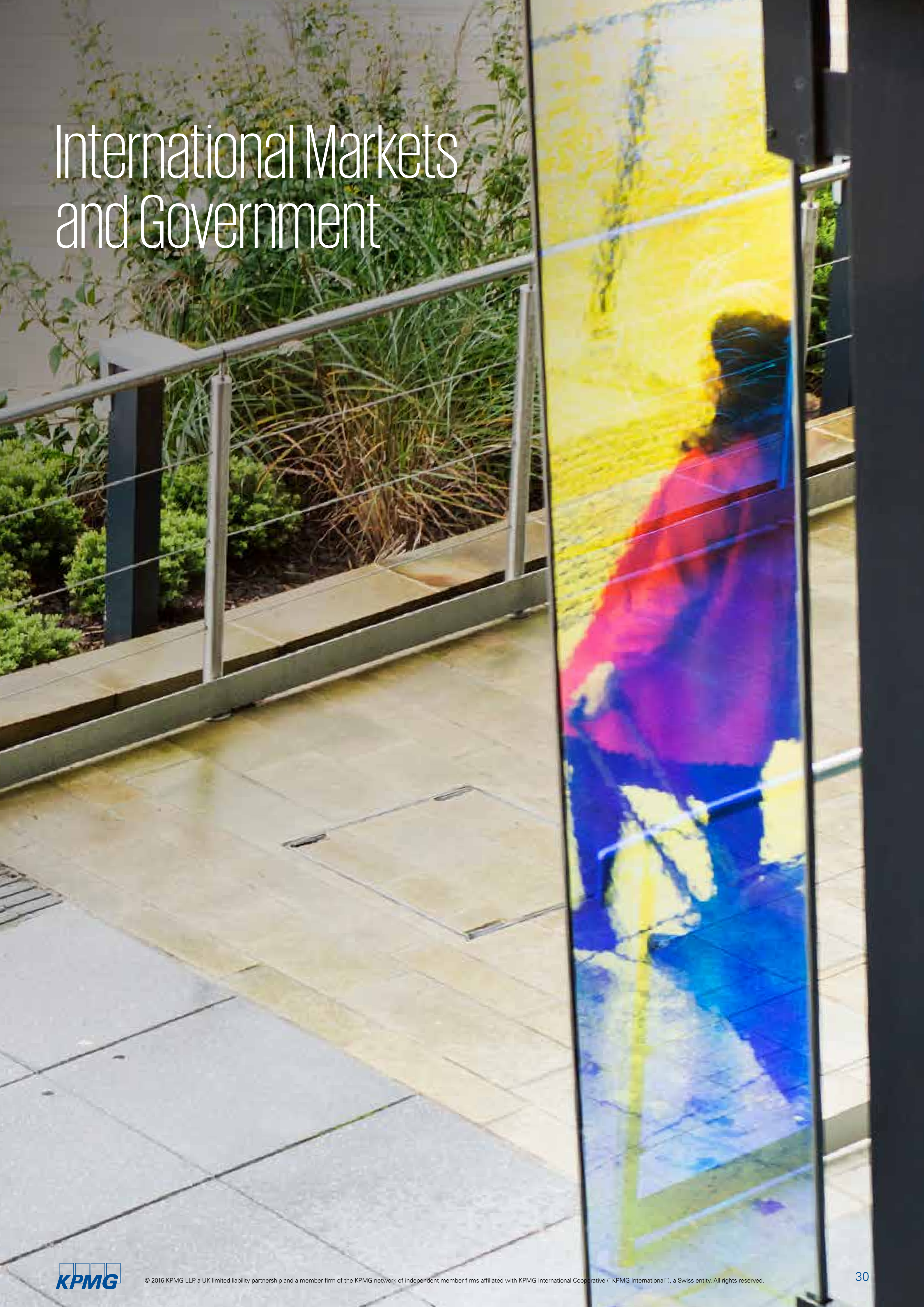
Internal reporting

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, on page 127 of the Annual Report. The reconciliation of net sales to reported revenue is summarised as follows:

	2016 (£m)	2015 (£m)
Net sales reported internally	1,777	1,706
Elimination of intragroup trading and other financial adjustments	(7)	(1)
Net sales	1,770	1,705
Recoverable expenses	298	253
Revenue	2,068	1,958

* Total net sales reported internally, excluding net sales from KPMG Crimsonwing, not reported internally.

International Markets and Government



Tony Cates

Head of International Markets and Government

We are building a platform for strong long-term growth in our International Markets and Government business, focusing on key accounts and sectors to create powerful propositions that directly address the needs of our largest corporate, financial services and public sector clients.

Net sales

£893m

2016 was a challenging, but ultimately successful, year for International Markets and Government ('IMG'), as we continued our transformation journey and investments to give the best service to our largest corporate, financial services and public sector clients.

We are immensely proud of the work we've done to position the business for strong growth in the future.

Overall our net sales for the year were on a par with 2015 at £893 million. This is a very creditable result at a time of continued heavy investment in our capabilities.

We've made tremendous progress this year and I'm confident we have the people, propositions and technology to help our clients meet their most important challenges.

Sector and cross-sector challenges

Across all sectors our largest clients are facing a fast-growing agenda of complex risks and opportunities.

Some of these issues are sector-specific, of course. But our IMG clients also face a range of enduring cross-sectoral issues.

Chief amongst these are four key issues:

- Finding new pathways to growth through transformation – we have established a market-leading position in transforming finance functions and this leads to supporting our clients across the full spectrum of transformation, including strategy and mid- and back-office reorganisation;
- Customer – KPMG Nunwood, acquired in 2015, has brought us new capabilities and technology in customer experience and routes to market that are proving particularly relevant in retail, transport and banking and insurance;
- People and performance – our People Advisory Services is successfully building a broad and really forceful Human Resources offering, relevant across sectors;
- Regulation – we have a particularly strong position in advising financial services clients, but other industries are growing in importance for us too, including pharmaceuticals, energy and telecoms where, for instance, we are doing significant work for a leading telecommunications company.

These themes resonated across all areas of IMG in 2016 but particularly in financial services, energy and government and infrastructure and, as we seek to address them, we've seen a significant change in the way we work with our largest clients.

The onus has shifted away from providing single service solutions to clients and is now focused on working closely with them to create solutions to challenges they have identified. In other words, building propositions around specific issues.

This, more collaborative, way of working often leads to the best results – for our clients and, therefore, for our own business.

Financial services

Financial services is, perhaps, in a greater state of flux than any other regulated sector and facing the growing threat of disruptive competition, not least from challenger banks and niche fintech operators. Brexit has also created significant challenges for our financial services clients, forcing them to rethink their business models and where they base their operations within the EU.

As a major player in this sector, we've led the way in helping clients resolve complex issues such as cyber security and data driven risk management and supported them in developing and deploying important new technologies, such as artificial intelligence.

A lot of our work during the year, revolved around helping clients to increase profitability. For example, we've worked with leading UK banks to take cost out of their businesses through a managed service proposition.

We have always been known as one of the leading auditors in the financial services sector, highly regarded in the audit market and the investor community, and our goal is to maintain strong relationships with our long-standing clients here. As part of our strategy to make a success of the audit retendering environment, we are also working hard to turn former audit clients into new and valuable advisory accounts.

For example, we are now a year and half into our global advisory relationship with a leading major bank. Over 60 partners now contribute to the account. Our work has been focused on some of their most challenging priorities and this has meant co-investing with the bank to develop sustainable solutions.

This is just one of many significant clients we are increasingly working with in a variety of ways from helping them drive better customer interaction, through to remediation work, internal audit and assurance, and back-office transformation.

The insurance and investment management market, a significant growth area for us in 2015, experienced a large number of audit tenders during the year and our aim is to retain a strong market share in this market.

Corporate clients

Making sense and, therefore, a success of globalisation remains a challenge for many clients. Our global network of KPMG member Firms continues to provide exciting opportunities for us to work with some of the world's largest organisations across borders.

A major player in the power and utilities space, for example, became one of our largest advisory clients this year as they transform their business.

We've also helped major players in the energy sector attract foreign investment that will transform the balance of UK's power generation market for decades to come. This includes supporting investment in large projects, such as new nuclear generation, through to the sale of significant energy infrastructure assets.

The Life Science industry faces many challenges and opportunities driven by the increasing demands of healthcare systems around the world for better patient outcomes at a lower cost. The ability to harness the huge advances in science and technology is critical in bringing new medical solutions to the market but also requires Life Sciences companies to adapt their business models to maintain or increase returns on investment. We continue to support our clients transform and foresee continued demand across the breadth of our service offerings.

We are working with some of the biggest companies, both global and UK headquartered, in the industrial manufacturing and automotive sectors, helping them transform their operations, manage their risk profile and prepare for the upcoming Brexit challenges.

Retail is an increasingly active area for us and we are working with a number of clients on major customer and organisation transformation projects.

Government and infrastructure

We are very proud to serve public sector clients, small and large, through both our National Markets and IMG businesses. One of the biggest highlights of 2016 for IMG was being selected by Civil Service Learning ('CSL')* to help outsource and provide high quality training for some 400,000 civil servants, leading a consortium of first class content providers.

We invested heavily in this programme during the year and this contract will continue to grow over the next two to three years.

We have been providing advice on almost every major infrastructure project in the UK – ranging from rail and roads to housing. These infrastructure projects will change the way we live, work and travel in years to come.

The work we are doing to transform the performance of the Ministry of Defence ('MoD') continues to be a success. As a trusted advisor we've worked across a range of strategic programmes – from cost assurance to financial due diligence and information systems support.

We have a 30-year relationship with the MoD that is built on trust, strong delivery outcomes and engagement with the wider defence community. We were very proud to be presented with a Gold Award by The Secretary of State for Defence for our contribution to the Corporate Covenant and the work we've done to employ former services personnel.

*Client case study: Civil Service Learning expanded upon on page 12

"We have been providing advice on almost every major infrastructure project in the UK – ranging from rail and roads to housing. These infrastructure projects will change the way we live, work and travel in years to come."

Nonetheless, the upheaval caused by the EU referendum has inevitably had an impact on work for government clients, as you would expect at a time of heightened political uncertainty.

But we expect growth in this area in 2017 thanks to our recognised thought leadership in the whole area of re-shaping, re-imagining and re-organising government.

Outlook

We will continue to invest heavily in our existing capabilities, where we will see increased levels of automation in the years ahead. Investing in the right processing and cognitive technologies and the right skills will continue to be critical to our success.

We are gaining much greater traction with clients thanks to the powerful alliances we have struck with leading providers of cloud-based technologies. These alliances are allowing us to build extended teams and match existing technologies and solution components to our clients' needs rather than developing costly and, often, over complex new platforms. This accelerates speed to benefits and reduces total cost of ownership - an approach that is really setting us apart in the market.

We look forward to a year of good growth and increasing profitability in 2017 alongside continued investment in people and technology as we build a sustainable platform to help our very largest clients grow and flourish in the future.

National Markets

Iain Moffatt
Head of National Markets

The needs of our National Markets clients are becoming increasingly sophisticated and we've reorganised our business to offer both corporate and public sector clients a richer, more relevant blend of capabilities. We're confident this work will allow us to continue growing strongly in the years ahead.

Net sales

£884m

Our National Markets business, serving mid-market private sector companies and public service organisations across the regions of the UK, delivered strong growth in 2016.

Overall our net sales were up by 10 percent at £884 million, a result we can be very proud of.

But it's important to be clear that within that figure our different National Markets businesses are growing at different rates.

Our Regions business put in an exceptionally good performance with net sales increasing by 13 percent, reflecting the terrific work our regional teams have done across our 22 offices up and down the country.

Net sales in our public sector and health business grew modestly. However this came in a year of heavy investment in our skills and resources in anticipation of significant growth in 2017 and beyond as we look to work in increasingly innovative ways for regional, local and health service clients.

Restructuring grew net sales by 5 percent, an encouraging result given the change in management structure in the year and typically slower demand for our services at a time of good economic growth.

Although the public sector and restructuring results were slightly behind expectations, we have taken the right steps to prepare these businesses for good growth in the year ahead.

The regional business

We continue to be a leading provider of Audit, Tax and Deal Advisory services to companies across the middle market, and each of these service areas grew strongly in 2016. In Audit we achieved a 9 percent increase in net sales. Tax, where we focus on key services such as R&D advisory, capital allowance and transfer pricing advice, put in a very powerful performance with net sales up by 15 percent.

We've maintained strong capabilities in Transactions Services and Corporate Finance, building on our strong market position in these services. This has paid off at a time of continuing strong activity in the regional M&A market and we saw our net sales for our Deal Advisory practice increase by 6 percent during the year.

We expect the transactions market to continue growing despite current economic uncertainties and the potential impact of the Brexit vote. While the market was slightly quieter from July to September it's important to note that the majority of deals are still going ahead. Indeed, of the 40 mandates our North region was working on at the time of the referendum vote, only two stalled, with the remainder proceeding as planned.

Standout deals we advised on during the year included the sale of Bupa Home Healthcare to Celesio and the Sale of BDP Holdings Limited to Nippon Koei.

Management Consulting had a strong year with net sales growing by 17 percent, albeit from a relatively low base.

A significant proportion of that growth came from KPMG Boxwood, the mid-market consultancy we bought in 2015 as part of the strategy to bolster our consulting practice. Two other acquisitions we made in 2015 – KPMG Nunwood and KPMG Crimsonwing – became fully integrated into the business in 2016 and will help us win new work across the functions next year. Risk Consulting had a quieter year after a busier 2015. Net sales here were down by 2 percent but this remains a very good, high margin business.

Our consulting business in the National Markets is much smaller than International Markets and Government but we are building our capabilities and our brand in this area and see it as a priority growth area.

Enterprise

Traditionally we have had a very strong client base among larger privately-owned businesses. Two years ago we launched our Enterprise growth initiative with dedicated teams, having the clear aim to broaden our client base across the whole spectrum of Small and Medium Enterprises ('SME') clients. Our aspiration is to be a provider of Audit, Tax, Deal Advisory and Consulting services, supporting companies through their entire life-cycle from inception and start-up right through to listing or sale to private equity or larger corporate investors.

We also want to build strong relationships with the entrepreneurs behind these growing businesses, helping them realise their ambitions and then continuing to work with them as high net worth individuals thereafter.

This strategy is paying off and, as well as winning market share, we are developing a broader range of propositions tailored to the differing needs of clients as they progress and grow.

These businesses are expanding quickly and becoming more sophisticated and they are looking to work with advisers that provide more rounded business support rather than selling them individual services. The focus is increasingly on multi-disciplinary propositions, fusing the skills, experiences and connections of people from across our business. We saw this clearly in a growing number of the projects we worked on during the year.

"We continue to be a leading provider of Audit, Tax and Deal Advisory services to companies across the middle market... Tax, where we focus on key services such as R&D advisory, capital allowance and transfer pricing advice, put in a very powerful performance with net sales up by 15 percent."

Part of our strategy is to open new sales hubs in growing marketplaces. During the year we opened new spaces in Sheffield and Norwich, and also took new space in the start-up facility in Camden.

We've created a new Family Office offering including a governance advisory service for family-owned businesses. We've also expanded our Investment Advisory service, initially aimed at Pension Funds, to take in high net worth individuals. And we are helping enterprises raise early stage funding on a more systematic basis, often working as a broker between ambitious SMEs and Angel or Venture Capital investors.

Our plan is to continue building these offerings, looking for opportunities to digitise our propositions to make them more accessible and cost effective for our clients.

We continue to innovate. Our Small Business Accounting ('SBA') service, launched in 2015, is a case in point. Aimed at relatively small businesses with turnover of less than £10 million, it continues to attract clients who would not traditionally have chosen to work with us. We are adding new services to the SBA platform to extend its reach, including adding an offering during the year aimed at franchisees. We expect the client base to grow rapidly through 2017.

Re-configuring our public service offer

Despite our slightly slower performance in the public sector in 2016, we have done important work to build on our expertise in this area, recruiting at all levels, particularly bolstering our Local Government teams.

Demand is expected to increase in 2017 and beyond, due to a number of factors including devolution, and the continuing cost and efficiency pressures on local authorities and the health service.

Despite the political turmoil of recent months and the arrival of a new Government with their own economic priorities, there is no sign that the pressure to rationalise, re-organise and improve the efficiency of public services will ease up and we've positioned ourselves well to play a leading role in this process.

This work will require us to come up with carefully targeted solutions for our clients, bringing skills from across the business to bear. In a sense, we are re-configuring our National Markets public sector and health business in much the same way as we have done through our Enterprise initiative. It's all about making sure we have the right blend of resources and skills to meet our clients' needs and being ready to deploy them in new ways across the regions to meet new challenges. We are already working on a number of projects that have the capacity to transform services.

We've proved how successful we can be in doing this through the fantastic work we've done to improve the performance of the NHS.

Examples of this include working on the turnaround of a major London acute teaching hospital, and assignments with four trusts under the NHSI Financial Improvement Programme, where we have worked with our clients to deliver cash improvements, operational efficiencies and cost savings far in excess of the fees paid. Most recently we have begun working with a foundation trust in financial special measures.

This sector is likely to remain a very busy area for us in the year ahead.

People

Recruiting talented people who can help us carry forward our overall strategy can, at times, be challenging, particularly when trying to attract people with specialist skills at a senior level. However, we made seven important external hires to the partnership during the year and were delighted to promote 25 colleagues to partner internally.

The quality of our people within the business is exceptional and I'm always so impressed with how they are able to flex their skills to work on different issues as the market demands.

We believe that creating a stimulating work environment is key, and one aspect of this is the investment in our network of 22 regional offices. This year we have relocated to new spaces in Leeds, South Coast, Bristol and Glasgow.

Looking ahead

I remain optimistic about the outlook for our business thanks to the significant changes we have made in recent years to support our strategic goals.

Our markets remain buoyant and we have a breadth and depth of capabilities that few of our competitors can match.

I believe we are now in position to deploy our skills in innovative ways to meet the increasingly exacting needs of our corporate, privately owned and public service clients. 2017 should be an exciting year for us.

Audit

KPMG

Adrian Stone
Head of Audit

Our Audit practice performed strongly in 2016, growing net sales and market share while maintaining a Firm focus on quality, innovation and skills in a market that is changing at incredible speed.

Net sales

£488m

The audit market continues to face unprecedented levels of transformation. This is creating opportunities and challenges for our business on several fronts and we are working on the assumption that change, especially where technology is concerned, will accelerate exponentially in the years ahead.

In this exciting environment, our strategy is to maintain a dynamic and market-leading approach to audit.

We are doing this by concentrating on four interconnected imperatives – maintaining a relentless focus on audit quality; innovating continuously; developing our people and our organisation to be fit for the future; and winning in a marketplace where mandatory rotation has changed the game for our profession, the entities we audit, shareholders and our regulators.

I'm glad to say we are rising to the challenges and opportunities in front of us and our Audit business continued to thrive in 2016, with net sales growing by 3 percent to £488 million.

But that performance does not begin to hint at the economic and social value our audit work creates.

Fundamentally our job is to underpin trust. Auditors play a key role in providing the confidence that business and society needs. This supports investment decisions in the capital markets, confidence over the governance of public sector expenditure and the development of the country's small and medium-sized enterprises. Audit and assurance are essential to the effective allocation of capital around the globe – capital that powers growth, the creation of jobs, prosperity and innovation.

In that sense, our work touches almost everybody.

I have immense pride in the contribution we make and am absolutely determined to ensure KPMG in the UK delivers top quality audits in more trusted, more valuable and more efficient ways.

Audit quality

Quality underpins everything we do. Across our global practice, we live and breathe it every day.

It starts with creating a culture of continuous improvement in audit quality, a culture shared by every KPMG member Firm in our international network.

We all strive to exceed the expectations of our regulators and to be recognised by the investment community and the entities we audit as the leader in our profession, both in our day-to-day practice and through our voice in the debate on the role of audit in trust in the capital markets.

We welcome the external perspective provided by the Annual Quality Inspection and find its feedback helpful and constructive. Our goal is to go beyond the beyond the Financial Reporting Council ('FRC') published aim that at least 90 percent of FTSE 350 audits reviewed should require no more than limited improvements.

Investment

We are making significant investments in audit quality both globally and nationally. For instance, we have created a global core inspection team to improve the rigour and consistency of our internal quality and performance reviews across the world and ensure we are always operating at our best. Additionally, our coaching programmes help to keep our people up to speed with key methodologies.

A key area of focus for the audit profession as a whole in improving audit quality is 'root-cause analysis' which, as the name suggests, involves understanding how and why audit quality issues could arise and formulating an appropriate response. Globally we have a root-cause analysis programme to systematically analyse our audit processes and controls and, in the UK, we expanded our programme to cover findings in relation to our Firm-wide procedures. We apply this approach, which includes independent interviews of the teams as well as findings from both internal and external reviews.

Audit quality is our absolute priority and we have now introduced a high profile independent team reporting to the audit leadership called the Second Line of Defence ('2LD'). The 2LD is conducting 'in-flight' reviews of audit engagements drawn from a sample of listed and other major public interest entities. Their role is to support teams in the field as they navigate the most challenging parts of the audit cycle ensuring that they plan and deliver consistently high quality audits. 2LD's findings are shared across the audit practice and incorporated into our wider root-cause analysis programme.

Quality also remains central to the training we give all the graduates we recruit each year. Here we are piloting new approaches, including bringing the study they need to do for their qualifying exams into an intensive block in the first year of their training. This replaces the old system of spreading the training out over three years and is proving highly effective in improving performance.

In addition, we continue to proactively drive discussions on what audit quality means for our stakeholders. Ultimately, investors are the audience for our audit work. We host roundtables, bringing together audit committee members, executives, regulators and others to build a consensus for positive change, while our Investor Insights web pages continue to stimulate debate in this area.

Innovation

Innovation plays a key role in our efforts to improve quality, but it also has the power to vastly enrich our work for those companies we audit and is transforming our people's careers.

I am delighted with the way we are staying ahead of the technology curve in our profession, particularly in predictive data analytics and cognitive technology. Our capabilities here now extend beyond the auditing of financial statements and are delving deeper into areas of current and future risk.

This is an international effort. For example, our US Firm, together with KPMG in the UK and Germany, is collaborating with IBM Watson to develop new artificial intelligence tools including software that can read and analyse complex documents such as lease agreements and annual reports.

Building on our alliance with McLaren Applied Technologies, we are continuing to develop predictive analytic tools allowing us to provide deeper insight in relation to a company's future performance which is highly relevant to audit judgements on valuation and going concern.

The degree to which these tools are improving the audit process is remarkable, allowing us to analyse a company's full ledger of data rather than relying, as we did in the past, on sampling.

At times this is on a huge scale. For one company in the consumer goods sector our group audit team used data analytics to analyse information for 74 teams around the world, and to run 90 different audit tests on over 5 terabytes of data.

Data and Analytics are not just proving important in serving our biggest audit clients – we also have an approach to suit businesses of any size which can be scaled according to how their technology landscape evolves.

We are also significantly upgrading our globally deployed bespoke audit platform eAudIT that was widely seen as a trailblazer for our profession. Our next-generation, smart audit platform will bring together innovations in areas such as predictive analytics, cognitive and automation, providing our audit clients with a more streamlined and transparent audit experience and making the most of their investments in systems and data. We are calling this new platform – KPMG Clara, taken from the Latin adjective for 'bright' and 'clear'. Combined with our professionals' judgement and experience, these innovations enable us to look deeper and discover more about a business and its risks.

In the FRC's 2016 Audit Quality Inspection, 64 percent of our engagements reviewed (14 out of 22) were rated as good (grade '1') or requiring limited improvements (grade '2a'). The FRC also noted a significant increase in the number of our engagements assessed as meeting the highest, grade '1', rating. We were pleased with the FRC's recognition of positive developments in the year and examples of good practice on certain audits. However we must be clear that we were disappointed that two of our audits inspected were found to require 'significant improvements', in spite of a general upward trend of inspection findings over the last four years. We will never be satisfied with the inconsistency in our performance evidenced by the lower grades and, as outlined earlier, we are making substantial investments to address this.

People

The growing importance of technology and data analytics means we are now actively trying to attract more people with technology skills into the profession and making data manipulation a focus in our learning programmes. Ultimately we want all of our people to be adept at handling and analysing data, as a matter of course.

Another priority is to inspire and develop the potential of our youngest colleagues so we can harness their fresh thinking to bring new value to our clients. We make sure they have the chance to taste life in our different functions, work with a rich variety of clients and play a big part in our continuous improvement initiatives.

We also encourage career development through secondments from audit to other areas of our business and from the UK to audit functions in other KPMG International offices and vice versa. These secondments are a great way for our people to get a better understanding of the world and experience working in diverse environments. During the year, over 300 colleagues undertook an international secondment in Audit.

Winning in the market

The new retendering regime has now been in full swing in the UK for three years, cemented by the introduction of new EU rules in June 2016, requiring mandatory rotation of audit Firms which are having a ripple effect across the world.

It's really encouraging to know that, of the companies that have put their audits up for retender and then decided to stick with their existing auditors, 39 percent are our clients.

Research measuring how clients have rated the process of transition was also very positive, with 92 percent of those UK clients moving to a KPMG audit strongly agreeing that the process was highly effective and efficient, compared with 56 percent for those who moved to competing Firms.

But our focus is not just on retendering, of course. With some of our clients yet to begin the retendering process, and many not likely to do so for some years, we are also working as hard as ever to preserve and build on the trusted relationship we have with these companies.

We maintained our share of the market on the back of some tremendous wins in 2016, including Standard Life, Balfour Beatty, Wood Group and AutoTrader. With the changes in auditor appointments, our FTSE 100 market share is 25 percent and we are also leading in the FTSE 250 with a 30 percent market share and the FTSE 350 with 28 percent market share.

In addition, we are pleased to remain the UK's largest auditor of listed companies, according to the Adviser Rankings' Q4 guide.

We remain determined to serve companies of all sizes across the UK and are pleased that our portfolio of audit clients reflects the diversity and range of businesses operating in the UK.

Looking ahead

I'm happy with where we stand today in the marketplace but we are by no means complacent.

The retendering process will continue at full throttle for the next three years and Brexit has the potential to challenge every aspect of business in the UK. In this environment of constant change, we need to remain very focused on continuous improvement in both audit quality and innovation, drive dynamic and rewarding careers for our people together with maintaining our market share and our financial performance.

We are determined to do just that.

> "In this environment of constant change, we need to remain very focused on continuous improvement in both audit quality and innovation, drive dynamic and rewarding careers for our people together with maintaining our market share and our financial performance."

Solutions

Karen Briggs

Head of Solutions

The rationale behind our Solutions business is to find new, efficient ways to harness our skills and technology to tackle the big issues that really pre-occupy our clients. Those issues provide the framework for all our propositions, investments, acquisitions and alliances.

Overview

Just over a year ago we introduced our new operating model and, as part of that, decided to bring a powerful array of multi-disciplinary resources together to create our Solutions business.

We took this step in direct response to significant changes in the way clients want to work with us.

They now expect us to fully exploit technology to deliver our services in a more cost-effective and efficient way and to deepen the level of insight we bring to our work for them.

At the same time they expect technology to be fully integrated into all the propositions we create and implement for them.

Solutions is, above all, about bringing a new focus to our efforts in creating and incubating new and emerging, tech-enabled solutions to boost our own effectiveness and create greater value for clients, for example via IBM Watson cognitive alliance*.

One great advantage of creating the Solutions business is that it allows us to industrialise the way we deliver key services. We now host a range of key shared services that support client work across KPMG in the UK, such as U-Collaborate, a world class collaborative design and problem-solving capability which allows our subject matter experts and clients to work shoulder to shoulder on complex challenges, delivering powerful outcomes in highly accelerated timeframes, our Tax Centre of Excellence which carries out all the compliance work behind our Tax business, our strategic alliances and our Technology Solutions business.

At the same time, Solutions is providing us with the space to create a range of important managed services for clients in areas such as finance and performance transformation, where we invest with our clients and share in the value we create together.

A new framework

Creating the Solutions business is also about continuing to bring together our Advisory and Tax capabilities to draw on our combined skills and resources.

Alliances are a key part of this approach and we've had great success in building valuable alliances with leading technology providers to develop compelling propositions for our clients.

Our technology alliances are already beginning to boost growth at an accelerating rate. Work we've won with our alliance partners has increased from £15 million to £60 million over the past two years.

Thanks to the focus we are bringing to solving our clients' biggest issues and our success in marshalling our skills and capabilities more effectively, I'm convinced our Solutions business is now well placed for a period of much more dynamic growth.

Aidan Brennan was appointed Head of Solutions on 25 October 2016.

*Market theme: Cognitive automation, expanded upon on page 49

Tax, Pensions and Legal Services

Michelle Quest

Head of Tax, Pensions and Legal Services

For the second year running we have recorded strong growth in our Tax, Pensions and Legal Services practice. Our net sales grew by 4 percent to £410 million.

We saw strong growth in our international tax, managed services and legal practices in 2016. Our National Markets tax business grew by 15 percent as we invested in our regional coverage of the UK and in specialist areas, such as investment incentives and reward.

The international tax landscape

The international tax landscape has seen more change in the last two years than in living memory as the political and public debate over taxation has led to a raft of significant proposed reforms, some of which are already in force.

The reforms are being implemented locally by Governments and tax authorities with different countries taking different approaches as they compete for international business and tax revenues, in particular in relation to transparency and country by country reporting.

Putting this together means our clients will face fragmentation, controversy and transparency challenges in the years ahead and, with our help, will need to navigate this landscape with care.

The situation has been made more complex by the UK's decision to leave the EU. While the position on customs tariffs and trading arrangements is as yet unclear, it is likely that any changes will force many of our clients to look again at their trading and business models.

We are well positioned to help them with this work, bringing our capabilities across Tax, Management Consulting and Risk Consulting together to help our clients think how they do business in this new environment.

At the same time, this fast-moving tax landscape is making it more challenging for companies to protect against, prepare for and resolve disputes with tax authorities, which is generating demand for our compliance and litigation services.

Our priority is to continue to help clients make sense of the complexities of the current tax environment.

The profile of tax is rising in the boardrooms of all companies, whether large, medium or small. Companies increasingly need to be able to articulate their tax strategy to the outside world and explain their tax profile to all their stakeholders.

Our role is to help companies with that communication and to ensure they can operate their businesses sustainably in a complex and ever-changing environment.

Responsible tax

We have taken a lead role in the public debate over responsible tax, not only publishing our Tax Principles but also helping to convene a diverse range of stakeholders to debate the issues.

There has been increasing recognition that what was historically seen as acceptable behaviour is no longer regarded as appropriate. The vast majority of taxpayers, and advisers, understand this and recognise the ethical and reputational need to adopt responsible tax practices.

However, we believe the debate goes two ways. Governments need to be responsible too – creating tax legislation that is clear, fair and stable, so that companies can meet public expectations and also plan their business strategies with greater certainty.

We continue to engage in the debate around responsible tax, working with governments, clients and other relevant stakeholders in the UK and internationally to continue this important dialogue.

Innovation

We have a large and successful compliance platform providing managed services, including corporate and indirect tax, statutory accounting and global mobility services. As companies increasingly focus on the cost and efficiency of managing their compliance obligations we are well placed to assist them and help transform their management of compliance through operating model design and technology enablement.

At the same time, businesses are seeing their global footprint expand beyond traditional borders through international business travel meaning that their compliance obligations are expanding even further as tax authorities around the world increasingly see this as an opportunity to raise revenues. Our leading edge technology and managed solutions to support clients in this area remain a key investment area.

Automation has a significant role here too and we continue to invest in our technology offerings for clients and our specialist centres, not least in our Tax Centres of Excellence in Glasgow, Birmingham and Manchester and in our KPMG Global Services operations in India and Hungary.

Technology continues to play an important role in Pensions and this year we launched KPMG Navigator®, an online tool to assist Trustees, defined contribution ('DC') working parties, Governance Committees and Sponsoring Employers in overseeing their DC schemes. This follows the successful launch last year of KPMG Pilot®, an intelligent online and mobile portal that helps pension scheme members view and understand their benefits, set realistic targets and plan for the future with confidence.

We were the first 'Big 4' Firm to secure an Alternative Business Structure ('ABS') licence to operate an integrated legal services division as part of our multi-disciplinary offering. Clients clearly like the fact that we can now wrap legal support around our other propositions and we saw net sales in this area of the business grow by 55 percent during the year.

Within legal services, we are seeing particularly strong growth in Corporate and Commercial, Tax Disputes, Employment, Immigration, Regulatory and Company Secretarial work. We continue to recruit heavily to bolster our capabilities in core disciplines, to further strengthen our national footprint and build out into relevant new legal skillsets.

Our model remains to focus on those aspects of legal services that are a natural extension of our other services and benefit from an integrated and multi-disciplinary approach.

Culture and talent

Partner promotions almost doubled in 2016 compared to 2015 and were across a wide spread of specialist tax areas, reflecting increasing demand from clients for counsel on a myriad of complex tax issues. Our focus continues to be on promoting our own talent and we offer our people a wide range of opportunities to build successful careers in Tax, Pensions and Legal services. Our highly successful graduate programme, run by our KPMG Tax Business School®, together with our School Leaver and Return to Work programmes are integral to this to ensure that we bring the right people in at the beginning and give them the best possible start.

Looking ahead

Our priority in the year ahead is to continue to help our clients navigate the complexities of the current tax environment and increased regulatory pressures at this time of rapid change, whilst at the same time manage their compliance obligations. As businesses expand globally, their compliance obligations increase and technology enablement becomes key.

Tax is, and will remain, an issue in the boardroom for companies and our role is to help companies communicate their tax strategy to the outside world and explain their tax profile to all their stakeholders.

Management Consulting

Nigel Slater

Head of Management Consulting

Our main focus this year was to return our Management Consulting business to growth after recent flat years. Our focus on key strategic growth areas has not only underpinned our fantastic performance in 2016 but should see us continue to grow faster than the market this year and next.

Our key priority in 2016 was to get our Management Consulting business back into growth. During several years of investment in acquisitions and alliances, our growth slowed, while the consulting market grew.

In 2016 we reversed that position, growing faster than the market, delivering a 13 percent rise in net sales with growth across our major sectors and services (excluding our KPMG Crimsonwing acquisition that we will consolidate fully for internal reporting purposes from next year).

The investments we have made are now paying off and we expect to continue growing faster than the market in the next two years.

Focusing in

Our strategy in 2016 was to focus on key areas of the market and key clients, making sure that we brought our best insights, technology assets and skills to specific clients and issues.

This has worked to great effect for our clients and ourselves.

Transformation

Next year we are targeting three strategic growth areas. The first is cloud-based transformation, which we also refer to as 'Powered Enterprise', where we are using cloud-based tools to help clients quickly create new, more cost-effective operating models in key areas such as customer service, finance, people and learning and IT services.

We are building pre-configured technologies deployed in innovative ways, rather than encouraging clients to make huge investments in bespoke systems. This approach has allowed us to speed up time to benefit our clients and build our market share.

Our success is built on our powerful alliances with market-leading providers of cloud technologies; robotics, analytics and digital solutions. Our programme with alliance partners grew from £15 million in 2014 to £60 million in 2016. We have won Consulting Partner of the year with Oracle two years in a row, were the first in the UK to lead a finance project on Workday technology and have worked with the first business to go live with Microsoft Dynamics 365 in the UK.

Client based collaboration with other KPMG member Firms is increasingly important and we are working to make sure that we invest together to go to market with similar propositions and insights across multiple client markets.

Learning

In the last two years a significant market has developed in Learning Solutions, our second main area of focus - helping companies improve the capability and quality of their employees.

Many employers, across sectors, are pursuing the ideal employee – usually a tech-savvy, highly mobile millennial. Talent supply and demand means clients need to find new ways to train and develop the people they already employ.

We are superbly positioned to help clients through our P3 People Powered Performance proposition where we are bringing together the tools, e-learning and leading content providers to offer market leading curriculum through learning managed services.

Our Learning Solutions are having a big impact, helping clients to transform their workforces, improve their overall decision making, and enabling them to offer their people the sort of career opportunities that will make them stay longer.

Our standout client learning programme is Civil Service Learning ('CSL')* where we are leading a consortium to provide 400,000 civil servants with learning and development over 3 years.

Managed services

Our third main area of focus is on developing a powerful new approach to managed services. Instead of charging clients up front for services, we are offering them support over a number of years and are being paid based on the consumption and impact of those services.

This is a significant strategic change in our commercial model and reflects what our clients want. In essence a different, more meaningful relationship based on sharing value.

This is particularly relevant in regulated industries, especially financial services in areas such as remediation and customer processes.

Core business

We continue to invest in our core Management Consulting services to support finance transformation, and our clients' HR and IT functions. These core services are expected to grow in line with the market. Our strategic growth initiatives will, we believe, grow much faster.

We are also deliberately shifting our attention to our most important clients and to key sectors. To make sure that we form longer and more impactful relationships with key clients, focused only on their key issues.

Integrating the new businesses

2015 saw us make some very important acquisitions to bolster our existing capabilities. To respond quickly to client demands it made sense to acquire some of these capabilities rather than try to grow them organically.

That strategy is beginning to pay real dividends and we have now successfully integrated these acquisitions into our business.

KPMG Boxwood is playing a vital role in our National Markets business where we've introduced the team to a wide number of clients and where KPMG Boxwood continues to serve its own established roster of clients, thanks to its strong brand and market reputation.

KPMG Nunwood is playing a key role in our work with clients around customer engagement and its proprietary customer experience technology has helped us reach and help new clients transform their customer service and experience.

KPMG Crimsonwing has placed us at the forefront of the Microsoft Dynamics market and we are now helping clients across more strategic programmes. The acquisition of the Human Resources Service Delivery practice of the HR professional services Firm Towers Watson, a joint deal with our US Firm, has been successfully integrated into our business with all its key client relationships and experience intact.

Inclusion and diversity

As a consulting advisory business we have to reflect the diversity of our clients. We simply won't be relevant to them if we do not clearly demonstrate the same kind of diversity in our own organisation, people and thinking.

Our people want greater variety, the ability to work more flexibly and the chance to achieve a better balance between their work and other life interests.

We are working very hard within Management Consulting to create a truly diverse and inclusive work environment and have played a significant role in piloting new initiatives for the Firm.

Our new Returners Programme is a case in point. Here we are offering people who have taken a significant break from work the chance to work and refresh their skills within Management Consulting. We have created flexible permanent roles that are all client orientated.

Making sure women are strongly represented among our leaders is fundamental, and we are delighted to promote three new female partners this year. Similarly our IT's Her Future programme is one of several initiatives that helped ensure that over 60 percent of our recent Management Consulting graduate intake are female which gives us confidence that we are developing a much more diverse cohort of potential future leaders within our practice.

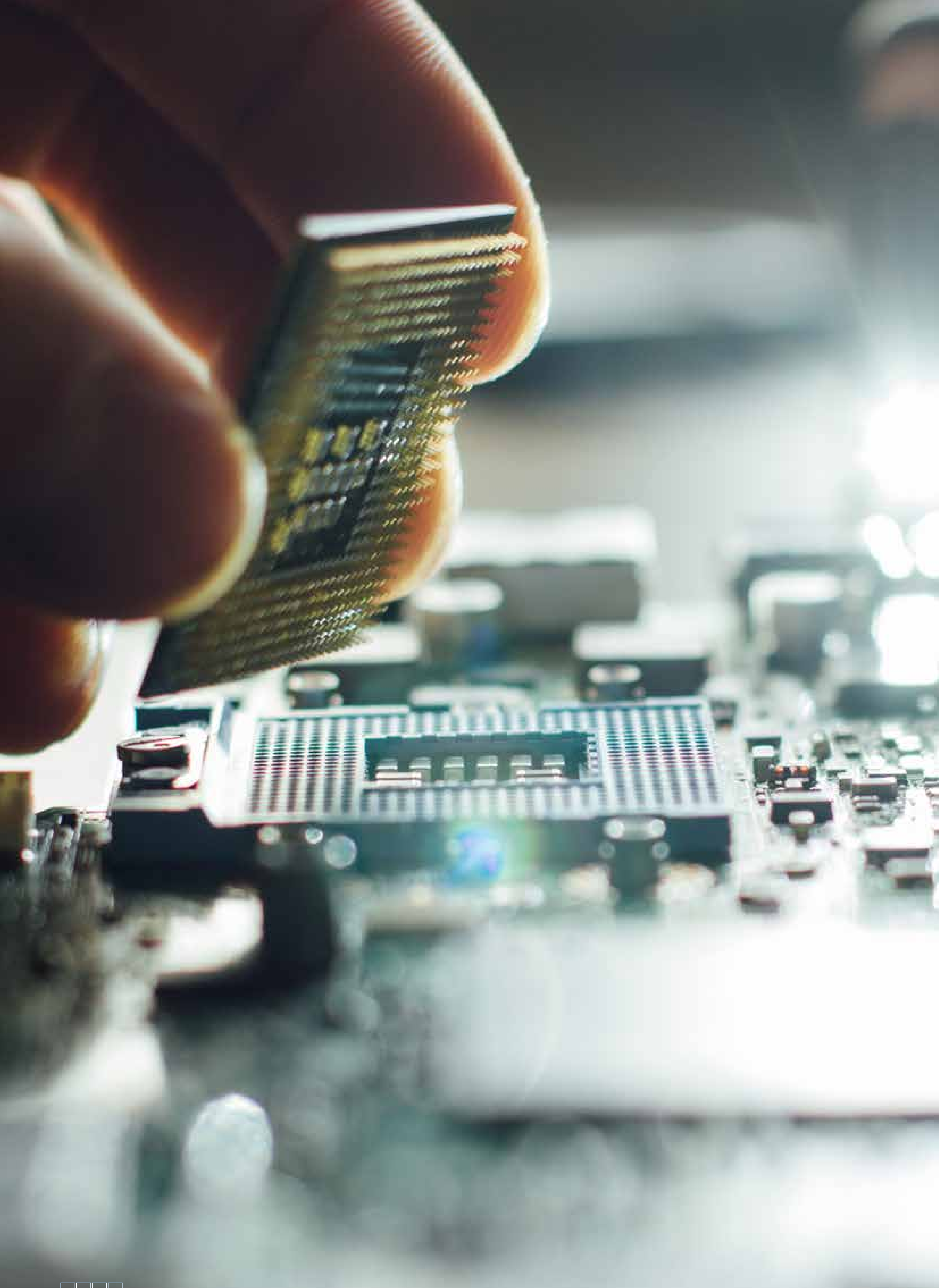
I personally believe that our growth is absolutely dependent on attracting and retaining a truly diverse range of talent.

Outlook

We've gone into the new financial year confident that our business can continue the growth we enjoyed in 2016. That means growing faster than the market at large, and growing our share of what remains a highly competitive sector.

Our Management Consulting skills, insights and technology assets are fundamental to the strategic priorities of our clients and to the wider growth of our Firm.

*Client case study: Civil Service Learning expanded upon on page 12



Market theme: Cognitive automation

Across every industry, including our own, organisations are beginning to realise that the adoption of automation underpinned by artificial intelligence ('AI') is no longer an option, but a business imperative.

Our multi-year journey to transform and re-engineer many of our services will use cognitive automation technologies to augment human judgement and automate physical tasks, providing us with the ability to reduce costs, optimise processes and drive profitable growth.

We have started out on a transformation process by investing in AI, including an alliance with the current leading enterprise cognitive automation technology platform, IBM Watson.

This programme, working in collaboration with our global network of member Firms, is designed to provide insights into how disruption is occurring in our own industry and, by extension, how human labour and operating models will be disrupted across many different markets. It is what many people are now calling the 'fourth industrial revolution' and it will allow KPMG to lead clients into the cognitive era using first-hand experience.

We are running pilot programmes across Audit and Solutions to demonstrate that Cognitive Automation and Digital Labour can actually mean that human labour is redeployed to higher purpose activities.

We are developing a number of AI engines which can not only give our colleagues and clients greater insight but which are also able to perform highly skilled, repetitive tasks. Our first robot KAI formally became part of KPMG in the UK this year and has been touring our offices and clients.

KAI ('KPMG Artificial Intelligence')

Our investment in Cognitive Automation and Digital Labour is designed to boost our revenues and profitability significantly as we transform our delivery and operating models with AI in addition to expanding our Digital Labour pipeline. We will continue to exploit our first mover advantage with IBM Watson and aim in 2017 to progress our cognitive technology pilot programmes across Audit and Solutions towards the production phase.

Through a thought leadership programme and client events, we've established a market-leading position in the UK for Cognitive Automation and built strong client interest in our Digital Labour proposition. In 2017 we will seek to sustain this by collaborating closely with the US Firm, boosting our marketing initiatives, and by continuing to demonstrate the huge potential benefits of our Digital Labour proposition.

Risk Consulting

Melissa Allen
Head of Risk Consulting

Our focus in Risk Consulting is on helping our clients move ahead faster but more safely so that they can make lasting, sustainable returns. Increasingly that means harnessing technology, the amazing talent of KPMG people and alliances to create market-leading solutions.

In an increasingly complex and fast-changing environment the business of risk management has shot to the top of the boardroom agenda. Clients across sectors are turning to us for help in managing a wide range of potential threats as diverse as cyber security, financial crime, anti-bribery and corruption and regulation. Our role is to help them manage their operations effectively so that they can turn risk to advantage to accelerate sustainable long-term growth.

To do that we are focusing our efforts on creating truly multi-disciplinary, technology enabled solutions drawing on the terrific specialist expertise of our KPMG people.

We have a well-established reputation in the market for helping clients mitigate and remediate risks and we are increasingly working to enhance their resilience by developing more forward-focused risk solutions and prevention rather than after-the-fact analysis of a risk failure.

Client centric results

Our Risk Consulting practice had a good year in 2016.

Although our overall net sales were down by 5 percent, this reflects the planned ramp-down of several huge, multi-year bank remediation projects which are unlikely to be replaced by mandates of a similar scale in the current environment.

Excluding these projects, however, we achieved profitable growth right across the practice and are well positioned to grow faster in the next financial year, meeting the needs of both large and mid-market clients in an increasingly targeted way helped by our new operating model.

Many of our largest clients have invested heavily in risk management resources and look to us for support in highly specialist areas. National Markets clients tend not to need to invest at this level. They look to us for more holistic support where we either bring our capabilities to them across the board or take issues off their hands through outsourcing.

For companies large and small, however, we are increasingly bringing a blend of services, combining our risk and management consulting skills. This is particularly true in transformation projects where risk analysis and scenario planning are an essential part of the process of finding new ways to operate efficiently.

Similarly, in conjunction with our Audit practice, our integrated Internal Audit and Risk Consulting business is delivering a holistic Risk Assurance solution. Helping clients to identify, assess, control and assure risk across the end to end business through a suite of risk, governance and assurance services.

Our strength in technology and cyber

We achieved double-digit growth of 16 percent in our Technology Risk Consulting services, such as our Data Insights and Forensic Technology Services. These combine subject matter depth, innovative technological support and operational scale to help clients manage risk while reducing costs associated with investigations, compliance and litigation.

We expect to see continued strong growth in the year ahead as we bring technology to more and more of our solutions across Risk Consulting, and we further increase our recognition in the marketplace as a creator of cutting-edge technologies, such as the Astrus* cognitive forensic tool.

Astrus allows us to carry out customer and supply chain due diligence in over 80 languages at incredibly high speed and it is being used across a wide variety of sectors from financial services to healthcare to help clients engage in third-party arrangements with increased confidence.

We continue to have a strong brand presence in the field of cyber security, where we were recognised as the leading Firm in a recent global industry report by Forrester Research. In cyber we are helping private and public sector clients handle both internal and external threats using tech-enabled tools to develop and implement forward-thinking approaches to address cyber security challenges.

Market leading alliances

Alliances with both leading technology suppliers and boutique consultancies play an important role in ensuring we remain at the forefront of developing the right governance, risk and compliance management solutions for our clients. Our well-established tie-up with MetricStream continues to be successful and we were delighted to be chosen as preferred implementation partner for Thomson Reuters' Connect platform.

Navigating regulatory change

Our reputation in the field of regulation remains very strong, particularly in financial services. We have maintained our market leadership in new bank authorisations, which should set us up well to support the next generation of challenger banks.

We have also continued to provide issues-led solutions to the UK's leading financial institutions as they adjust their business models in response to the evolving regulatory developments. This year we have invested in deeper prudential and front office trading skills to meet current demand as well as build for the future. But our focus is not only on financial services. For example, our premier Competition Economics team help clients navigate complicated competition investigations and to plan for growth through significant changes in global and national competition regulation.

We believe Brexit will only increase demand for advice in this area as clients try to stay abreast of changing regulations in the UK while continuing to comply with rules within the EU and in other jurisdictions where they operate.

Looking ahead

Our clients' risk landscape is constantly evolving with increased accountability and mounting scrutiny driving a need for better decision making and a clearer understanding of risk and how to turn this into competitive advantage.

From strategic thinking to quality execution we are well placed to assist companies to rethink risk – to move faster, act decisively, and be bolder and braver in these fast-changing conditions. We embrace this change and see this as an opportunity to grow new and existing services for our clients through technology enabled, forward looking and holistic risk solutions across the entire risk spectrum.

Giles Williams

Many people across KPMG, including Risk Consulting, Financial Services and our Brexit team, were bereft at the untimely loss of Giles Williams. Giles was a much loved colleague and friend for many people within KPMG and the financial services industry, with a sharp mind and an equally sharp and dry sense of humour. He was instrumental in setting up our global Financial Services Regulatory Centre of Excellence ('CoE') and in shaping our Brexit response. As one of the world's leading financial regulation experts, he will be missed by many. We received hundreds of notes of condolence from the industry, which attest to that. We will be forever grateful for the legacy that Giles leaves behind through a market-leading Regulatory CoE and a team of thought leaders to take KPMG and our clients into the future.

* Forensic technology: Astrus expanded upon on page 52

Forensic technology: Astrus

The pace of technological change and amount of information we have access to has been accelerating for years.

But 2016 was a year which saw another significant shift in the amount and type of data we all have access to. This was the year of the leaks, for example the Panama Papers, Unaoil and the Bahamas.

These huge data leaks shone a light on how international businesses have historically worked, exposed the private business of high profile politicians and public officials and highlighted the role of intermediaries in creating opaque and complex corporate structures. They have also accelerated the public debate around tax justice and transparency, corruption and money laundering, and the role of private business in the modern world.

Our ability to access growing amounts of data is having a profound effect on how corporate reputations are made and broken, and on how companies manage growing levels of regulatory risk throughout their supply chains in new areas like anti-bribery and corruption and modern slavery.

These are themes our Corporate Intelligence team is very familiar with and we continue to adapt our services and approach to help our clients meet these technological, regulatory and social challenges.

One of our responses has been to help clients carry out due diligence more effectively.

KPMG's Astrus suite of services harnesses new technology to access a much broader range of data and allows KPMG International Firms to analyse and interpret that data for clients in an innovative and efficient way.

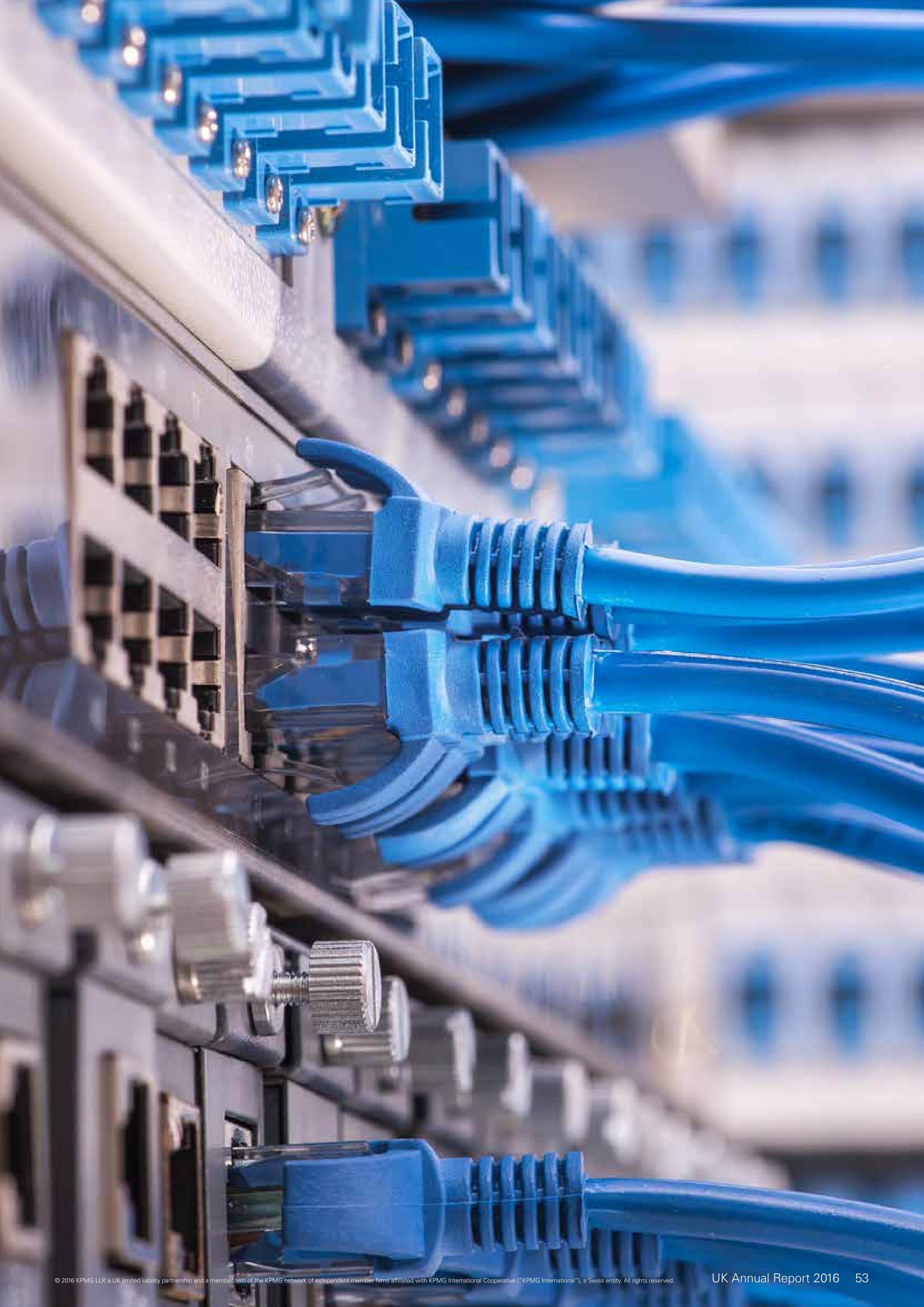
Astrus is a state-of-the-art, proprietary research tool designed to retrieve and analyse publicly available information on an unbelievable scale. With more than 40,000 individual online data sources in over 80 languages available through its federated search technology, Astrus enables faster, more comprehensive and more efficient scrutiny of information.

This means KPMG's clients have access to a consistently robust, high quality due diligence service, at cost-effective prices, from standardised screening solutions for low risk relationships, to enhanced due diligence and bespoke corporate intelligence services for high risk and strategically important relationships.

In 2016 KPMG launched two new aspects of our Astrus services. Working with IBM Watson technology we applied artificial intelligence to the system to improve retrieval and analysis of data we gather from online sources in multiple languages. KPMG also introduced continuous monitoring of online data, both structured and unstructured, to help clients reduce due-diligence costs and to give them access to regular alerts on third party risks.

These new technology-enabled improvements to our research methods not only improve our due diligence reports, they also help KPMG clients use research and analysis in new ways to predict reputational risk.

In 2016 KPMG delivered over 7,000 due diligence reports on third parties to our clients, focusing on the full range of reputational and regulatory risks, including slavery concerns. Our monitoring service has been tried and tested with some of the largest investment banks and corporations in the world, and we look forward to continuing the evolution of these services in the year ahead.



Deal Advisory

Sanjay Thakkar
Head of Deal Advisory

By continuing to develop new propositions and services we have grown our Deal Advisory business. We've done this by finding client specific solutions drawn from our traditional services of Restructuring, Transaction Services, Corporate Finance and Strategy.

Deal Advisory has always been one of KPMG's traditional strengths and we believe we remain market leaders in this area. But there has been an important shift in the balance of our business recently and that has allowed us to grow our net sales and contribution.

In recent years we've found new ways to deploy our capabilities across Deal Advisory so that we can focus our combined skills and propositions to meet client needs at all stages of the economic cycle.

This important shift is reflected in our performance across the whole of Deal Advisory, with overall net sales growing in 2016 by 6 percent to £386 million. Contribution performed strongly too, reflecting the fact that we tend to do high priority, high value work directly pertinent to the CEO agenda.

Deal Advisory is evolving from simply delivering its traditional services to bringing together complimentary propositions from within Deal Advisory and from the wider Firm to solve our clients' biggest challenges.

Bringing together M&A and Restructuring teams to assist banking clients across Europe has helped clients enormously. Combining the skills of creating long-term value and managing short-term cash has helped our clients not only deal with a crisis, but also in redefining their future. Another great example of combining capabilities is in the Telecoms sector. We advised on one of the largest mergers in Europe and, following completion, are using the breadth of the Firm to integrate the two businesses, drawing on skills from Deal Advisory, Management Consulting, Tax and accounting skills within Audit.

Redeploying our skills

Restructuring continues to re-define and reposition itself. While insolvency work still remains a bedrock of our business, we're finding new ways to deploy our skills to particular client situations.

For example we are using skills honed within Restructuring to help clients that want to improve cash and cost efficiency – not just those who are in stress or distress. We have advised clients in the steel, automotive and retail sectors in this way.

Similarly, we are able to help clients improve their cost and capital efficiency, as we are doing in our work with the Ministry of Defence to improve operating efficiencies. Another great example of this is the work we are doing to help NHS Trusts up and down the country save money which can be re-directed to patient care.

Overall, our Restructuring business is now stronger and has a broader range of service offerings than it had pre-financial crisis.

During an eventful year, that strength and breadth of capability was underlined when we received a bid for the business from a US consultancy Firm seeking to expand in the UK. We successfully saw off the bid, and it is clear that Restructuring remains a fundamental pillar of our Deal Advisory offering.

Record activity in transactions

The evolution of our Transactions Services business to offer a wider range of propositions means we are now in a position where the business should be able to grow no matter what state the global M&A market is in. This work helped lift Transaction Services net sales to £126 million during the year.

The last two years have seen the value of M&A transactions rise significantly and, in line with our strategy to take a large share of deals with the biggest value, we have won work advising on some of the biggest deals in the UK market.

The most significant deals we worked on included the LSE/Deutsche Bourse merger, Standard Chartered's £3.4 billion rights issue, and the purchase of leading beer brands from SABMiller, like Peroni and Grolsch, by the Japanese brewer Asahi.

Integration Advisory is a strong growth area for us, allowing us to help clients identify synergies that might arise from a takeover or merger so that they can win shareholder backing for the deal. Once the deal completes, we then work with them to secure those synergies.

Our Integration Advisory team does huge amounts of work in this area, helped by the fact that, as a practice, we have very strong credentials because of our deep sector expertise. The team has established a strong footing in key sectors, including financial services, where it has been assisting banks in meeting regulatory pressures to ring fence their retail and investment banking interests.

A big component of our Corporate Finance work is in valuations, and we've worked here on some significant deals including the giant merger of the Dutch and Belgian supermarket groups, Ahold and Delhaize.

We've maintained a strong regional Deal Advisory presence in our National Markets business, at a time when many of our competitors have scaled back in this area. That means we have a full range of capabilities to advise on deals worth under £25 million, while in the market for deals worth between £50 million and £500 million we are often one of the two leading advisers.

Significant National Markets deals we worked on during the year included advising BDP Holdings Limited ('BDP') on the sale of the business to Nippon Koei for an equity value of £102.2 million.

We have a strong foothold in Debt Advisory work and are now building an Equity Advisory capability, having hired Marco Schwartz as a Managing Director to lead in this area. The demand for truly independent advice is growing in areas such as Initial Public Offering ('IPO') advisory and broader equity advisory and we want to make our mark in this area.

In our Infrastructure Advisory team we bring together corporate finance, M&A, debt and contracting skills and continue to work on big projects including HS2 and Crossrail and help Transport for London succeed.

One particularly strong area for us in the last two years has been offering advice on the sale of portfolio loan assets. In the immediate aftermath of the financial crisis most of our work in this area focused on the sale of bad or non-performing loan portfolios, but banks are now putting great emphasis on streamlining loan portfolios to increase their capital efficiency.

Strategy is the final, important piece of the Transaction Services jigsaw.

Here our Strategy team is focusing on four key areas – guiding deal strategy and originating transactions; pricing, where we are helping clients to improve performance to enhance their prices; implementing new business models to achieve strategic goals; and customer, where increasingly we are looking to work with our Management Consulting and KPMG Nunwood colleagues to create new propositions. We see all four of these as strong areas for growth in the years ahead.

Outlook

We expect the deal environment to remain active in the next 12 to 24 months, despite the obvious concerns about the impact of Brexit, currency and wider macro-economic issues.

The availability of cheap debt and high corporate cash reserves will continue to provide CEOs with the firepower to do transactions. Increasingly, activist shareholders will also continue to put pressure on companies to do deals rather than sit on their reserves or invest in organic growth. Transactions remain a quicker way to access growth.

In addition, regulatory change is forcing Boards to revisit and recalibrate their business models and often transactions are a way to accelerate that process.

Our aim is to be in a position to bring all our Deal Advisory skills to the service of our clients and help them move forward no matter however uncertain the economic outlook. I think we are well placed to do this.

Mohammed Sheikh

The whole Deal Advisory team was immensely saddened to lose our dear friend and partner, Mohammed Sheikh, earlier this year. Moh was, quite simply, a wonderful human being. He was a fantastic partner, always leading by example and a wonderful leader who brought the best out in all of us. We miss his wit, his warmth and his incredible gift for storytelling, but feel immensely proud and privileged to have worked with him.

Brexit

Karen Briggs
Head of Brexit

The UK's surprise decision to leave the EU will be one of the most significant strategic challenges facing our clients in the years ahead. We prepared very well ahead of the referendum and have now deployed our resources to support and guide our clients through the short- and long-term uncertainties that Brexit has created.

Most commentators expected the UK referendum in June 2016 to be tight. But few predicted that it would end with a vote to leave the European Union.

We always took the view, from the moment the date for the referendum was announced, that it was right to prepare for both a remain and a leave vote, immediately setting up a response team, led by Vice Chair Melanie Richards, to help prepare our clients and the Firm whichever way the result went.

This team did huge amounts of work in the 18 months before the referendum, staying close to government, holding events for clients, launching a dedicated Brexit portal and developing a diagnostic impact assessment tool to help clients understand and assess the risks and opportunities Brexit might create.

In the immediate aftermath of the vote I was appointed as Head of Brexit on our UK Executive Committee, underlining our recognition that Brexit is now amongst the most significant issues facing our clients and the Firm.

We were the first in our profession to make such an appointment, giving us a clear first mover advantage in establishing ourselves as key advisors to businesses and to government, in these highly uncertain times.

The advanced planning we had done meant that we were able to mobilise our resources and expertise immediately after the result was known. In the following days we held a briefing call joined by around 4,500 clients; whilst 70 percent of the questions were from Financial Services, we had a range of clients and questions on the call. It was just one of many events we have staged since 24 June, including road shows across the UK to meet with our National Markets clients.

Equally importantly, we took steps to reassure our own staff through similar calls and events, particularly focusing on approximately 850 EU nationals working for KPMG in the UK.

This is a key business concern for us. Some 20 percent of our staff are international workers and our ability to offer them the chance to move around Europe and the rest of the world in their work for the Firm is one of the great strengths of our business and is essential in ensuring the diversity of talent we need as a business.

Uncertainty, risk and opportunity

Uncertainty brings great risks for our clients. But it also presents opportunities. And in supporting clients through the great uncertainties that Brexit has unleashed, we have created a framework for them to understand and plan successfully for changes ahead.

Central to this is our 222 plan. This urges clients to think ahead to what they should be doing in the next two weeks, the next two months and in two years time, allowing them to anticipate tomorrow and deliver today. Alongside our impact assessment tool, we've created other systems and applications to help clients address specific issues, including one looking specifically at issues around customs and tariffs and supply chain.

We've created a small central team to lead our Brexit work, including our subject matter experts. Each of our business units and regions has selected one person to join the team to lead our Brexit conversations with clients and to help us decide what solutions we can create to help clients address key challenges. We've also set up a Brexit Intelligence and Analysis team to help bolster our thought leadership in this area. These help to move our Brexit response in to business as usual.

Working with our colleagues across KPMG's global CoE for Brexit we are making sure that we offer consistent support to clients either thinking of investing in the UK or with operations here already. We are also working with key partners in the US, China, India and Japan to explore future opportunities on important UK trade corridors.

We've taken a lead role in convening industry trade groups in key sectors like financial services, automotive and transport and we are also providing support to the Government as it plots its way ahead.

These are early days but the early indications are that the issues most concerning clients, large and small, are customs and tariffs, immigration, supply chain management and a host of related tax issues.

Many of our clients also believe that Brexit will mean making fundamental changes to their business and operating models, either by necessity or choice. We are determined to offer them the support in this work, blending Brexit-related propositions into our growing capabilities in business transformation.

A long journey

Prime Minister Theresa May has made it clear she will trigger Article 50 – the formal two-year process for leaving the EU – by March 2017. We should know by early January 2017 the outcome of the Supreme Court ruling and whether this will impact the timeline of triggering Article 50. Ahead of that, she has insisted the Government will not reveal its hand in the forthcoming negotiations with the EU's remaining 27 members.

But it is likely that a direction of travel will begin, increasingly, to emerge in the months ahead and our role in working with clients will be to help them scenario plan for different outcomes.

Clients are moving at different speeds in addressing the challenges ahead. Some are waiting for greater clarity in policy. But for some, particularly financial services clients, it will mean taking action before that policy is decided. They are clearly concerned that it will take longer than two years to relocate resources and people to other EU markets.

We are working on the assumption that it could be at least five years before the UK's new relationship with the EU is finally settled. We are at the start of what is likely to be a very long journey.

I'm really proud that, by grasping the importance of this issue well in advance, we are now in a position to play a really useful role in shaping the Brexit debate and to help our clients navigate the many complex challenges that lie ahead, positioning ourselves as the clear choice.

KPMG appoints 'head of Brexit'

"Big four' professional services Firm KPMG has created a 'Head of Brexit' role and has given Karen Briggs, one of its senior partners, the task of leading its work advising clients on the effect of Britain's vote to sever ties with the EU."

Financial Times, 6 July 2016

People and resources

We are transforming the way we recruit, develop and reward the people that work for KPMG in the UK to make sure that we attract and retain the very best and most diverse talent in the marketplace and enable them to achieve extraordinary things for our clients.

Philip Davidson
Managing Partner &
Interim Head of People

Melanie Richards
Vice Chair

At the heart of our people strategy lies a simple but powerful statement – 'our people are extraordinary'.

Throughout 2016 we've been working to bring that vision to life, both by building on the strong foundations we already have in place and by making some truly ground-breaking changes to the way we recruit and develop people. This will pay significant dividends in 2017 and beyond.

Strong foundations – Our Deal

We've laid foundations in the way we manage and motivate our colleagues through Our Deal. Since launching in 2014, we have taken soundings from our colleagues and adapted the programme to better fit their needs. We are now in a position to really build on these foundations as we develop our people strategy for the future.

A great example is our network of people leaders – 160 highly skilled people who are our touch point with over 14,000 colleagues employed by KPMG in the UK. They take the lead in understanding our people's needs and aspirations, developing their talents and deploying their skills in the right areas across the Firm, for the benefit of our clients. We are proud of the work this team have done during the year.

Their success was strongly underlined by the overwhelmingly positive feedback we got from colleagues following our annual round of 'Honest Conversation' sessions, in which people discuss feedback against agreed goals, strengths, development areas and career hopes. 90 percent of colleagues who were surveyed agreed that these sessions achieved what they had promised.

Innovation

With the world of work changing at an extraordinary pace, it's vital that we continue to innovate to meet the aspirations of the people we employ and to bring together the rich mixture of skills we need to serve our clients. We've certainly done that in 2016.

Take learning and development, for example. Here we've brought together all our existing strands of learning and development into one powerful function under the leadership of our new Head of UK Learning, Anna Purchas. Continuous learning is now central to our overall strategic plan and as such will increasingly create much greater value for the business.

It will also ensure that we are providing our people with training that is both relevant and rewarding, focusing on skills that scarcely existed five years ago, but that are now deeply relevant and are making a big difference to the work we are doing for clients.

We want to make sure our people have the right blend of skills to thrive in this new environment. On the one hand that means developing hard skills in areas like cognitive technology and analytics. But, just as importantly, it means developing those softer skills – such as adaptability, curiosity and flexibility.

Getting this right is a complex task, especially at a time when competition for talent is so intense and when attitudes to employment, particularly from young people, are challenging employers to meet a completely different set of career aspirations – the desire for mobility, variety, choice and a better balance between work and other life interests.

If we want to remain a leading employer, we need constantly to find new ways to respond to these trends. That's why we are so delighted to be bringing Ann Brown into the Firm as our new Head of People in the UK.

We went outside the Firm for this appointment because we wanted to make sure we attracted someone with first-rate expertise and real understanding of best practice across different sectors of the economy. Ann, who took up her post in November, has just those qualities, having, amongst other things, led the HR function at both Nationwide Building Society and Capgemini. She will bring the challenge we need to stay right out in front in the marketplace.

We also have fantastic resources within the Firm to help us with this task. Our People and Change team – responsible for delivering our People Consulting proposition to clients – is playing an increasingly important role in shaping our own people strategy.

Recruitment

KPMG continues to be a very popular destination for graduates and apprentices. We receive thousands of applications each year. In 2016 over 28,000 people applied for just 1,200 places.

Graduates

During the year we completely rethought our graduate recruitment process, introducing Launch Pad. This condenses our usual interview and assessment process into one intensive innovative, high-energy day with people across the Firm, including our leaders, getting involved to give applicants a real taste of life at KPMG.

As part of the process, we commit to communicating an outcome to candidates within two working days. The first round of Launch Pad this autumn has been a huge success, with 97 percent of the candidates surveyed rating their Launch Pad experience as better than experiences at competitors' graduate recruitment events.

As a Firm, we wanted to ensure we were getting the right candidates with the right core skills, not just those who are best prepared for an interview. And we've found that the new process is allowing us to assess candidates' skills and personal qualities in a new and much more holistic way.

Due to its innovative approach, Launch Pad will play a crucial role to help us improve the wider diversity of our talent pool. The pilot has already shown to be a great success.

While some companies in other sectors are using similar techniques, none are doing it on this scale and Launch Pad is certainly a first in the professional services sector.

We were delighted to win external recognition for our approach to graduate recruitment, climbing from ninth to sixth place in The Times Top 100 Graduate Employers list for 2016/17.

School leavers

We're proud to have launched KPMG360°, our new apprenticeship scheme offering talented young school leavers an alternative way into our profession to the traditional graduate route.

The three or six year scheme allows school-leavers to attain professional qualifications up to chartered level, meaning that they can reach the same level as a qualified graduate through high quality training in the workplace. Regular rotations around our different practice areas broadens their experience, and allows them to test out where they want to specialise and pursue a career.

We welcomed our first 110 KPMG360° apprentices in September 2015, a further intake of 96 in October 2016 and we will see the programme build in 2017 and beyond.

The scheme supports our ambitions to widen access to our profession, and attract talent that is as diverse as the clients we work with. Through our recruitment approach, we seek to create better social mobility and ensure that all talented young people can access careers within the Firm, regardless of their background. Through working in partnership with schools and colleges we seek to demystify application processes, raise awareness of opportunities and increase career aspirations.

KPMG has been actively involved with the development of the new employer-led apprenticeship standards, known as Trailblazers, with Michael Walby (Professional Qualification Training Director) chairing the development of the Accounting and Taxation standard.

The quality of our existing programme means we are well prepared for the introduction of the apprenticeship levy, which, from April 2017, will require large organisations to pay 0.5 percent of their annual wage bill into a fund which will be used for the purposes of funding apprenticeships.

KPMG's people consulting team has formed a partnership with the Open University that enables employers to identify and fulfil their future training needs, following the introduction of the levy.

Returners

Traditional recruitment methods can also be a deterrent to people with hugely valuable skills and experience hoping to return to work after a career break.

During the year we launched a new return to work programme offering roles in our Management Consulting and Tax practices to experienced professionals who have been out of the workplace for 18 months or more. Successful candidates join for an initial period of employment of 12 weeks, enjoying the support of a personal mentor and access to regular coaching sessions to update their skills and expertise. At the end of this period we meet the individual to discuss whether both parties are happy for the arrangement to become permanent. Our intent is that the majority result in permanent appointments.

Inclusion and diversity

It is a commercial priority for us to build a truly diverse and inclusive workplace.

This means delving deeply into our processes to make sure inclusion and diversity is threaded into every part of our business, something we are doing with real energy.

We've made good progress, with particular success seen through our graduate and apprenticeship schemes, where recent changes to the recruitment process have resulted in us achieving our ethnicity and gender targets.

We are acutely aware of the 'hot spots' that now need our focus, such as the recruitment and promotion of black and mixed race colleagues into senior managerial grades and into the partnership.

In order to achieve long-term change across all areas of diversity we need to look at every stage of our recruitment process to ensure proportionality is being adhered to, and we're identifying and promoting talented colleagues.

Inclusion and diversity targets

In an effort to boost diversity in senior grades, we aim to create a culture of intelligent working, where we measure people's output rather than input, and encourage part-time and agile working. We have also committed to ensuring that all our vacancies are open to flexible working arrangements.

We have seen our overall gender pay gap fall to 20 percent. This is down 1.4 percent from last year. This single figure does not take account of the many objective reasons for salary differences between colleagues, such as seniority and location of role. When looking at the average gap within each grade for example, the figure decreases significantly to 5.9 percent.

	Grades	2014 Population (%)	2015 Population (%)	2016 Population (%)	2018 Target (%)
Female	Partner	15	14	16	25
	Directors	23	26	26	36
	Senior Managers	36	38	40	46
BAME*	Partner	7 (0.9)	7 (1.2)	7 (1.3)	9 (2.2)
(Black/ Mixed)	Directors	9 (1.2)	9 (1.4)	10 (1.5)	14 (4.4)
	Senior Managers	14 (2.0)	15 (2.2)	16 (2.7)	18 (4.1)
Disability	Overall	1.4	1.5	1.4	2.8
LGB**	Overall	3	3	3	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.

**LGB stands for Lesbian, Gay, Bisexual

The gap reflects the reality that there are still a smaller number of females in more senior positions within the Firm. We will continue to focus hard on increasing our female talent pipeline, which we consider is the most effective way to address the remaining gender pay gap and, for the first time next year, leadership remuneration will be linked to gender diversity targets.

But it's important to remember that these figures mask the improvements we are making in the pipeline as well as the systemic and behavioural changes that take time to demonstrate impact.

For instance, we have made great strides in increasing the diversity of our graduate and school leaver intakes. We were the first of the 'Big 4' to achieve gender parity in our graduate hires and we have also achieved gender parity across our junior and first level management positions. In our senior ranks, a third of people promoted to the partnership were women and a third of our Board members are female. We now need to focus our efforts at middle and senior management levels and bring diverse talent through.

Table 1: Female Graduate and school leaver offers made

Programme	Female		
	2016	2015	2014
Graduate	50%	41%	36%
Schools Leavers	47%	43%*	38%**

*school leaver percentages account for c.80% of it's intake, where this information was submitted.
** in 2014 we only recruited into School Leaver Programmes ('SLP').

Table 2: BAME Graduate and school leaver offers made

Programme	BAME		
	2016	2015	2014
Graduate	37%	32%	27%
Schools Leavers	37%	37%*	24%**

* school leaver percentages account for c.80% of it's intake, where this information was submitted.
** in 2014 we only recruited into SLP.

The diversity and inclusion targets we have set ourselves do at times make difficult reading – a constant reminder of how far we have to go. But we will not shy away from holding the mirror up to ourselves and our progress and are determined to keep inclusion at the forefront of our priorities.

We're also determined to change outdated perceptions about roles within the Firm, underlining the fact that we have an inclusive culture at KPMG. Our 'Women in Technology' event staged during the year was a great success, with more than 60 percent of the women that attended being accepted onto a summer internship in 2017.

And we continue to take a leading role in the increasingly active national debate about inclusion and diversity in the workplace. For example, we sponsored and co-published the largest race in the workplace survey and we produced our 'Cracking the code' report.

Our Chairman is also on the steering committee of the Government's Hampton Alexander Review into increasing the representation of women in UK businesses. We've hosted the launch of the Davies Review and the Female FTSE report in our offices and given evidence to the Parliamentary Women and Equalities Committee.

Social mobility

Organisational commitment to supporting social mobility must be underpinned by robust data in order to develop an evidence base for change, and to evaluate the effectiveness of policy changes.

At KPMG, we have built on our recruitment data analytics, undertaking a workforce survey to get a better understanding of the socio-economic make-up of the Firm. We commissioned the Bridge Group, a leading association that researches social mobility, to analyse the data through a detailed statistical review.

Socio-economic data is captured through an online diversity profile. It is an iterative exercise; employees can update their profile at any point in time, and all new joiners are asked to complete this information. A number of questions relating to socio-economic background and status were introduced in three phases during 2014 and 2015. This phased approach is reflected in the response rates that follow, and the questions are detailed in the order in which they were introduced.

What the data tells us

We sought advice from the Bridge Group on the most relevant data points to collate in the workforce survey, to ensure best practice. There are very few datasets in similar organisations against which we can benchmark our data, but where this is possible using the 'school type' data point, the KPMG workforce appears to be more diverse with respect to socio-economic background.

However, there is still some way to go in improving socio-economic diversity amongst the workforce, if we want our workforce to more closely mirror our client base. So we will continue to collect and interrogate our data and plan actions based on these findings.

The research has highlighted that parental occupation is an especially important socio-economic indicator. This indicator was found to have a strong or moderate correlation with other measures including parental degree status, income support, eligibility for Free School Meals, and school type. The measure is applicable to those whose upbringing took place outside of the UK, and can be benchmarked, for example, against the higher education population, and the wider workforce. We therefore encourage other employers to adopt this indicator.

Two limitations were identified in the data – a lower response rate to some of the questions, and the need for a modest refinement in the methodology to help identify employees' parental occupation. We are working to address both of these matters: the Firm has a strategy for increasing completion rates, and will review the questions in early 2017 when the Cabinet Office and the Bridge Group publish their joint findings from the consultation on common socio-economic measures.

As with other aspects of diversity, data cannot tell the full story. Over the past few years, we have been making strides to improve socio-economic diversity amongst our school leaver and graduate hires and the key comparative data points with the workforce survey are shown in the tables below.

We have adjusted our attraction strategy to engage a more diverse range of schools, universities, and students. In 2015, the Bridge Group undertook a detailed analysis of the diversity of our graduate and school leaver intake and this has given us the evidence we need to engage a wider range of schools, universities and subjects than in the past. Furthermore, the Bridge Group has interrogated our selection processes to explore how candidates' socio-economic background affects success at each stage of the process, and this has helped inform changes to the way in which we identify talent.

Our Discovery work placement programme, in support of Access Accountancy, has also been a key driver of success. Five offers were made for the Audit School and College Leaver Programme off the back of the Discovery programme in 2014 and we made 17 offers for KPMG360° and the Audit School and College Leaver Programme following the 2015 Discovery programme. We are excited to see how many are appointed from this summer's programme. We've also worked closely with partner charities such as the Social Mobility Foundation, Teach First and UpReach to attract more students from disadvantaged backgrounds to our work placement and internship programmes.

Table 3: Socio-economic diversity in the workforce

Socio-economic measure	2016 Population (%)	Percentage of workforce responded to date
Employee has a parent or guardian with a university degree	43% No	95%*
	48% Yes	
	9% prefer not to say / I don't know	
Employee school type at age 11-18**	60% UK state school	56%
	14% UK selective state school	
	23% UK independent/fee paying school	
	3% prefer not to say	
Employees' parental occupation***	16% routine and manual occupations	39%
	11% intermediate occupations	
	58% Higher managerial, administrative and professional occupations	
	15% prefer not to say / I don't know	

*This question was included in the first phase of the diversity profile, when completion was linked to the submission of timesheets, hence the higher response rate.

**In this category, % breakdown excludes those individuals who attended school outside of the UK between the ages of 11-18.

*** Coded using the National Statistics Socio-economic Classification.

“Thoroughly enjoyed a great week! Great insight into how a world class institution works and experience the life of an accountant. Confirmed accountancy was for me… I would fully recommend this programme to anyone interested in accountancy.”

Social Mobility Foundation Discovery work placement student, 2016

Table 4: Offers made to graduate and school leaver applicants – state educated

Programme*,**,***	2016	2015	2014
Graduate intake	**64%** (5%)	**64%** (5%)	**64%** (6%)
School leaver intake (school leaver programme and apprenticeships)	**83%** (1%)	**85%** (1%)	**70%** (3%)

Table 5: Offers made to graduate and school leaver applicants – parents / guardians have no university degree

Programme*	2016	2015	2014
Graduate intake	**36%** (5%)	**36%** (5%)	**32%** (4%)
School leaver intake	**63%** (1%)	**51%** (2%)	**43%** (5%)

Table 6: Offers made to graduate and school leaver applicants – eligible for Free School Meals

Programme*,***	2016	2015	2014
Graduate intake	**11%** (10%)	**8%** (13%)	**8%** (11%)
School leaver intake	**18%** (5%)	**15%** (3%)	**12%** (9%)

* The percentage of those that responded prefer not to say / I don't know is outlined in brackets.

** State school attendance includes state selective as this was separated as an option in 2016 only.

***In the case of 'state educated' and 'eligible for Free School Meals' respondents who attended school outside of the UK are removed. The percentages represent all other respondents.

Graduate Recruitment: Launch Pad

Kate Morrison was amongst the first to experience Launch Pad, our new streamlined approach to graduate recruitment. Here she lifts the lid on what to expect.

Kate Morrison is clear what attracted her to KPMG in the UK over the other 'Big 4' Firms.

"It was the clear passion and interest they showed in their employees. I first met some KPMG people at the 2015 Bright Network Festival and each of them spoke about the structured training and support you get as a graduate. It was clear that the Firm would offer the opportunities to develop my career from the early stages," she says.

"Culture was also important to me. I wanted to work somewhere with a reasonable work/life balance and somewhere I could get involved in a sports team or society."

Getting accepted by the Firm meant going through Launch Pad, KPMG's new streamlined approach to graduate recruitment where the traditional three stages – first interview, assessment and final interview – are condensed into a single day, with the promise of a job offer within 48 working hours, or feedback to help unsuccessful candidates succeed in future.

"Launch Pad lasts a whole day from 8.30 in the morning till 6 in the evening," explains Kate. "There were a few hundred candidates there, which at first seemed scary. But people were all applying for different roles and KPMG staff made it clear we weren't competing against each other and that our performance was being measured against KPMG's set of desired behaviours."

During the day the candidates are taken through a series of events, starting with welcome presentations and an overview of life at KPMG. There is then a group exercise and an analysis test, followed by an interview with a partner or senior manager. The day ends with networking sessions and an energiser session.

"The recruitment process was really quick," says Kate. "I started my application in February, attended the Launch Pad session in March and found out that I had received a place on the graduate scheme the next day!"

"I had a recruitment contact throughout the process and got to meet lots of KPMG people on the day to find out more about working for the Firm," she adds. "The feedback was just as promised – I was interviewed by a director in Risk Consulting and he rang me the next day to let me know I had got the job. We chatted for about half an hour about my feedback from the day, about what the graduate scheme involved and about the benefits of working for the Firm."

Summing up the day, Kate says: "It is an intensive but fun day and there are parts of it which are really enjoyable. I would say that, even if you don't get a place on the graduate scheme, it is a great experience and a great chance to meet professionals within your chosen sector."

And her main advice to anyone preparing for Launch Pad?

> "I would say be yourself and try to enjoy the day."

Corporate Citizenship

Rachel Hopcroft
Head of Corporate Affairs

Our approach to Corporate Citizenship is built on the conviction that, if we use our skills in the right way, we can help tackle some of society's biggest challenges. We continued to do just that in 2016, making great progress in key areas such as social mobility, education, the living wage and environmental performance.

Over the last decade KPMG in the UK has established itself as a clear leader in Corporate Citizenship, building a reputation for fearlessly addressing some of the UK's most pressing social and economic issues.

Throughout, we've focused on issues that are closely aligned with the values of the Firm and are of real importance to our own business too. Corporate Citizenship is, first and foremost, about using our resources and skills to make a real difference on issues that matter to society and the economy. But it's also about doing things that make good business sense – for ourselves, our suppliers and our clients.

Before joining KPMG in March 2016 it was clear to me – from my own experience and from looking at other companies – that KPMG has a strong and effective approach to Corporate Citizenship.

Steering our work in this area is without doubt one of the most exciting responsibilities that comes with my new role and I'm pleased to say we've made some terrific progress during the year in areas that we've identified as priorities for action.

Social mobility

Nowhere is that more true than in the area of social mobility.

The UK is one of the least socially mobile economies in the developed world. The plain fact is that, as a nation, we are failing to make the most of the talent on offer to us.

The Government has now recognised this, not just as a matter of fairness and equality of opportunity, but as a clear economic necessity – a necessity that will be all the more pressing in the wake of Brexit.

It's a priority for us too.

Indeed, social mobility is not only an increasingly important factor in how we organise ourselves and recruit talented people to the Firm, it is also the golden thread that runs through almost all of our Citizenship programmes.

It's there, for instance, in our work with schools and colleges; it informs our new KPMG360° apprenticeship scheme and our focus in recent years on housing and homelessness. It's in our long campaign in support of the voluntary living wage, and it's there in our efforts, within the profession, to develop the Access Accountancy scheme with the Institute of Chartered Accountants in England and Wales and other accountancy Firms.

In that sense, social mobility is the issue that really guides our approach to Corporate Citizenship and, as we proved again in 2016, it is the area where we know we can make the biggest difference.

Badge of honour

We continue to be advocates for change and are helping to carry the national debate on social mobility forward.

In February, we convened more than 200 stakeholders for the inaugural 'Bridging the Gap' social mobility conference, staged by the Bridge Group, the leading social mobility policy organisation whose work we have helped to fund since 2012.

We were also delighted to be confirmed as one of the Government's 11 founding Social Mobility Champions in March.

This is a real badge of honour for us. It not only demonstrates that we have met the Government's very rigorous selection criteria, but it now challenges us to keep meeting this higher standard as we weave greater mobility into the fabric of the Firm – a challenge we welcome.

We are now trying to build a much richer picture of the people we recruit and our wider workforce to make sure we attract and retain a truly diverse pool of talent (see the socio-economic breakdown of our workforce and graduate and school leaver intake in People and resources section). This is sensitive, of course. People are, naturally, wary about how such data is used and analysed. So we are moving ahead with great care, but hope the use of more searching data will help us meet our own aspirations on improving social mobility.

Making progress in this area also requires strong leadership and we have fantastic commitment from our Executive Committee, our Board and, most importantly, from our Chairman.

But we need to be constantly vigilant. To make sure we continue to check and challenge our leadership, we have re-launched our Inclusive Leadership Board ('ILB'), led by our Vice Chair Melanie Richards, which will meet for the first time in early 2017.

The ILB will also invite support and challenge from leading figures in the national debate, such as Nicholas Miller of the Bridge Group, Baroness Tanni Grey-Thompson and John Amaechi, who have agreed to scrutinise our performance.

Capacity building

Over the last three years we've worked closely with the Social Mobility Foundation, which works with high-achieving young people from disadvantaged backgrounds, helping them to prosper at school, university and in work.

We have seconded a senior manager to work with the Social Mobility Foundation as Chief Operating Officer, helping it to grow into a national organisation with representation in every region across the UK.

During the year we supported 30 work placements across London and our regions, receiving terrific feedback from participants.

We also hosted the Social Mobility Foundation's Accountancy Futures days and KPMG volunteers have supported young people through their wider mentoring programme. We were delighted to receive 61 applications for our undergraduate programme from students supported by the Social Mobility Foundation.

Apprenticeships

April 2017 will see the launch of the Government's new apprenticeship levy, with the aim of providing 3 million new apprenticeships across sectors.

The launch of our KPMG360° apprenticeship scheme, which specifically targets young people from disadvantaged backgrounds and offers them an alternative way into the profession to the traditional university graduate route, could not be more pertinent.

This is a flagship scheme that underlines the importance of providing really high quality apprenticeship places.

We are working with the Open University to help employers manage their training needs as the new levy is introduced.

In addition we recently commissioned research from the think tank Policy Exchange on the UK's apprenticeship system, which highlighted that the quality of current provision is inconsistent. We also hosted client and local stakeholder roundtable sessions in Birmingham, Liverpool and Newcastle to really understand the local skills agenda and how apprentices can and are positively contributing to their business.

All this is helping us build detailed insight into training needs across the economy and we hope this will allow us to play a useful role as the Government rolls out the apprenticeship levy next year.

Supporting schools

Another priority for us is supporting schools, particularly those in disadvantaged areas or those testing new ways to support and develop young people from less privileged backgrounds.

Our seven-year partnership with the City Academy in Hackney, London, continues to thrive. This year saw pupils there achieve their best ever GCSE grades and the first cohort of students to come through A Levels with fantastic results. It was a particular pleasure to welcome In'naha Ahmed as the first City Academy recruit to our KPMG360° apprenticeship scheme.

We are one of eight corporate partners supporting the new University of Birmingham school, which opened in September 2015, with a determination to draw students from a diverse catchment area across the city.

The school is one of the first in the country to embrace the concept of 'character education', which encourages students to develop life skills, to connect with the world around them and build connections with the local community as a foundation to achieving much better academic results. It's early days, but the initial outcomes are impressive. This project is particularly important at a time when the new Government is urging more universities to actively support secondary schools.

We have also built a strong partnership with Manchester University through the Manchester Access Programme. This is aimed at young people from less privileged backgrounds and includes career insight programmes and skills sessions for both 16 to 18 year olds and undergraduates at Manchester University. We're delighted to be involved because schemes like this address a real business imperative for KPMG – the need to look as far and as wide as possible for the very best and brightest talent.

We are also trying to extend some of our well-established projects to support the social mobility agenda.

KPMG's Family for Literacy ('KFFL') is a global Corporate Citizenship programme. This year, in the UK we have scaled up the mentoring element within KFFL, with volunteers offering support and guidance to our KPMG360° apprentices as they enter the world of work. Support ranged from work-related mentoring through to advice on personal issues with positive feedback from all involved.

360° In'naha Ahmed

In'naha Ahmed is the first student from our partner school, The City Academy, Hackney to enrol on our KPMG360° apprenticeship programme. In'naha commented that: "I'm really excited to be starting my professional career at a big Firm like KPMG. I did my work experience here and everyone seemed so friendly so I couldn't wait to join!"

Youth leadership

Much of our work with youth leadership projects has a social mobility angle too.

We continue to support Enactus, a non-profit organisation that encourages university students across the world to create community projects or social enterprises. The students in 36 countries compete on a national level and the winners represent their countries in a 'World Cup', an event we will be hosting in 2017.

We've provided grants to a number of projects in the UK including Helping Hand, run by Enactus Edinburgh, which has set up a fully registered cleaning business to employ and support long-term unemployed and homeless people. We also supported ReNu, a project run by Enactus Manchester, that teaches homeless individuals both practical and business skills through upcycling and selling furniture.

For a third year running we sponsored Free the Children's 'WE Day', this time with some 120 young people from our partner schools attending and with a KPMG360° apprentice taking to the stage at Wembley Arena to urge the 12,000 young change-makers gathered there to reach their full potential.

KPMG Foundation

The KPMG Foundation, founded in 2001, is an independent grant giving organisation, funded by KPMG in the UK and led by our Chairman, Simon Collins.

The Foundation focuses on education and social projects for under-privileged young people, often in care, on the edge of care or living in deprived families. A particular focus for this work is eradicating child sexual exploitation and improving education.

The Foundation is, for instance, funding research by the University of Bedfordshire to test effective models to disrupt and prosecute perpetrators of child sexual exploitation.

It is also working with Barnardo's to reduce the number of children vulnerable to exploitation, with research focusing on key areas such as grooming, consent, healthy relationships, staying safe online and sexting and the law. The charity also runs mobile advice units and events in key areas, including Rotherham.

During the year the Foundation gave £1,510,913 in grants.

Homelessness

This year we also hosted a number of events for those who are homeless or transitioning back to work, having been homeless.

This has included mentoring, skills workshops, the opportunity for individuals to experience a real-life working environment at KPMG in the UK and a residential weekend with sessions on confidence building, life skills and advice on returning to work.

Living wage

Ten years ago we were one of the first employers in the UK to pay the voluntary living wage.

Five years on we became a founding member of the Living Wage Foundation. We've campaigned hard on this issue, helping to persuade business across sectors that paying the living wage is not just a matter of fairness but a move that brings huge business benefits in terms of improved productivity and staff retention.

Support for the voluntary living wage remains a key aspect of our sustainable procurement programme, which we are using to support a number of suppliers in implementing the living wage in their own businesses and to ensure that all contractors working on our sites are paid at that level.

We were really proud to receive a Special Commendation Award in this year's living wage anniversary celebrations, the only organisation to be honoured in this way. It marks a decade of real achievement by the Firm.

But there is still much to do. Although we welcome the Government's statutory National Living Wage, it is set at a level well below the voluntary living wage, an independent rate calculated according to the cost of living.

Thanks in part to our work on this issue there are now some 2,800 businesses accredited as paying the voluntary living wage, including nearly a third of all FTSE 100 companies. That's a fantastic achievement, but the fact remains that an estimated 5.6 million UK employees still earn less than the voluntary living wage.

So, at a time when the pay gap between the highest and the lowest earners continues to widen, we are determined to keep campaigning on this issue, encouraging more employers where possible to pay their lowest paid employees at the higher rate.

Sustainable procurement

We had some significant successes during the year in our approach to sustainable procurement and environmental management.

We were delighted this year to win the EDIE Sustainable Supply Chain of the Year award. The award recognised the framework we have created through our Sustainable Procurement ('SP') programme linked closely to our Corporate Citizenship initiatives and how we are communicating in novel ways with companies right through our supply chain.

The SP programme focuses on three main issues – social mobility, diversity and inclusion in the supply chain and environmental management. This approach has allowed us to support a number of suppliers to introduce the living wage. We've also worked with suppliers on a number of fantastic employment projects helping homeless individuals and those at risk of homelessness gain experience in a real-life working environment through our Back to Work programme.

We continue to look for new ways to communicate with our suppliers. During the year we launched a collaboration portal allowing us to share best practice case studies with suppliers on the three main issues. We are also continuing to host regular diversity and environment roundtables with suppliers.

As part of KPMG in the UK's supply of services, we recognise that we have a responsibility to take a robust approach to slavery and human trafficking. KPMG is committed to acting ethically and with integrity in all its business dealings and relationships and has a zero tolerance approach to modern slavery and human trafficking. We expect all those in our supply chain to comply with our values and policies. The full statement, showing our approach and due diligence is online.

Environment

Our environmental impact comes mostly from carbon emissions generated by business travel and through energy used in our buildings; however we are also actively seeking to improve our performance in reducing the waste we generate and increasing recycling. To help us manage our environmental impact, we operate an environmental management system which is certified to ISO14001.

We have seen a 19 percent decrease in our total emissions in comparison to our 2014 figures, and a 21 percent decrease against our 2010 baseline figures. This is an improvement from 2014, where, because we were dual-running sites while we upgraded the estate, we saw an increase in emissions.

This decrease in emissions in 2015 reflects significant investment in innovative technologies across the estate in the last few years, particularly in our new offices in Leeds, Southampton, Bristol and Glasgow. We have built sustainability principles into the design and fit-out of all these new buildings, achieving BREEAM Excellent or SKA Gold or Silver. This has ensured that we have energy efficient buildings and use materials that are environmentally friendly in our office design.

The latest guidance from the World Resources Institute and World Business Council for Sustainable Development through the Greenhouse Gas Protocol ('GHG Protocol') has allowed us to report our energy purchasing – notably green electricity and usage – more accurately. All our purchased electricity in buildings we own and control comes from wind farms in Scotland, representing around 68 percent of our total energy usage, which is backed by evidence that the supply is from accredited renewable sources. The remainder of our total energy is controlled by our landlords, but we are working with them to achieve our ambition to use renewable supplies across our entire estate. This has also had an impact upon our carbon emission reduction.

We also voluntarily report our emissions performance and management to CDP. This year we have been awarded a disclosure score of an A.

In addition, we're making progress on recycling, where rates have increased by 13 percent since 2010 to 64 percent, but we still have more to do and are continually working with our employees and suppliers to make further improvements.

Corporate Responsibility Environment & Community Data

Environment Data

Emissions (kg)	**2015 (kg)**	**2014 (kg)**	**2010 (kg)**
Scope 1			
Natural Gas	2,779,317	3,011,647	3,334,743
KPMG Owned/Leased Car Travel	1,377,016	1,480,866	1,383,514
Total - Scope 1	**4,156,333**	**4,492,513**	**4,718,257**
Scope 2*			
Green energy purchased	-	-	-
Electricity from landlord sites	5,029,363		
Electricity total	5,029,363	17,038,169	20,750,717
Total - Scope 2	**5,029,363**	**17,038,169**	**20,750,717**
Scope 3			
Business Related Car Travel	2,316,349	2,654,600	4,213,005
Air Travel			
Short	2,668,221	165,033	2,154,324
Medium	3,585,936	4,701,981	3,483,660
Long	29,136,629	30,638,243	26,100,724
Air Travel **	35,390,786	35,505,257	31,738,708
Rail Travel	1,781,197	1,630,893	1,474,910
Transmission and distribution electricity	1,313,950	1,489,883	1,670,969
Well to tank ***	5,373,699	5,428,452	5,295,214
Total - Scope 3	**46,175,980**	**46,709,086**	**44,392,806**
Total gross emissions	**55,361,675**	**68,239,768**	**69,861,780**
Gross emissions per FTE	4,512	5,685	6,814

		2015 (kg)	**2014 (kg)**	**2010 (kg)**
Additional Disclosures				
Water	litres	143,577,680	139,286,309	118,790,000
Paper	Sheets	51,213,050	55,802,474	78,433,500
Waste				
Total Waste	kg	2,398,579	2,290,232	2,495,504
Recycled Waste	kg	1,534,914	1,444,067	1,282,719
% Waste Recycled		64%	63%	51%
CY Full-time equivalent		12,269	12,003	10,252

Community Data		FY15/16	FY14/15	FY13/14
Community benefits				
Individuals directly supported	number	16,483	14,135	12,270
Organisations supported	number	881	1049	878
Leverage (cash)+	£million	0.9	2.2	0.9
Community investment				
Community contribution (cash, time, in-kind and management costs)	£million	4.8	5.3	6.2
Volunteering during working hours	no. of people	3,156	2,790	3,138
Time spent volunteering during working hours	no. of hours	47,966	43,190	47,930
FTE staff volunteering during work hours	percentage	23%	23%	28%

The Independent Limited Assurance report can be found at Appendix 6.

Footnotes:

Environment data

Calculation use Defra guidelines 2015

*Scope 2. Electricity emissions under the GHG protocol 'Market Based' approach – Market base factor only applicable to 2015. FY10-FY14 use emissions per 'Location Based' approach. Location Based figure for FY15: is 15,914,424 tonnes CO2e.

Electricity purchased from an eligible renewable electricity tariff as per the GHG Protocol Scope 2 standard in buildings we own and control.
Each unit of electricity is backed by a levy exemption certificate ('LEC') or Renewable Energy Guarantee of Origin ('REGO') as evidence that the supply is from accredited renewable sources.

**Air consumption data calculated using the Radiative Forcing DEFRA conversion factor to take into account the impact of emissions at high altitude.

***Well to tank ('WTT') emissions are included in the footprint for the first time this year (FY15). They relate to the upstream Scope 3 emissions associated with extraction, refining and transportation of the raw fuel sources prior to their combustion.

Community Data

+ This figure is not assured

Our tax strategy and contribution

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 our tax strategy and the tax we pay. This demonstrates the way we manage our own tax affairs.

Tax strategy and governance

KPMG in the UK is committed to full compliance with all statutory obligations and full disclosure to tax authorities. The Firm's tax affairs are managed in a way which takes into account the Firm's wider corporate reputation in line with KPMG in the UK's overall high standards of governance.

Attitude towards tax planning and level of risk

KPMG in the UK manages risks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax.

KPMG in the UK's attitude towards tax planning is consistent with the 'Tax Principles' adopted by the Firm's Tax Practice and which can be found at https://home.kpmg.com/uk/en/home/services/tax/kpmg-uk-principles-of-tax-advice.html. When entering into commercial transactions, KPMG seeks to take advantage of available tax incentives, reliefs and exemptions in line with, and in the spirit of, tax legislation. KPMG in the UK does not undertake tax planning unrelated to such commercial transactions.

The level of risk which KPMG in the UK accepts in relation to UK taxation is consistent with its overall objective of achieving certainty in the Firm's tax affairs. At all times KPMG in the UK seeks to comply fully with its regulatory and other obligations and to act in a way which upholds its reputation as a responsible corporate citizen. In relation to any specific issue or transaction, the Board is ultimately responsible for identifying the risks, including tax risks, which need to be addressed and for determining what actions should be taken to manage those risks, having regard to the materiality of the amounts and obligations in question.

KPMG LLP expects its members to adopt a corresponding approach in relation to their individual tax obligations and liabilities. It is a condition of membership of the Firm that members provide KPMG in the UK with full visibility of their personal tax affairs. By requiring this transparency KPMG LLP seeks to ensure that members comply fully with their obligations in respect of UK taxation.

Governance in relation to UK taxation

- Ultimate responsibility for our tax strategy and compliance rests with the Board of KPMG LLP with executive management being delegated to Executive Committee ('ExCo');
- The Audit & Risk Committee's ('ARC') responsibility for monitoring the integrity of our financial reporting system, internal controls and risk management framework, expressly includes those elements relating to taxation;
- The CFO is the ExCo member with executive responsibility for tax matters;

- Day-to-day management of our tax affairs is delegated to the Head of Partnership Tax, who reports to the CFO;
- The Partnership Tax team is staffed with appropriately qualified individuals;
- The Board and ExCo ensure that our tax strategy is one of the factors considered in all investments and significant business decisions taken;
- The Head of Partnership Tax reports to ExCo, the ARC and the Board on our tax affairs and risks during the year.

Risk management

- KPMG in the UK operates a system of tax risk assessment and controls as a component of the overall internal control framework applicable to the Firm's financial reporting system;
- KPMG in the UK seeks to reduce the level of tax risk arising from its operations as far as is reasonably practicable by ensuring that reasonable care is applied in relation to all processes which could materially affect its compliance with its tax obligations;
- Processes relating to different taxes are allocated to appropriate process owners, who carry out a review of activities and processes to identify key risks and mitigating controls in place. These key risks are monitored for business and legislative changes which may impact them and changes to processes or controls are made when required;
- Appropriate training is carried out for staff outside Partnership Tax who manage or process matters which have tax implications;
- Advice is sought from our own tax practice where appropriate.

Relationship with HMRC

KPMG in the UK seeks to have a transparent and constructive relationship with HMRC through regular meetings and communication in respect of developments in our business, current, future and retrospective tax risks, and interpretation of the law in relation to all relevant taxes.

KPMG in the UK ensures that HMRC is kept aware of significant transactions and changes in the business and seeks to discuss any tax issues arising at an early stage. When submitting tax computations and returns to HMRC, KPMG in the UK discloses all relevant facts and identifies any transactions or issues where it considers that there is potential for the tax treatment to be uncertain.

Any inadvertent errors in submissions made to HMRC are fully disclosed as soon as reasonably practicable after they are identified.

KPMG in the UK has published its Tax Strategy on its website https://home.kpmg.com/uk/en/home/misc/regulatory-information.html in accordance with the requirements of Schedule 19, Finance Act 2016.

Our taxes paid and collected

As a limited liability 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 £181 million compared with £232 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of the partners refers to the profits earned in the previous two years. Tax paid during 2016 was lower than the 2015 level as the taxable profits for the year to 30 September 2015 were lower than those in 2014.

KPMG in the UK paid tax to HMRC on behalf of partners based upon the statutory rates of 20 percent and 40 percent on the first £150,000 of profit, and then at 45 percent thereafter (2015: 45 percent), plus a further 2 percent in national insurance.

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 employers' national insurance, corporation tax (which is paid on the small proportion of profit earned in subsidiary companies), business rates and property and environmental taxes, and those we collect on behalf of the exchequer, such as employees' national insurance, employment tax and VAT.

Taken together the total paid and collected by us in 2016 was £790 million (2015: £786 million). The table on page 76 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 2016 than 2015 .

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.

KPMG in the UK – cash taxes paid in the years to 30 September 2016 and 2015 – Summary

£m	Y/E 30 September 2016 Cost to Firm	Y/E 30 September 2016 Collecting agent	Y/E 30 September 2016 Total	Y/E 30 September 2015 Cost to Firm	Y/E 30 September 2015 Collecting agent	Y/E 30 September 2015 Total
Employment items	92.7	248.0	**340.7**	86.1	229.7	315.8
Partners	0.1	181.1	**181.2**	0.9	231.0	231.9
Corporation tax	11.0	0.0	**11.0**	11.8	0.0	11.8
Rates	14.3	0.0	**14.3**	11.2	0.0	11.2
VAT	1.8	238.1	**239.9**	1.9	211.3	213.2
Other Items	2.2	1.1	**3.3**	1.9	0.0	1.9
	122.1	668.3	**790.4**	113.8	672.0	785.8

All figures represent cash taxes paid during the relevant year.

Includes KPMG Crimsonwing in the UK but not overseas entities of the KPMG Crimsonwing sub-group or Indian joint arrangement.

“Throughout an intensive period stretching several months, the KPMG team was highly committed and responsive around the clock, demonstrating efficient and skilled project management, deal know-how and experience.”

BDP Group

Governance

2

Our structure and governance

Consistent with our aspiration to be the clear choice, we apply high standards of governance and adopt a legal structure reflective of the nature and extent of our activities.

Full details of the legal, ownership and governance structures, as well as the composition and responsibilities of the Board and related committees, are set out in Appendix 1.

The Firm is led by an elected Senior Partner, Simon Collins, who was appointed in August 2012 following a competitive election campaign and confidential vote of all Partners.

The Board

The Senior Partner leads the Board, the main governance body for KPMG in the UK and which provides leadership to the organisation. Members of the Board are KPMG Partners and include a Vice Chair, a number of members of the Executive Committee, and Partners in the Firm at large who do not have executive responsibilities (the 'Non-Executives').

At the start of the year, the Board comprised one Vice Chair, three members from the Executive Committee, and five Non-Executives. During the year, one Executive Member, Jim Marsh, resigned and Richard Reid, a Non-Executive, retired from the partnership and the Board. One Executive Member, Philip Davidson, and three Non-Executives, Maggie Brereton, Stephen Oxley and Amanda Tickel, were appointed to the Board.

As at 30 September 2016, the Board of KPMG LLP was made up of one Vice Chair, three members of the Executive Committee and eight Non-Executives, as set out on pages 82 to 87.

Subsequent to the year-end Amanda Tickel resigned from the Board on 19 October 2016.

The Board has two sub-committees being the Audit & Risk and the Nomination & Remuneration Committees.

The Board has also established an Ethics Committee to provide oversight of all matters concerning the Firm's ethical conduct.

The Executive Committee

The Executive Committee ('ExCo') is responsible for the day-to-day management of the activities of the Firm. Its members are all KPMG Partners.

At the start of the year the members of ExCo comprised eight Partners.

In November 2015, there were a number of changes to the membership of ExCo, including the appointment of Philip Davidson to the new role of Managing Partner. In December 2015, our newly appointed General Counsel joined ExCo, and in September 2016 Mike McDonagh resigned from ExCo, and Sarah Willows was appointed to it as Chief Financial Officer and Head of Operations. As at 30 September, there were nine members of ExCo. More details are set out on pages 82 to 84.

Subsequent to the year-end Aidan Brennan and Ann Brown have joined ExCo as Head of Solutions and Head of People, respectively.

The Public Interest Committee

In addition, and in accordance with the Audit Firm Governance Code, the Firm has a Public Interest Committee, consisting of Independent Non-Executive members (the 'INEs'). These are individuals who bring a range of relevant skills and experience from the audit and regulated sectors, and who are not otherwise connected with KPMG in the UK.

At the start of the year there were three members of the Public Interest Committee: Professor Laura Empson (Chair), Philip Augar and David Pitt-Watson. Lindsay Tomlinson became an INE on 1 March 2016, and Philip Augar resigned with effect from 31 May 2016.

Further details of the members of the Board, Executive Committee, Audit & Risk, Nomination & Remuneration, Ethics and Public Interest Committees, along with their background and meeting attendance, are set out on pages 82 to 89 of this report.

This section reports on the activities during the year of the Board and the following committees: Audit & Risk Committee, page 91, Nomination & Remuneration Committee, page 92, Ethics Committee, see pages 93 and 94, and a report from the Public Interest Committee (pages 104 and 105).

Review of governance

The General Counsel is currently leading a review of the Firm's governance arrangements. This is building on the independent review of the effectiveness of the Board which was undertaken in 2014 and the subsequent implementation of an action plan to address the resulting recommendations. The aim of the review is to confirm leadership responsibilities and relationships, enhance transparency, accountability and effectiveness of the governance framework, in particular taking account of the revised Audit Firm Governance Code published in July 2016. An in-depth effectiveness review of the Board will be undertaken in 2018; in the intervening years, a shorter review including self-assessment, is undertaken. The results of the 2016 review will be discussed by the Board in December 2016.

LLP Governance

Executive Committee members as at 30 September 2016

* Indicates also a Board member

Simon Collins*
Chairman of KPMG LLP and Senior Partner

Simon has been a partner for 16 years and joined the Board on 30 July 2012. He is also a member of the Boards of KPMG Europe LLP and KPMG International.

Philip Davidson*
Managing Partner and Interim Head of People

Philip has been a partner since 1997. He took up the position of Managing Partner and joined the Executive Committee on 23 November 2015, and joined the Board on 26 November 2015.

David Matthews*
Head of Quality and Risk Management

David has been a partner for 19 years. He joined the Executive Committee and the Board on 30 July 2012.

Sarah Willows
Chief Financial Officer and Head of Operations

Sarah has been a partner for 16 years and joined the Executive Committee on 28 September 2016.

Iain Moffatt
Head of National Markets

Iain has been a partner for 18 years and joined the Executive Committee on 30 July 2012.

Karen Briggs
Head of Solutions until appointed Head of Brexit in July 2016

Karen has been a partner for 17 years and joined the Executive Committee on 1 January 2015.

Adrian Stone
Head of Audit

Adrian has been a partner for 19 years and joined the Executive Committee on 23 November 2015.

Tony Cates
Head of International Markets and Government

Tony has been a partner for 18 years and joined the Executive Committee in June 2011.

Jeremy Barton
General Counsel

Jeremy joined KPMG and the Executive Committee as a partner and General Counsel on 1 December 2015.

Changes after the year-end

The following changes have occurred to the Executive Committee subsequent to year-end:

- Aidan Brennan was appointed Head of Solutions on 25 October 2016 and joined the Executive Committee on 14 December 2016
- Ann Brown joined KPMG and the Executive Committee as Head of People on 14 November 2016.

Vice Chair and Non-Executive members of the Board as at 30 September 2016

Members of KPMG LLP Board as at 30 September 2016

As at 30 September 2016 the Board comprised the three members of the Executive Committee (as identified by*), the Vice Chair and all of the Non-Executives.

Melanie Richards
Vice Chair

Melanie has been a partner for 14 years and joined the UK Board on 14 September 2012. On 1 October 2014 Melanie was appointed as a Vice Chair of the Firm and now sits on the Board in that capacity. She is also a member of the Ethics Committee and was a member of the Nomination & Remuneration Committee until 24 March 2016 when she became a member of the Audit & Risk Committee.

David Sayer
Non-Executive member

David has been a partner for 11 years and joined the Board on 14 September 2012. He was also a member of the Audit & Risk Committee until 24 March 2016 when he became a member of the Nomination & Remuneration Committee.

Ian Starkey
Senior Non-Executive member

Ian has been a partner for 21 years and joined the Board on 14 September 2012. Ian is the Senior Non-Executive member of the Board, and also a member of the Ethics Committee. He was also a member of the Audit & Risk Committee until 24 March 2016 when he joined the Nomination & Remuneration Committee.

Karl Edge
Non-Executive member

Karl has been a partner for 11 years and joined the Board on 1 October 2014. Karl is Chair of the Nomination & Remuneration Committee.

Nicola Quayle
Non-Executive member

Nicola has been a partner for eight years and joined the Board on 1 October 2014. Nicola chairs the Audit & Risk Committee.

Richard Heis
Non-Executive member

Richard has been a partner for 19 years and joined the Board on 1 October 2014. Richard was a member of the Nomination & Remuneration Committee until 24 March 2016 when he became a member of the Audit & Risk Committee.

Maggie Brereton
Non-Executive member

Maggie has been a partner for six years and joined the Board on 1 December 2015. Maggie is a member of the Nomination & Remuneration Committee.

Stephen Oxley
Non-Executive member

Stephen has been a partner for 15 years and joined the Board on 1 December 2015. Stephen is a member of the Audit & Risk Committee.

Amanda Tickel
Non-Executive member

Amanda has been a partner for 11 years and joined the Board on 21 January 2016. Amanda is a member of the Nomination & Remuneration Committee.

Changes after the year-end

The following changes have occurred subsequent to year-end:

- Amanda Tickel resigned from the Board with effect from 19 October 2016

Members of the Public Interest Committee as at 30 September 2016

Professor Laura Empson
Independent Non-Executive

Professor Laura Empson has been a member of the Public Interest Committee since 1 February 2014, and became its Chair on 1 October 2015. Laura is the Director of the Centre for Professional Service Firms at Cass Business School at City University London, and is also a Senior Research Fellow at Harvard Law School. She is currently a member of the Editorial Boards of a number of journals and a member of the Economic and Social Research Council's Peer Review College.

David Pitt-Watson
Independent Non-Executive

David Pitt-Watson has been a member of the Public Interest Committee since 1 November 2013. David 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 Treasurer of Oxfam, and a Trustee at NESTA, the innovation charity.

Lindsay Tomlinson
Independent Non-Executive

Lindsay Tomlinson joined the Public Interest Committee on 1 March 2016. Having trained as an actuary, Lindsay held a number of senior roles at Barclays Global Investors for more than 20 years, latterly as Vice Chairman from 2003 - 2011. He has previously been a Non-Executive director of the Financial Reporting Council and Chairman of both the National Association of Pension Funds and of the Investment Management Association.

Changes after the year-end

- Professor Laura Empson has resigned from the Public Interest Committee with effect from 15 December 2016 to focus on academic and other commitments.

Meeting attendance for the year-ended 30 September 2016
(Meetings eligible to attend in brackets)

	Board	ExCo	Audit & Risk Committee	Nomination & Remuneration Committee	Ethics Committee	Public Interest Committee
Executive Committee						
Simon Collins*	12 (12)	18 (21)	-	-	-	-
Jeremy Barton	-	16 (19)	-	-	-	-
Karen Briggs	-	20 (21)	-	-	-	-
Tony Cates	-	18 (21)	-	-	-	-
Philip Davidson*	9 (9)	19 (19)	-	-	-	-
Marianne Fallon	-	2 (2)	-	-	-	-
Jim Marsh*	0 (2)	2 (2)	-	-	-	-
David Matthews*	11 (12)	21 (21)	-	-	11 (11)	-
Mike McDonagh	-	20 (20)	-	-	-	-
Iain Moffatt	-	20 (21)	-	-	-	-
Adrian Stone	-	15 (17)			-	-
Sarah Willows	-	1 (1)	-	-	-	-
Vice Chair						
Melanie Richards	11 (12)	-	2 (3)	5 (5)	9 (11)	-
Non-Executives						
Maggie Brereton	9 (9)	-		10 (11)	-	-
Karl Edge	11 (12)	-		12 (12)	-	-
Richard Heis	10 (12)	-	2 (3)	5 (5)	-	-
Stephen Oxley	9 (9)	-	4 (4)	-	-	-
Nicola Quayle	11 (12)	-	6 (6)	-	-	-
David Sayer	11 (12)	-	1 (2)	7 (7)	-	-
Ian Starkey	11 (12)	-	4 (4)	6 (7)	9 (11)	-
Amanda Tickel	7 (8)	-	-	5 (7)	-	-
Independent Non-Executives						
Professor Laura Empson#	6	-	4 (4)	-	-	4 (4)
Philip Augar#	4	-	2 (2)	-	-	2 (2)
David Pitt-Watson#	7	-	4 (4)	-	-	4 (4)
Lindsay Tomlinson#	3	-	2 (3)	-	-	3 (3)
Partners at Large						
Richard Pinckard	-	-	-	-	11 (11)	-
Christine Hewson	-	-	-	-	8 (11)	-
Claire Warnes	-	-	-	-	8 (8)	-
Janette Wilkinson	-	-	-	-	5 (11)	-

* Indicates also a Board member
# In attendance at Board meetings on a rotational basis

Report on the Board's activities during the year

The role of the Board is to oversee the long-term stewardship of the Firm and the accountability of management, approving a strategy aligned to our Vision and our long-term Values and Purpose. In doing so, the Board seeks to balance the interests of the various stakeholders to whom it is responsible in order for the Firm to have a successful and sustainable future, true to its Values.

As at 30 September 2016, the Board comprised 12 members, three of whom were Executive Members, a Vice Chair, and eight Non-Executives. In order to discharge its responsibilities, the Board met formally 12 times, supplemented by additional telephone calls and ad-hoc meetings as needed during the year.

At each meeting, the Board received a number of regular reports: from the Senior Partner on regulatory and reputational matters, engagement with stakeholders during the period, key business opportunities, wins and losses; a detailed report on operational performance and activity from the Managing Partner; and a report from the Head of Quality & Risk Management on regulatory scrutiny, other risk and reputational matters and ethics. A key role of the Non-Executives is to represent and listen to the voice of the partnership and at each meeting the Non-Executives share the feedback that they have received and it is discussed by the Board.

During the year, the Board's activities have also included the following:

- Strategy and Vision: working with the Managing Partner to develop the 2017 - 2020 Strategy for the Firm and articulation of the UK Firm's Vision, Purpose, Values, Promise and strategy into one cohesive narrative, the KPMG Story;
- Business Plan and Budget: approving the Business Plan and Budget and monitoring progress against this, including the performance of the Firm's recent acquisitions;
- Risk and Reputation: reviewing the Firm's Enterprise Risk Map and providing oversight of key risks to the Firm, including to its reputation;
- Regulatory: monitoring the Firm's relationship with its regulators, through feedback from the meetings held by the Independent Non-Executives, Senior Partner and the Quality & Risk Management team;
- External Reporting: reviewing and approving the Annual Report and Accounts, including the Transparency Report;
- Audit: considering the outcomes of external and internal quality inspections and discussing audit quality issues, challenges and audit effectiveness, including the use of technology, with the Head of Audit;
- Culture and Values: The Board met with Lord Gold to discuss his assessment of the progress made by the Firm in addressing the recommendations of the review he had undertaken in 2014 of the Firm's governance and values, and received an annual report from the Ethics Committee, in addition to the minutes of its meetings;
- Governance review: confirming the scope of the governance review and receiving interim reports from the working group;
- Clients: meeting with and receiving regular reports from the Chair of the Client Council, and as individual members meeting directly with clients to understand their strategic challenges;
- Brexit: Ensuring that the Firm was planning for and responding to the opportunities and challenges of Brexit;
- Partner Matters: ratifying the appointment of new Members, and considering reviews and proposals relating to the Firm's relationship with its Members, including changes to policies and processes around retirement planning;
- People: the Board discussed the findings of the autumn 2015 People Survey which provided data on engagement and other key metrics about partners' and employees' relationships with the Firm;
- Overseeing the work of Committees: receiving regular reports on the work of its Committees and a six-monthly report from the Public Interest Committee.

Simon Collins, Chair of the Board

Report on the Audit & Risk Committee's activities during the year

As at 30 September 2016, the Audit & Risk Committee consisted of four members of the Board: three Non-Executives and the Vice Chair.

The Managing Partner, Chief Financial Officer and Head of Operations, Head of Internal Audit, Head of Quality & Risk Management 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.

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

- Provided input to the Enterprise Risk Management ('ERM') process, reviewing key business risks and mitigations, and undertook deep dives into risk areas identified by the ERM process prior to consideration by the UK Board;
- Considered the risk management policies in place, including compliance reviews and reporting on whistle-blowing from the Firm's independent Ombudsman;
- Considered the findings of the FRC's Audit Quality Review and discussed with the Head of Audit the action being taken to address the findings, and monitored progress against this;
- Considered the current status of all professional claims, including the exposure to uninsured cost and the status of the more significant matters with the legal team;
- Considered the tax risks facing the Firm;
- Reviewed the work undertaken in respect of internal controls operating within the group, including the basis on which the Board could make its statement of compliance with the requirements of the Audit Firm Governance Code, 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; and reviewed the effectiveness of Internal Audit;
- 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 and reviewed the effectiveness of external audit;
- 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 Committee also held a joint meeting with the Ethics Committee for a collective discussion about the 'ethical health' of the Firm and to agree ways to work together to oversee the key ethical risks to the Firm.

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 and regulatory matters – the judgements applied in either provisioning for, or disclosing, exposure to uninsured cost (including related legal expenses);
- Intangible assets – the risk that the carrying value of intangible assets exceeds its fair value; 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 has considered the financial reporting issues associated with retirement benefits including the ongoing accounting for and disclosure of the Asset Backed Funding Scheme (see notes 2 and 20 of the financial statements).

Having reviewed the reports received from the Chief Financial Officer and external auditor, the Audit & Risk Committee is 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 has 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 £15,350 (2015: £16,000) were paid to Grant Thornton UK LLP in respect of non-audit services.

Nicola Quayle, Chair of the Audit & Risk Committee

Report on the Nomination & Remuneration Committee's activities during the year

The Nomination & Remuneration Committee provides oversight to matters pertaining to the nomination of key individuals, the appointment and remuneration of the Senior Partner and members of the Executive Committee, appointment of other senior leadership roles/high profile individuals as well as the policies relating to the remuneration of partners. To the extent there is a need, the Committee also recommends relevant and suitable partners for partner vote to become Non-Executive members of the Board.

In order to discharge its responsibilities, the Nomination & Remuneration Committee met formally 12 times during the year. As at 30 September 2016, the Nomination & Remuneration Committee consisted of five members who were all Non-Executive members of the Board. The Senior Partner, Managing Partner, General Counsel, Chief Financial Officer and Head of Operations and Head of Partner Matters are invited to join the meetings when the Nomination & Remuneration Committee deems necessary.

The Committee's activities during the year included:

Review and recommendations on principles and policies for the remuneration of Partners

During the year, the Committee reviewed the principles, parameters and processes involved in determining benchmark pay for Partners. The Committee's role is to ensure that the process is robust. To fulfil its duty, it focuses on the overall picture and approves principles of pay rather than the outcomes for individual Partners by reviewing benchmark pay data in relation to gender, and other factors, including sectors and regions. It also reviewed and made recommendations in relation to the performance management process, including the role of dual pens (the two partners being responsible for a partner's benchmark pay determination).

Review of the performance and remuneration of the Senior Partner

At the end of 2016, the Committee reviewed the performance of the Senior Partner and suggested a recommendation for Senior Partner benchmark pay to be voted on by Partners.

Review of the performance and remuneration of the Executive Committee

At the end of 2016, the Committee, in discussion with the Senior Partner and Managing Partner, reviewed and evaluated the performance of the Executive Committee to enable the Senior Partner and Managing Partner to make final remuneration decisions.

Consulting with the Senior Partner and Managing Partner to appoint individuals to the Executive Committee and other senior management positions

Throughout the year, the Committee, in consultation with the Senior Partner and Managing Partner, interviewed for new members of the Executive Committee and other key leadership roles. These included: Head of Audit, Head of Brexit, Head of People, Chief Financial Officer and Head of Operations, Regional Chair of Scotland, Head of Tax, Head of B2C, and Head of Banking.

Recommending potential Public Interest Committee members

In the year the Committee considered candidates in order to potentially recommend them as new members of the Public Interest Committee.

Consider and deal with Partner appeals in relation to their remuneration package

The Committee received a number of appeals from Partners in relation to their FY16 benchmark pay (which had been referred from the Partner Matters Team) which it reviewed on an individual basis and in some cases recommended that the Executive Committee reconsider the decision taken.

Leading the selection, appointment and induction process for new Non-Executive Members of the Board

In 2015, the Board agreed to appoint a number of new Non-Executives to the Board, and the Committee led the process during autumn 2015 to select a shortlist of candidates who were put to partner vote in November 2015. Three Non-Executives were subsequently appointed and the Committee oversaw their induction process, and reviewed the effectiveness of this during 2016.

Focus for 2017

The committee will seek to continue to enhance our respected and trusted processes for remuneration setting and appointments from end-to-end, and appropriately documenting these to ensure that they are fair and transparent.

Karl Edge, Chair of the Nomination & Remuneration Committee

Report on the Ethics Committee's activities during the year

The Ethics Committee provides oversight (on behalf of the Board) of all matters concerning the Firm's ethical conduct. As part of this, its remit covers the Firm's ethics-related policies and procedures (including compliance with the personal independence requirements of the 2016 FRC revised Ethical Standard ('ES') (and previously the APB Ethical Standards), monitoring any evidence which provides an indicator of our Firm's overall ethical health (e.g. general trends in disciplinary and grievances and whistle-blowing reports) and considering any specific matters or issues facing the Firm which have a significant ethical dimension.

The Ethics Committee convened either in person or via a call 11 times during the year. As at 30 September 2016, the committee consisted of seven members, being four Partners at large and three Members of the Board (including the individual designated as Ethics Partner under the ES). The Head of Ethics and Independence and the General Counsel are also invited to attend committee meetings.

Since its inception in May 2014, a key area of focus for the Ethics Committee has been on compliance with the personal and other independence requirements of the ES. During the year, the Ethics Committee has spent more time on a broader range of ethical related considerations. As part of its work it has approved a framework for assessing and monitoring KPMG's overall ethical health which includes a number of elements including the tone at the top of the organisation, the effectiveness of its governance structures, detailed policies and procedures (including in respect of clients, engagements and our HR processes) and details of relevant monitoring and compliance activities. This framework has informed the agendas for the Ethics Committee's meetings during 2016 (with the intent being that all key areas of the framework should be reviewed at least once annually).

In terms of the specific matters that it has considered in 2016, it reports as follows:

Overall ethical health of the Firm

An important aspect of the Ethics Committee's role is to reflect on the ethical health of the Firm and help ensure that there is the right tone at the top. As part of this work, the Ethics Committee reviewed and approved an ethics programme for the coming year which sets out the key actions that the Firm will take to ensure that there is an appropriate and continuing focus on ethics within the Firm. In line with best practice, the programme seeks to integrate ethics into other significant Firm-wide projects, such as the KPMG Story, which covers both our purpose, values, vision, our strategy and our promise. The focus of the plan is on four key elements:

- Defining the expected standards of behaviour;
- Training, communication and awareness;
- Calling out bad behaviour/celebrating exemplar behaviour;
- Monitoring and reporting.

As part of its work, the Ethics Committee has met with an external expert who specialises in business ethics to consider what it means to act ethically and how organisations can create a more ethical culture.

Given their common interest in a number of areas, the Ethics Committee has also met jointly with the Audit & Risk and Public Interest Committees to discuss the overall ethical health of the Firm. This discussion was based around the ethical framework approved by the Ethics Committee, supplemented by relevant compliance metrics/data sources and also took into consideration various reports received by the respective committees during the year. The metrics reviewed by the Ethics Committee as part of this process include six monthly statistics on disciplinary and grievance cases, numbers of whistle-blowing reports made in the year, as well as the trend in adverse quality and risk metrics relating to managers and partners. The Committee has considered these and other metrics and whilst it recognises that there is always more that can be done in this area, it is satisfied with the overall ethical health of the Firm.

Compliance with overall ethical standards

As part of its work, the Ethics Committee receives reporting on any compliance issues arising in the year, including any instances of non-compliance with the ES. Exceptionally, where such matters arise it has undertaken a role in determining any sanctions that should be awarded for these. The Ethics Committee also considered the outcome of the 282 personal compliance audits (including 151 in relation to partners) which had been undertaken in the year, the issues arising and the Firm's proposed response to those issues (including any individual financial sanctions that might be appropriate). Whilst the absolute number of partner breaches of the ES is low (there were six breaches in the year), the Ethics Committee is not complacent and continues to encourage that measures be taken to ensure that our partners and staff exercise concerted vigilance in this area. A root-cause analysis has therefore been undertaken of actual breaches (which was reported to the Ethics Committee in November 2016) to ensure that any lessons learned are appropriately actioned.

The Ethics Committee was also briefed on the ethical findings arising from the AQR's monitoring activity and has discussed the proposed action plan that the Firm is taking in response.

Review and input into the Firm's policies

The Firm keeps all of its policies under regular review. As part of its programme of work this year, the Ethics Committee has considered (and approved) changes proposed to a number of the Firm's policies relating to ethical matters. This has included reviewing the Firm's policies for managing conflicts of interest as well as revisions made to the policy around providing gifts and entertaining clients (including the changes to reflect the provisions of the ES).

Looking forward

The Firm has recently appointed a Head of Culture who will attend meetings of the Ethics Committee going forward.

The Ethics Committee has now operated for more than two years. During 2017, consideration will be given to the remit of the Ethics Committee and whether refinements are necessary, including the extent of interaction between the Committee with the Board and Public Interest and Audit & Risk committees.

Richard Pinckard, Chair of the Ethics Committee

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 in the 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 in the UK. He has a direct reporting line to the Senior Partner and has a seat on both the Board and ExCo of KPMG in the 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 all of whom are supported by a function risk team).

During the year the heads of Markets (International Markets and Government and National Markets) and Functions (Audit and Solutions) oversaw the quality of service delivered in their respective areas of the business assisted by function management teams and 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. In June 2016, a revised ISQC1 was issued which is effective for financial periods commencing on or after 17 June 2016. We are considering the requirements of the revised standard and reviewing our policies and procedures to ensure compliance with the revised standard and will report on this next year. KPMG in the 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 in the UK are set out in Appendix 2.

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 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 external 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.	– A tone at the top which emphasises quality, ethics and integrity – General engagement quality and risk management controls, including robust contracts put in place with clients and recipients of our reports – 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 – ExCo oversight of account 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, as a result of 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, potential litigation and/or regulatory fines.	– 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.	– Board role in budget and performance oversight and ExCo 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 our or 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 ExCo, 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 (i) Risk policies and procedures, (ii) Audit methodology and (iii) 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 acceptance 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
Cultural behaviour	Actual behaviour and actions of individuals not aligned with target culture leading to disengagement and demotivation.	– A tone at the top which emphasises quality, ethics and integrity – Robust people management process – Code of Conduct and Values training
Failure to achieve strategic plan	Insufficient communication of the strategic plan to the wider Firm resulting in limited engagement and support, insufficient investment to support key initiatives and technology development and a failure to manage new service offerings resulting in a failure to achieve strategic goals.	– Robust and comprehensive communications and engagement plan – Robust investment allocation and governance process to prioritise and monitor investment – New product and services evaluation and approval process
Failure to manage resources	Capability gaps, an inability to retain and recruit appropriate resource and poorly motivated partners and staff adversely impacts the Firm's ability to generate revenue and service clients.	– Recruitment plan and investment in recruitment – Succession planning and talent development – Process to identify key skills and capabilities required
Failure to respond to changes in market place	Unanticipated national and global market developments (including the impact of Brexit) result in the Firm being unprepared for shifts in the marketplace and/or changes in the needs and priorities of clients causing loss of market position.	– Pipeline monitoring – Ongoing investment in core capabilities – Market assessment and analysis – Creation of Head of Brexit role

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. As reported previously, we 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 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 in these reviews by preparing action plans following root-cause analysis of issues arising so that we may address these, as well as the specific matters identified in the relevant reviews.

Over the last year we have significantly increased the formality of root-cause analysis performed. Our approach is based around the 'five whys' approach. We conducted more than 80 interviews with team members across 20 engagements subject to internal or external quality review. This included all engagements rated externally as a 2b or 3 and internally as 'Performance Improvement Necessary' or 'Unsatisfactory'. These interviews are performed by a team trained in our root-cause analysis methodology and independent of the engagement team and the review process. The outcome of this process is increased visibility of the underlying factors at engagement level that hinder the consistent delivery of high quality audits. This improved visibility allows us to develop more insightful and focused actions. These actions are broader than training, tools and guidance and are designed to address behavioural and structural matters in addition to areas such as technical knowledge and work allocation.

We also use root-cause techniques based on the 'fishbone' technique to explore recurring issues in collaborative workshops. This not only gives an additional lens into the potential drivers of audit quality but also engages engagement leaders and their teams in root-cause analysis techniques and root-cause findings that they can use on a day-to-day basis in audit delivery.

More recently we have expanded our root-cause analysis to cover a wider range of team members and the EQCR for all externally and internally reviewed engagements not achieving a Satisfactory rating. This will give us greater insight into high quality audits and allow us to compare and contrast these with those audits with identified shortcomings.

We have continued to collect and analyse engagement level information from across a range of engagements to help us look for correlations between engagement level inputs and quality review outputs. Our goal is to develop this understanding sufficiently to allow us to determine predictors of audit quality outcomes and develop control and monitoring processes to manage potential quality outcomes proactively.

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 2016 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 have self-assessed our overall levels of compliance as 'Yellow' (2015: Yellow), indicating

Overview of 2016 QPR results (2015 data in brackets)

	Satisfactory	Performance improvement necessary	Unsatisfactory	Number of engagements reviewed	% of engagement leaders reviewed
Audit	70% (82%)	20% (12%)	10% (6%)	99 (115)	29% (36%)
Tax	91% (92%)	7% (7%)	2% (1%)	180 (164)	36% (40%)
Advisory	77% (88%)	21% (10%)	2% (2%)	229 (210)	33% (36%)

substantial compliance with KPMG's policies and procedures but where issues identified require attention in order to meet the highest standards to which we hold ourselves.

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 October 2015 which generally showed improvements on the previous inspection in 2013. The review identified a small number of opportunities for improvement including areas which were generally identified by the UK Firm's own compliance and quality control processes. The next inspection is expected in 2018.

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 Institute of Chartered Accountants in England and Wales ('ICAEW').

The AQR noted a significant increase in the number of our engagements assessed as meeting the highest rating ('good'). Whilst pleased with the comments recognising positive developments in the year, we are disappointed to have any engagements rated as requiring significant improvements in light of the Firm's efforts to achieve continuous improvements in audit quality.

AQR review category

	2015/16	2014/15
Good with limited improvements required	**14**	15
Improvements required	**6**	4
Significant improvements required	**2**	1

QAD review category

	2015/16	2014/15
Satisfactory or generally acceptable	**10**	8
Some improvement required	**0**	2
Significant improvement required	**0**	1

We are also subject to review by the US Public Company Accounting Oversight Board ('PCAOB') which issued its report in relation to an inspection undertaken in 2015 on 9 November 2016. The 2015 inspection considered five audits, including three where KPMG in the UK was the principal auditor and two where it was not the principal auditor. The full reports can be found on the PCAOB website and a summary is included in Appendix 2 section 2.7.2.4. The review identified a number of specific deficiencies in relation to the procedures to test the design and operating effectiveness of controls and the sufficiency of substantive procedures to a number of areas. We have already taken action in relation to these areas and will work with the PCAOB to ensure our action plan meets their recommendation requirements.

FRC thematic review

The AQR also undertakes thematic reviews to supplement their annual programme of audit inspections of individual Firms. In a thematic review, the Firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed.

During the year ended 30 September 2016, the FRC published the following reports which set out the principal findings of thematic reviews:

- Firms' Audit Quality Monitoring – we welcome the comments that Firms are allocating substantial resources to monitoring of the quality of audits and are considered to be keen to develop this further to increase the challenge of audit teams and provide assurance on the audit reports issued. We note the FRC's overall message that further strengthening of the Firms' own monitoring will result in more challenging and robust outcomes supporting the Firms' culture of promoting audit quality and better equip audit teams to achieve the standards required. We significantly enhanced the resources available to our RCP team in 2015 before this thematic review was announced. We believe that a number of the good practices identified by the FRC in this area were undertaken at KPMG. However, we have responded to specific feedback and carefully considered the full report and implemented a number of enhancements to our engagement and Firm level monitoring programmes.
- Engagement Quality Control Reviews – we are pleased that the FRC has seen evidence of engagement quality control reviews directly contributing to improving the quality of audits. For KPMG this reflected a number of additional initiatives and increased leadership focus which included additional guidance and the enhancement of processes to ensure such challenge is evidenced in our audit files. Reflecting the importance of this role in enhancing audit quality we updated our materials in relation to EQCR incorporating feedback provided to Firm's ahead of publication of the final report. This allowed us to inform EQCR reviewers and teams of good practices prior to December 2015 year-end audits despite a publication date of February 2016 for the thematic review itself.

- Root-Cause Analysis – we are pleased by the comments that generally root-cause analysis is being performed on a more timely basis than in prior years, that guidance and training is provided to those performing the analysis and that the FRC identified evidence of the analysis positively affecting the actions to address underlying issues. We note the FRC's recommendations for Firms to consider behavioural related training and have actioned the recommendation to communicate details of our root-cause analysis in our transparency report as set out above. This is an area of rapid development and we significantly enhanced our root cause programme in the period between data gathering and finalisation of the thematic report. We have further refined and improved our procedures in response to the report but recognise this is an area where there will continue to be evolution in approach in the years to come.

Two further thematic inspections are scheduled for 2016/17, covering data analytics and quality control procedures over the quality of audit work conducted prior to the issuance of the audit report. We will set out the results of these in next year's Report.

Regulatory investigations and sanctions

During the year, the FRC announced investigations into the provision of non-audit services by KPMG Audit Plc during the audit of the financial statements of Ted Baker plc and one of its significant affiliates for the periods ended 26 January 2013 and 25 January 2014 and an investigation into the audit of the going concern basis of preparation of the financial statements of HBOS Plc performed by KPMG Audit Plc for the year ended 31 December 2007.

The AQR investigations into the preparation, approval and audit of the financial statements of Quindell Plc for the period ended 31 December 2011 to the year ended 31 December 2013 (announced August 2015) (KPMG LLP only audited the 2013 financial statements), the role of KPMG Audit Plc in reporting to the FSA on BNY Mellon's compliance with the FSA's client asset rules for the years ended 31 December 2007 to 31 December 2011 (announced June 2015) and 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 (announced January 2014) remain open. In September 2016, the FRC completed investigations into our audit of the accounts of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2007, 2008 and 2009 (announced March 2012) and has delivered a formal complaint against KPMG LLP and a partner and a former partner of the Firm.

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

During the year the Firm accepted a reprimand and a fine of £2,000 (plus £7,005 of costs) under a Consent Order issued by the ICAEW in relation to audit reports in respect of a client's compliance with the Client Asset Sourcebook rules of the FCA when the audits had not been conducted with regard to the applicable version of the APB's Practice Note 21.

In addition, the Firm agreed to pay a regulatory penalty of £4,700 decided by Audit Registration Committee of the ICAEW relating to an admitted breach of rule 4.01b of the Crown Dependency Audit Rules and Guidance ('the CD Rules') in allowing audit reports to be signed by two individuals who had not confirmed, in writing, to the Guernsey Registry that they agreed to abide by the CD Rules.

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, as explained in the Report from the Head of Audit at page 40.

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 2016 our formal audit training programme (excluding those courses for unqualified staff on training contracts) included mandatory technical and risk courses.

In addition to this formal 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 2016 was 56 hours (2015: 47 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 continue to develop our alliance with McLaren and our Next Generation Audit programme launched in late 2015 has now been expanded across our audit practice. The programme introduces tools and techniques which enable our audit teams to embrace a continuous improvement culture which challenges the way the audit is executed, delivers added value and innovation and enhances audit quality.

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 latest People Survey was conducted during October 2016 and our next Annual Report will include the results from our Audit function for the following questions (results from the 2014 and 2012 People Surveys included in brackets):

- There is an appropriate emphasis on quality at KPMG (2014: 86 percent (2012: 82 percent) favourable response);
- I have access to the resources I need to do my job effectively (2014: 85 percent (2012: 64 percent) favourable response); and
- We are getting the training and development needed to meet our clients' changing needs (2014: 67 percent (2012: 69 percent) favourable response).

Stakeholder interactions

Investor and Audit Committee liaison

Recognising investors as the clients for our audits and a primary user of corporate reporting, in 2016 we have continued to extend our engagement with investors and investor organisations, with the objective to listen to and understand their needs and then to determine what actions KPMG should take in response. In 2016, in addition to regular discussions with individual investors, we have begun a programme of regular roundtable meetings. These cover a broad range of issues of relevance to investors, including corporate governance, reporting, audit and assurance. Based on that input we have continued to innovate to better meet investors' needs, for example in our approach to long-form audit reports. We use our ability to convene different stakeholder groups to bring investors together with Audit Committee members, executives, regulators and others, to enhance understanding, seek consensus and achieve positive change.

We use publications and surveys together with our Investor Insights web-pages to encourage wider discussion and debate of relevant issues. Our commitment to this initiative reflects our Purpose and in 2017 we will continue to seek innovative new ways to deliver more against our better understating of investors' needs.

In addition to dialogue with the audit committees of individual audit clients, the Firm has established an Audit Committee Institute ('ACI'). The ACI aims to provide impartial guidance and resources to help audit committees carry out their role more effectively, including in relation to matters covered by the Audit Firm Governance Code. The ACI provides audit committee members with thought leadership and tools which are publicly available on our internet site* and holds a series of events annually. Some 40 events were held during 2016 which were attended by some 350 individual audit committee members. These events addressed various current issues facing audit committees, including the relationship between auditors, audit committees, executive management and investors; and issues around audit Firm/corporate culture. The Firm's (and audit committees') preparedness for the EU Audit reforms has also been high on the agenda and specifically issues surrounding auditor independence and objectivity; audit rotation and tendering; and audit quality and developments in auditing practice such as data analytics and the extended audit report. Our dialogue with audit committees is supplemented with updates detailing changes to rules and regulations such as the EU Audit reforms, CMA Order and new Ethical Standard; or best practice guidance such as the FRC's AQ Practice Aid for Audit Committees. Over 2,500 audit committee members receive these updates.

Interaction with regulators

At a global level KPMG International has regular two-way communications 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 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.

* https://home.kpmg.com/uk/en/home/insights/2015/06/uk-audit-committee-institute.html

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 Committee.

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 UK Corporate Governance Code (as revised in September 2014 with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting).

This monitoring covers risk management systems and all key controls including those controls relating to finance, operations, quality and compliance. 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, (including the Enterprise Risk Map), which is reported to the joint Public Interest and Audit & Risk committees and then subsequently to the full Board.

– Regular reports by the Managing Partner 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.

Conclusions

The Board of KPMG LLP confirms that internal reviews of the effectiveness of internal controls and of independence practices within our Firm have been undertaken. Our compliance and internal audit programmes identify deficiencies and opportunities for improvement and, in such instances, remediation activities are agreed with subsequent follow up to assess the extent to which the matters identified have been addressed satisfactorily. However, matters arising from these activities are not considered either individually or in the aggregate to undermine the overall system of internal control in place. Accordingly, the Board believes that there are no significant weaknesses which require disclosure.

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 2016.

We will report on compliance with the revised Audit Firm Governance Code (issued by the FRC in July 2016 and effective for financial periods commencing on or after 17 June 2016) in our Annual Report for the financial period ending 30 September 2017.

Report from the Chair of the KPMG LLP Public Interest Committee

2016 has been a year of significant changes for the UK and for KPMG LLP. Throughout this time, the principal role of KPMG's Independent Non-executives ('INEs'), who comprise the Firm's Public Interest Committee ('PIC'), has been to ensure that the Firm fulfils its public interest remit, with regard to audit but also more generally. To that end, we have sought to highlight developments that might be inconsistent with that remit, and to ensure that management acts at all times in accordance with that remit. We have offered advice, made recommendations, and asked ExCo members to report on how they have responded to our recommendations.

In our discussions and deliberations, our attention has focused on the following issues: audit quality, reputation and risk, strategy and performance, and governance and culture.

Audit Quality

The Financial Reporting Council's ('FRC's') 2016 Audit Quality Report ('AQR') represented a source of considerable concern for the Public Interest Committee.The results showed a significant variation in quality; while several of the audits examined were rated "good", two were rated "significant improvements required". However, since then we have been impressed and reassured by the forensic approach adopted by the new Head of Audit and his team in developing a comprehensive and very detailed programme for enhancing the Firm's overall audit quality and the consistency of its audit quality. We look forward to this initiative being reflected in future Audit Quality Reports.

The safeguarding of audit is of particular importance from a public interest perspective. Following an internal reorganisation just over a year ago, we have sought to reassure ourselves that audit is not "losing out" within the newly integrated market-facing structure. We have, therefore, met with members of ExCo over the past year and are encouraged that KPMG is sensitised to the potential conflicts that arise from the new structure and is seeking to manage them effectively. Audit remains a strong and successful foundation of KPMG's business. Going forward, as both the audit and non-audit businesses grow, the INEs will be particularly focused on the potential for conflicts, and on understanding how the Firm will identify and manage such conflicts, so as to avoid any detrimental impact on audit quality.

We continue to encourage KPMG to do more to capitalise on its award winning extended audit report, by rolling out this initiative to a wider group of audit clients. From the public interest perspective, it represents an opportunity directly to address investors' concerns about the value and legitimacy of conventional reporting.

With these issues in mind, the Public Interest Committee has taken the lead in encouraging KPMG to engage more systematically with investors. There is now a comprehensive programme of regular themed meetings in place.

Going forward we will be encouraging KPMG to demonstrate, not simply that it is engaging in dialogue with investors, but that it is allowing the results of that dialogue to shape the Firm's approach to audit.

Reputation and Risk

This year KPMG International was challenged by several reputational issues. A number of these were network issues, outside the control of the UK LLP, and some were legacy issues, reflecting problems that have now largely been addressed. The PIC have recommended that KPMG uses these isolated events as an opportunity for a systematic review, and to demonstrate to stakeholders that the Firm has the highest and most rigorous ethical standards.

Network risk (i.e. cross-border risk arising from events particular to individual member Firms within the global network), remains a key risk for KPMG, for the other major accounting Firms, and for their stakeholders. While the structure of KPMG International offers network members a degree of protection in legal and financial terms, KPMG in the UK is nevertheless vulnerable to "contagion" risk from a reputational perspective, should other parts of the network experience difficulties. It is important that stakeholders recognise that network risk remains a serious concern for all accounting Firms with a global presence.

Strategy and Performance

The past year has been marked by a concerted and sustained attempt to address performance issues; this has begun to yield encouraging results. We are also encouraged by the comprehensive and systematic strategy review that has been undertaken, and the strategic plan that is being developed. We recognize that strategy in a complex professional service Firm such as KPMG is unlikely to have an immediate effect, but we look forward to seeing the results in the coming years.

Given our public interest remit, we have examined how the Firm seeks to ensure the audit function remains a strong and central component of KPMG strategy, and how it continues to make appropriate investment in its established audit business alongside other emerging business opportunities.

Governance and Culture

We have welcomed the creation during the year of the role of Managing Partner to complement that of the Senior Partner. This division of responsibilities is widely recognised as an important element in good governance, whether for corporates or partnerships. We have seen the relationship working highly effectively in KPMG in the past year.

The revised Audit Firm Governance Code ('AFGC') advocates a substantially enhanced role for the INEs, including an increased focus on certain topics of interest to regulators, investors and the public, such as human capital and cultural aspects of the Firm. The revised code represents an increase in the degree of regulatory scrutiny and reassurance the INEs are expected to provide to investors. It recommends that the effectiveness of the INEs is reviewed periodically so in 2017 KPMG will engage in a comprehensive review, designed to ensure that the INEs can fulfil their role and meet the expectations of KPMG, the FRC, and other relevant stakeholders.

Looking ahead

While our role is reactive to some extent, it is important that we remain focused on our broader long-term priorities under the AFGC. We therefore set ourselves objectives for the year ahead, review our performance against them at our quarterly meetings, and revise them to reflect developments and achievements. Our current priorities are:

- **Culture and Ethics:** Establish closer links between Ethics, Audit and Risk, and Public Interest Committees to ensure that the promotion and implementation of robust ethical standards pervades all aspects of the Firm's deliberations.
- **Investor Outreach:** Continue to work with the Firm to expand outreach activity and respond to issues arising from more extensive investor engagement.
- **Governance:** Provide input into the Firm's Governance Review, specifically a substantive review of the role of the INEs, to ensure that KPMG's governance structure satisfies all requirements of the revised AFGC.
- **Audit Quality:** Review the ongoing response of the Firm to the AQR's findings and recommendations. Examine processes and controls which underpin the safeguarding of audit quality and independence.

Public Interest Committee Membership

Lindsay Tomlinson joined the Public Interest Committee at the start of 2016 and very quickly proved an invaluable member. David Pitt-Watson has remained a strong and committed contributor to our group.

Philip Augar resigned in May. He joined as an INE when the Public Interest Committee was first established in 2014 and we appreciate his considerable contribution throughout this time.

I will be leaving in December, after three years as an INE and one year as Chair of the Public Interest Committee.

Two new members of the PIC are being sought to replace myself and Philip Augar.

I wish KPMG, its INEs, and its stakeholders the very best for 2017.

Professor Laura Empson
Chair of the Public Interest Committee

Activities of the Independent Non-executives

As the Public Interest Committee, the Independent Non-executives meet formally four times a year. This year, as well as meeting with the Senior Partner and Managing Partner, we invited the following members of ExCo to present to us: Head of Quality and Risk Management, Head of Audit, Head of International Markets and Government, Head of National Markets, and General Counsel. We have also met with the Chair of the Ethics Committee. Our discussions with KPMG are wide ranging and include themes such as: audit quality, taking on non-audit work for audit clients, engagement with investors, and risk and reputational issues.

We also meet jointly with the Audit and Risk Committee four times a year. At these meetings we have discussed:

- Quality, Risk and Compliance developments, including regulatory and legislative developments likely to impact the Firm
- Internal Audit plans and results
- Audit Quality Review findings and progress of audit quality improvement plan
- Enterprise Risk Map and review of effectiveness of internal controls
- Specific projects, products and events which pose potential risks to the Firm.

During the past year, the Public Interest and Audit and Risk Committees have also met with the Ethics Committee to discuss the ethical health of the Firm, and to receive the annual Whistleblowing Report from the Independent Ombudsman.

Either one or two INEs attend every Board meeting, typically twelve meetings in total each year. Although we are not Board members and do not formally vote on Board decisions, we have access to all Board papers, take an active role in Board discussions, and engage in detailed questioning and rigorous challenge of the Executive.

Alongside the formal structure of meetings, we hold regular ad hoc informal meetings with individual members of ExCo and the Board. While we make every effort to have an impact through the formal governance procedures, our ability to do so is considerably enhanced through the relationships that we build through these informal meetings.

In addition, this year we have:

- Attended two one day meetings of the full partnership
- Met both formally and informally with investor groups
- Met the Financial Reporting Council regularly throughout the year, both privately and with KPMG in attendance.

As Chair of the Public Interest Committee I have also met the Chairs of the INEs in other accounting Firms governed by the AFGC, to compare our Firms' differing approaches to implementing the AFGC, to identify best practice, and to discuss how to develop our role in safeguarding the public interest.

Financials

3

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 2016. This report to the members should be read in conjunction with the other sections of this Annual Report.

Registered office

As set out in Appendix 1, 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	
J Barton	(appointed 1 December 2015)
PM Davidson	(appointed 26 November 2015)
MA McDonagh	(appointed 19 August 2016; resigned 28 September 2016)
S Willows	(appointed 28 September 2016)
P Long	(resigned 18 August 2016)
JW Marsh	(resigned 20 May 2016)

At 30 September 2016, the UK Board comprised two of the four designated members and a further 10 members, including the Vice Chair and eight deemed to be non-executive, as set out on pages 85 to 87.

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 £250 million at 30 September 2016 (2015: £279 million) for the group and £169 million (2015: £214 million) for the partnership. Bank facilities of £560 million were also available to the group at 30 September 2016 (2015: £405 million), against which £431 million had been drawn at the year-end (2015: £362 million).

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. The increase in borrowings year on year reflects the group's strategy of continuing to invest for future growth, including £52 million in property and intangible asset development.

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. 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 £60 million at 30 September 2016 (2015: £62 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 across the business. 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 £716 million at 30 September 2016 (2015: £682 million) for the group and £655 million (2015: £641 million) for the partnership.

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. 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. Subsequent to the year-end, the group obtained an extension of its revolving credit facility of £550 million for a further period of one year; the facility now matures on 31 January 2022, as set out in note 27.

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.

Report to the members

continued

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 and Appendices
Group undertakings	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 2016	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

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 ('LLP's') affairs as at 30 September 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the parent LLP financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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.

Who we are reporting to

This report is made solely to the LLP's 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 LLP's 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 LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

What we have audited

We have audited KPMG LLP's financial statements for the year ended 30 September 2016 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Group and parent LLP Statements of financial position, the Group and parent LLP Statements of changes in equity, the Group and parent LLP Statements of cash flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent LLP financial statements, as applied in accordance with the provisions 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.

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

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Risk	How the scope of our audit responded to the risk and our findings from our audit
Revenue recognition The Group's accounting policy on revenue recognition is shown in note 1 and related disclosures are included in note 3. The Audit & Risk Committee identified revenue recognition as a significant risk in its report on page 91, where the Committee also described the action that it has taken to address this risk. 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 International Accounting Standard ('IAS') 18 'Revenue' and the value of unbilled revenue to be recognised in the Group 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 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 Group 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 design of controls which would require us to amend the nature or scope of our planned detailed testing.

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 *continued*	**Our findings** *continued* Our audit work indicated that revenue is only recognised when a right to that consideration had been obtained through performance. Overall 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 Consolidated income statement and unbilled revenue within the Group Statement of financial position. We consider the related disclosure in note 1 to the financial statements to be appropriate and we consider that the Group's disclosures on page 125 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates used in determining the stage of completion of revenue contracts.
Professional claims and regulatory matters The Group's accounting policy on professional claims and regulatory matters is shown in note 1 and related disclosures are included in notes 2 and 18. The Audit & Risk Committee identified professional claims and regulatory matters as a significant risk in its report on page 91, where the Committee also described the action that it has taken to address this risk. The Group maintains insurance cover in respect of professional claims and regulatory matters 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 and regulatory matters 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 and regulatory matter notification, identification and practice protection procedures in operation. We considered those claims in progress which are, or have the potential to be, material 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 publicly available information and that held solely within the Group and some other sources of private evidence 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 and regulatory matter notification, identification and practice protection procedures. Our audit work over claims and regulatory matters in progress 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 have sufficient assets to honour the level of cover provided. We did not identify from external sources, or from sources internal to the Group, any material claims or regulatory matters or circumstances not already included in the Group's internal reporting procedures. We consider that the Group's disclosures on page 125 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates used in valuing the provisions relating to professional claims and regulatory matters.

Risk	How the scope of our audit responded to the risk and our findings from our audit
Defined benefit pension and partner annuity schemes The Group's accounting policies on defined benefit pension and partner annuity schemes are shown in note 1 and related disclosures are included in notes 20 and 18. The Audit & Risk Committee identified defined benefit pension and partner annuity schemes as a significant risk in its report on page 91, where the Committee also described the action that it has taken to address this risk. 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 defined benefit pension and partner annuity schemes and the related 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 confirmed the ownership of the scheme assets by contacting the investment custodians. We also involved our actuarial specialists to independently challenge management's actuarial assumptions and held discussions with the Group's internal actuaries. **Our findings** Our audit work 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 that the related disclosure in notes 18 and 20 to the financial statements appropriately describes the significant degree of uncertainty in the underlying assumptions and estimates.
Impairment of goodwill The Group's accounting policies on goodwill are shown in note 1 and related disclosures are included in note 11. The Audit & Risk Committee identified the carrying value of goodwill as a significant risk in its report on page 91, where the Committee also described the action that it has taken to address this risk. The Group has a material amount of goodwill held on the Group statement of financial position at year-end based on significant judgements. The goodwill relates to acquisitions made in previous years and is a key focus for the Audit and Risk Committee. We therefore identified impairment of goodwill as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, reviewing management's assessment of intangible assets for impairment and determining whether appropriate judgements were taken. We assessed whether there have been any triggering events identified that would indicate a potential impairment of intangible assets. Where relevant, we ensured that appropriate disclosure of any impairment, the accounting treatment and associated judgement's had been made within the financial statements. **Our findings** We found the arrangements in place for reviewing goodwill for impairment resulted in the appropriate accounting treatment being applied. We involved our internal valuations team to review the WACC calculations applied to each of the cash generating units containing the goodwill. We found the key assumptions and inputs into the models were balanced. We consider that the Group's disclosures on page 137 appropriately describe the relationships, the accounting treatment, valuation inputs and the associated judgements and estimates.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work. We determined materiality for the audit of the Group financial statements as a whole to be £18.7million, which is 5% of profit before taxation and members' profit share. This benchmark was agreed with the Audit and Risk Committee during our planning phase, where the public interest nature of the Group was taken into account. Materiality for the current year is lower than the level that we determined for the year ended 30 September 2015 to reflect the decrease in profit before taxation and members' profit share. This change in materiality has not had a significant effect on our scope or

Independent auditor's report to the members of KPMG LLP

continued

approach to testing. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the Group financial statements. We also determine a lower level of specific materiality for certain areas such as members' remuneration and related party transactions.

We determined the threshold at which we communicated misstatements to the Audit and Risk Committee to be £890,000. In addition we communicated misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

Overview of the scope of our audit

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

We conducted our audit in accordance with International Standards on Auditing ('ISAs') (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors and, we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit scope included an audit of the financial statements of the parent LLP, KPMG LLP, together with audits for Group reporting purposes of its subsidiary undertakings as detailed in note 26 (together 'the Group'). 99% of Group revenues and 93% of Group total assets attributable to members were subject to an audit based upon Group materiality, with the remaining net assets subject to analytical review. Substantially all of the subsidiary undertakings were subject to audit by us, directly, as the Group auditor.

The Group audit was conducted from one key location and all material subsidiary companies were within the scope of our audit testing. The only significant subsidiary not audited by us directly was Queen Street Mutual Company PCC Limited ('QSM') which is audited by a Grant Thornton International Limited network Firm under our instruction. QSM does not generate any of the Group's revenue and represents 4.8% of the Group's total assets. We determined the level of involvement we needed to have in the audit of QSM to be able to conclude whether sufficient, appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Detailed audit instructions were sent to the component auditor of QSM setting out the audit areas that should be covered and the information required to be reported back to the Group audit team, together with the materiality threshold which was 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 QSM's management to directly discuss judgements relevant to our Group risk assessment.

We evaluated certain key management controls over the financial processes linked to the significant audit risks, including those described above which were identified as part of our risk assessment. We evaluated 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. 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.

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 LLP, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent LLP 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.

Responsibilities for the financial statements and the audit

What the members are responsible for:

As explained more fully in the Statement of Members' Responsibilities set out on page 109, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
15 December 2016

GrantThornton

Consolidated income statement

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Revenue	3	**2,068**	1,958
Recoverable expenses		**(298)**	(253)
Net sales		**1,770**	1,705
Other operating income	4	**81**	75
Staff costs	5	**(959)**	(869)
Depreciation and amortisation	10,11	**(55)**	(53)
Other operating expenses	6	**(460)**	(464)
Operating profit		**377**	394
Financial income	7	**20**	10
Financial expense	7	**(21)**	(19)
Net financial expense		**(1)**	(9)
Share of loss of associated undertaking		**(2)**	(2)
Profit before taxation and members' profit shares		**374**	383
Tax expense	8	**(13)**	(11)
Profit for the financial year before members' profit shares		**361**	372
Members' profit shares charged as an expense	5	**(308)**	(342)
Profit for the financial year available for discretionary division among members		**53**	30
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**46**	29
Non-controlling interests		**7**	1
		53	30

Consolidated statement of comprehensive income

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Profit for the financial year available for discretionary division among members		**53**	30
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans	20	**6**	5
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		**4**	-
Other comprehensive income for the year, net of tax		**10**	5
Total comprehensive income for the financial year		**63**	35
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**56**	34
Non-controlling interests		**7**	1
		63	35

Statements of financial position

At 30 September 2016

	Note	Group 2016 £m	Group 2015 £m	Partnership 2016 £m	Partnership 2015 £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**448**	449	**447**	449
Intangible assets	11	**90**	74	**30**	30
Investments	12	**8**	23	**13**	13
Other non-current assets	13	**4**	-	**86**	85
		550	546	**576**	577
Current assets, excluding members' interests					
Trade and other receivables	14	**838**	807	**784**	763
Other financial assets	15	**58**	48	**-**	-
Cash and cash equivalents	16	**42**	32	**8**	-
		938	887	**792**	763
Total assets, excluding members' interests		**1,488**	1,433	**1,368**	1,340
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**128**	141	**128**	141
Provisions	18	**89**	96	**66**	67
Bank borrowings	22	**250**	-	**250**	-
Deferred tax liability	19	**2**	3	**-**	-
Other non-current liabilities	13	**-**	1	**90**	90
		469	241	**534**	298
Current liabilities, excluding members' interests					
Bank borrowings	22	**181**	362	**111**	280
Trade and other payables	17	**575**	546	**550**	543
Tax payable		**7**	5	**-**	-
Provisions	18	**4**	5	**4**	5
		767	918	**665**	828
Total liabilities, excluding members' interests		**1,236**	1,159	**1,199**	1,126
Net assets attributable to members and non-controlling interests		**252**	274	**169**	214
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(45)**	(42)	**(45)**	(42)
Amounts classified as current liabilities:					
Amounts due to members	21	**169**	235	**169**	235
Members' capital	21	**60**	62	**60**	62
		229	297	**229**	297
Amounts classified as equity:					
Other members' interests classified as equity		**66**	24	**(15)**	(41)
Total members' interests		**250**	279	**169**	214
Non-controlling interests		**2**	(5)	**-**	-
		252	274	**169**	214

The financial statements on pages 114 to 157 were approved by the members on 15 December 2016 and were signed on their behalf by:

Simon Collins
Chairman
KPMG registered number: OC301540

Sarah Willows
Chief Financial Officer and Head of Operations

Statements of changes in equity

For the year ended 30 September 2016

	Note	Group: Members' other reserves £m	Group: Translation reserve £m	Group: Non-controlling interests £m	Group: Total £m	Partnership: Members' other reserves £m
Balance at 1 October 2014		60	-	(6)	54	(18)
Profits for the financial year available for discretionary division among members		29	-	1	30	38
Remeasurement of defined benefit pension plans	20	5	-	-	5	5
Total comprehensive income		34	-	1	35	43
2014 profits available for discretionary division, allocated to members during the year	5	(69)	-	-	(69)	(65)
Other movements		(1)	-	-	(1)	(1)
Transactions with owners		(70)	-	-	(70)	(66)
Balance at 30 September 2015		24	-	(5)	19	(41)
Profit for the financial year available for discretionary division among members		**46**	**-**	**7**	**53**	**34**
Foreign exchange translation differences		**-**	**4**	**-**	**4**	**-**
Remeasurement of defined benefit pension plans	20	**6**	**-**	**-**	**6**	**6**
Total comprehensive income		**52**	**4**	**7**	**63**	**40**
2015 profits available for discretionary division, allocated to members during the year	5	**(14)**	**-**	**-**	**(14)**	**(14)**
Transactions with owners		**(14)**	**-**	**-**	**(14)**	**(14)**
Balance at 30 September 2016		**62**	**4**	**2**	**68**	**(15)**

Statements of cash flows

For the year ended 30 September 2016

	Note	Group 2016 £m	Group 2015 £m	Partnership 2016 £m	Partnership 2015 £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**53**	30	**34**	38
Adjustments for:					
Tax expense	8	**13**	11	**-**	-
Depreciation and amortisation	10,11	**55**	53	**49**	49
Financial income	7	**(20)**	(10)	**(36)**	(48)
Financial expense	7	**21**	19	**24**	21
Profit on disposal of associated undertaking	9	**(4)**	-	**-**	-
Share of loss of associated undertaking		**2**	2	**-**	-
Impairment of investments		**-**	-	**-**	1
Members' profit shares		**308**	342	**308**	342
		428	447	**379**	403
Increase in trade and other receivables		**(22)**	(72)	**(19)**	(86)
Increase/(decrease) in trade and other payables		**14**	(22)	**5**	(5)
Decrease in provisions and retirement benefits		**(21)**	(23)	**(15)**	(15)
Cash generated from operations		**399**	330	**350**	297
Interest and other financial costs paid	7	**(6)**	(4)	**(5)**	(8)
Corporation tax paid		**(11)**	(12)	**-**	-
Net cash flows from operating activities before transactions with members		**382**	314	**345**	289
Payments to members		**(389)**	(472)	**(389)**	(472)
Net cash flow from operating activities		**(7)**	(158)	**(44)**	(183)
Cash flows from investing activities					
Cash paid on business combinations (net of cash acquired)	9	**4**	(32)	**-**	(7)
Cash paid on acquisition of associated undertaking	9	**-**	(17)	**-**	-
Interest and other financial income received	7	**-**	1	**-**	-
Dividends received		**-**	-	**20**	37
(Acquisition)/disposal of other financial assets		**(4)**	3	**-**	-
Proceeds from sale of property, plant and equipment		**2**	2	**2**	2
Acquisition of property, plant and equipment	10	**(42)**	(114)	**(42)**	(114)
Development of intangible assets	11	**(10)**	(6)	**(7)**	(5)
Net cash flows from investing activities		**(50)**	(163)	**(27)**	(87)
Cash flows from financing activities					
Repayment of bank borrowings		**(362)**	295	**(280)**	247
Proceeds from new bank borrowings		**431**	-	**361**	-
Capital introduced by members	21	**7**	16	**7**	16
Capital repayments to members	21	**(9)**	(6)	**(9)**	(6)
Net cash flows from financing activities		**67**	305	**79**	257
Net increase/(decrease) in cash and cash equivalents		**10**	(16)	**8**	(13)
Cash and cash equivalents at the beginning of the year		**32**	48	**-**	13
Cash and cash equivalents at the end of the year	16	**42**	32	**8**	-

Notes

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 associated undertaking and 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'), together with the requirements of the Companies Act 2006 applicable to Limited Liability Partnerships ('LLPs'), and have been approved by the 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.

The accounting policies set out below have been applied consistently by all group entities and to all periods presented in these consolidated financial statements. Whilst there are a number of new standards, interpretations and amendments to adopted IFRSs, all of these have effective dates such that they do not yet fall to be applied by the group.

However, the group elected to early adopt the following IFRSs and related amendments in the year ended 30 September 2016:

- Amendments to IFRS 11: 'Accounting for Acquisitions of Interests in Joint Operations'; effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation'; effective for periods beginning on or after 1 January 2016.
- Improvements to IFRSs 2012- 2014 Cycle; effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 1: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2016.
- Amendments to IFRS 10, IFRS 12 and IAS 28: 'Investment Entities – Applying the Consolidation Exception'; effective for periods beginning on or after 1 January 2016.

These amendments resulted in a small number of insignificant changes to disclosures given in the group's and partnership's financial statements but otherwise had no impact.

There are no other standards, interpretations or amendments that required mandatory application or were available for early adoption at 30 September 2016 except for IFRS 15: 'Revenue from Contracts with Customers' (see below).

Future developments

There are a number of standards, interpretations and amendments issued by the IASB that are effective for financial statements after this reporting period. The most significant of these are:

- IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018 (endorsed 22 November 2016). The standard replaces the guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and liabilities including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The group is assessing the potential impact on its consolidated and partnership's financial statements but it is not expected to have a material impact on either the group's or partnership's results.
- IFRS 15: 'Revenue from Contracts with Customers'; effective for periods beginning on or after 1 January 2018 (endorsed 22 September 2016). The standard replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes' and establishes a comprehensive framework for determining whether, how much and when revenue is recognised by introducing a five step model. The group is assessing the potential impact on its consolidated and partnership's financial statements but does not expect it to have a significant impact on either the group's or partnership's results; IFRS 15 requires revenue to be recognised only to the extent that it is highly probable that the revenue will not subsequently be reversed and this is broadly in line with the group's and partnership's current accounting policy.
- IFRS 16: 'Leases'; effective for periods beginning on or after 1 January 2019. The new standard replaces IAS 17 'Leases' and significantly revises the way that entities will account for leases. It will result in most leases being accounted for on-balance sheet recognising a new category of right-of-use asset and liability based on discounted future lease payments. The impact on the results of the group and partnership are expected to be material, with the asset being depreciated over its useful life and the lease payment being apportioned between a finance charge and capital repayment. The group is assessing the potential impact on its group and partnership's financial statements; had the group and partnership adopted IFRS 16 at 30 September 2016, the impact under the modified retrospective approach would have been to recognise a right-of-use asset and a lease liability of approximately £282 million.

1 Accounting policies *continued*

Other changes of less significance are:

- Amendments to IAS 12: 'Recognition of Deferred Tax Assets for Unrealised Losses'; effective for periods beginning on or after 1 January 2017.
- Amendments to IAS 7: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2017.
- Clarifications to IFRS 15: 'Revenue from Contracts with Customers'; effective for periods beginning on or after 1 January 2018.

Based on preliminary assessments the adoption of these amendments and interpretations are not expected to have a significant impact on either the group's or partnership's results, financial position or disclosures.

Basis of preparation

The group's business activities, together with the factors likely to affect its future development, performance and position are discussed throughout the Strategic report. The financial position of the group, its cash flows, liquidity position and borrowing facilities are discussed in the Report to the members. 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. Subsequent to year-end, the group obtained an extension of its revolving credit facility of £550 million for a further period of one year; the facility now matures on 31 January 2022, as set out in note 27.

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.

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

Basis of consolidation and equity accounting

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 arrangements 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; the arrangements are classified 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 accounted for its interest in its joint operations by recognising its share of individual assets, liabilities, revenue and costs.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method and are initially recognised at cost. Subsequent to the initial recognition, the consolidated financial statements include the group's share of the total comprehensive income and equity movements of associates, from the date that significant influence commences until the date that significant influence ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1 Accounting policies *continued*

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.

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 (and similar assets) and trade names. Each category is amortised over its estimated useful life as follows:

Customer relationships	4-10 years
Trade names	1-10 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 group undertakings with a functional currency other than pounds 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 in the translation reserve.

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 International 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 'Amounts due to members' or 'Members other reserves' 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

1 Accounting policies *continued*

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. Deferred tax balances are not discounted. 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.

Financial expense comprises exchange losses, interest expense on bank borrowings, losses on derivatives recognised in the income statement, net interest expense on defined benefit pension plan liabilities, discount on provisions and other financial expenses. 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 as noted below.

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

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:

The useful lives and residual value, if not insignificant, are 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 directly attributable to developing the intangible. Other development expenditure is recognised in the income statement as an expense as incurred.

Internally generated software has a finite useful life and is 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 internally generated software is generally five to eight years.

Goodwill, customer relationships and trade names are discussed in 'Business combinations' on page 120. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Customer relationships and trade names are stated at cost less accumulated amortisation and impairment.

1 Accounting policies *continued*

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 neither control nor significant influence are stated at fair value calculated by reference to an appropriate earnings multiple.

Non-derivative financial instruments

The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date the group becomes party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

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

Other financial assets

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

Any resultant gain or loss on those assets classified as at 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 date of initial recognition. 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 for similar instruments, or at their nominal amount if due in less than 12 months. Subsequent to initial recognition, trade and other receivables are recorded 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 is 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. In certain cases, costs incurred in developing the service to be delivered are deferred and classified as 'Unbilled amounts for client work' where those costs are deemed to be directly attributable to the service to be provided and where recovery is probable based on future revenue forecasts.

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.

Bank borrowings

Bank borrowings are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost. Borrowings are classified as either non-current or current according to the expected utilisation under the revolving credit facility. Borrowing costs arising on 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.

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.

1 Accounting policies *continued*

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 financial assets'; 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

Financial assets (including receivables)

The carrying amounts of the group's and partnership's financial assets not carried at fair value through profit or loss are reviewed at each year-end to determine whether there is any objective evidence that there is an indication of impairment which includes 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.

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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated 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. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit' (or 'CGU')). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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.

Leases

Assets held by the group under leases that transfer substantially all of the risks and rewards of ownership to the group 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

1 Accounting policies *continued*

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.

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.

The group maintains professional indemnity insurance, 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 of settling professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities. Separate disclosure is not made of insured costs and related recoveries in the notes to the partnership financial statements 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 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 at the beginning of the annual period adjusted for contributions and benefit payments during the period.

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 taking into account the adverse effect of any minimum funding requirements and all other expenses related to defined benefit plans in either staff costs or financial expense in the income statement.

Notes

Forming part of the consolidated financial statements *continued*

1 Accounting policies *continued*

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 arrangements for retirement income.

Allocation of profits and drawings

The LLP Partnership Agreement requires that 90% of the partnership profits must be allocated to members; 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.

The allocation of partnership profits between those who were members of the partnership during the financial year occurs following the finalisation of these financial statements.

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 Committee, taking into account the partnership's cash requirements for operating and investing activities.

Both the monthly drawings and profits 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 'Members' 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.

2 Accounting estimates and judgements

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

Key sources of estimation uncertainty

Revenue from service contracts

In calculating revenue from service contracts, the group and partnership make certain estimates as to the stage of completion of those contracts. In doing so, the group and partnership estimate the remaining time and external costs to be incurred in completing contracts and the 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 £716 million (2015: £682 million) for group and £655 million (2015: £641 million) for the 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 obligations of the group's pension plans of £128 million (2015: £141 million) are based on certain assumptions as to mortality, using current published tables (note 20), discount rates reflecting current market trends and inflation rates reflecting current expectations. The use of different assumptions would result in different remeasurement gains and losses and financial expense being recognised.

Former members' annuities

The partnership has used certain assumptions in assessing the provision for former members' annuities of £58 million (2015: £55 million) as set out in note 18. The assumptions used are consistent with those used for valuation of the retirement benefit liability. The use of different assumptions would result in a different estimate of the obligation amount in respect of these annuities.

Claims and regulatory matters

The group from time to time receives claims in respect of professional service matters and may be subject to disciplinary proceedings brought by regulatory authorities. 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. At 30 September 2016, the provision for such claims amounts to £29 million (2015: £36 million) and is included within other provisions in note 18. A different assessment of the likely outcome of each case or of the possible cost involved may result in a different provision and cost.

2 Accounting estimates and judgements *continued*

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 customer relationships and similar items and the trademark of the businesses 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.

Goodwill arising on acquisitions is capitalised with an indefinite useful life and tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to the CGUs that are expected to benefit from the business combination in which the goodwill arose. The recoverable amount of a CGU is calculated with reference to its value in use. In assessing value in use, the group applies a growth rate to the relevant CGU, as set out in note 11. A different assessment of the growth rate in each case may result in a different assessment of impairment arising.

Critical accounting judgements in applying the group's accounting policies

Member retirement provisions

The Operating Provisions of the partnership allow for member retirement payments in certain circumstances, subject to prior approval by the Board. The group and partnership have assessed that no provision is required in respect of any member retirement payments arising since neither contractual nor constructive obligations are deemed to exist in respect of these arrangements. A different assessment as to whether a constructive obligation exists would result in a recognised provision.

Classification of bank borrowing

The group and partnership has access to a revolving credit facility of £550 million, due to expire in January 2022 (see note 22). Under that facility, bank borrowings are drawn down from time to time according to forecast requirements; the group has discretion to draw down in instalments provided certain conditions are met at that time. In presenting this liability as non-current, the group have formed the judgement that we have discretion to meet these conditions as there is sufficient headroom to allow the group to take whatever corrective action might be necessary to ensure that these conditions are met. Hence, the group has formed the judgement that it has discretion to roll over both at the end of the current term and subsequently. A different judgement would have resulted in the presentation of this liability as current.

Asset Backed Funding ('ABF') partnership only

As set out in more detail in note 13, under the ABF agreement, the partnership has a receivable from the Scottish Limited Partnership ('SLP'). The partnership expects to recover its initial contribution of £30 million on future termination of the ABF plus an additional sum, up to a maximum £60 million.

The amount of the additional flow is determined by a number of variables, the most significant of which is considered to be non-financial in nature. Management have therefore concluded that there is no embedded derivative to recognise and the receivable has been recorded at amortised cost as a loan and receivable. A different assessment as to whether an embedded derivative exists would result in a different treatment of the instrument.

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.

During the year ended 30 September 2015, the group began rolling out a new operating model which was implemented fully during the year ended 30 September 2016. The group's markets are now allocated into either National Markets ('NM'), serving those clients based primarily in the UK, or International Markets & Government ('IMG'), serving our larger multinational and central government clients.

Additional information is also provided in respect of the functions, as follows:

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.
Deal Advisory ('DA')	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.
Risk Consulting ('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.
Managment Consulting ('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.

3 Segmental reporting *continued*

The resulting operating model is managed through a matrix structure, with the emphasis moving to the group's markets during the year ended 30 September 2016. The group's markets are therefore now considered to be the operating segments for the purposes of presenting segment information under IFRS 8. Additional information is also provided in respect of the functions. Revenue and asset information is presented below for the operating segments; certain activities were reclassified between functions during the year and accordingly prior year figures have been restated where relevant.

The allocation of resource to the markets was not completed until January 2016 and so contribution data for operating segments is not available for either the full year or prior year. Accordingly, segment contribution has been presented on a function basis but will be available on a markets basis in the year ending 30 September 2017.

Information by segment is as follows:

			2016			2015
Revenue	**NM £m**	**IMG £m**	**Total £m**	NM £m	IMG £m	Total £m
Audit	**262**	**226**	**488**	241	231	472
Tax	**266**	**144**	**410**	231	164	395
Deal Advisory	**252**	**134**	**386**	237	127	364
Risk Consulting	**55**	**181**	**236**	56	192	248
Management Consulting	**49**	**208**	**257**	42	185	227
Net sales (as reported internally)	**884**	**893**	**1,777**	807	899	1,706
Recoverable expenses			**298**			253
Gross sales (as reported internally)			**2,075**			1,959
Elimination of intragroup trading and other financial adjustments			**(7)**			(1)
Total group revenue			**2,068**			1,958

			2016			2015
Assets	**NM £m**	**IMG £m**	**Total £m**	NM £m	IMG £m	Total £m
Audit	**38**	**38**	**76**	34	41	75
Tax	**90**	**47**	**137**	80	56	136
Deal Advisory	**38**	**44**	**82**	36	32	68
Risk Consulting	**14**	**38**	**52**	14	43	57
Management Consulting	**15**	**62**	**77**	12	56	68
Segmental assets (as reported internally)	**195**	**229**	**424**	176	228	404
Assets of equity-accounted investees			**-**			15
Assets of entities not reported internally			**83**			11
Assets not allocated to segments			**981**			1,003
Total group assets, excluding members' interests			**1,488**			1,433

3 Segmental reporting *continued*

Profit	2016 Total £m	2015 Total £m
Audit	**184**	197
Tax	**159**	151
Deal Advisory	**156**	147
Risk Consulting	**92**	102
Management Consulting	**54**	59
Segmental contribution (as reported internally)	**645**	656
Members' remuneration adjustments	**156**	156
Costs not allocated to segments	**(435)**	(423)
Net financial expense	**(1)**	(9)
Profit on disposal of associated undertaking	**4**	-
Share of loss of associated undertaking	**(2)**	(2)
Profit before tax of entities not reported internally	**7**	5
Total group profit before taxation and members' profit shares	**374**	383

Profit before taxation of entities not reported internally for the year ended 30 September 2016 arise from Queen Street Mutual ('QSM'), the joint operations in India and the subsidiary KPMG Crimsonwing sub-group for the three months ended 30 September 2016. For the year ended 30 September 2015, gross revenue and profit before taxation arose from QSM and joint operations in India. The share of loss of associated undertaking for the year ended 30 September 2015 and up until 30 June 2016 arises from the investment in KPMG Crimsonwing sub-group (see note 9).

Assets of entities not reported internally arise from QSM, entities in India and the KPMG Crimsonwing sub-group at 30 September 2016; assets of entities not reported internally arose from QSM and entities in India only at 30 September 2015. Equity accounted investees comprise the investment in the KPMG Crimsonwing sub-group at 30 September 2015 (see note 9).

Financial information for these entities are provided to management periodically but is not included for the purposes of UK internal reporting and the management of resource.

As discussed in note 1, members have a contractual right to receive 90% of partnership profits under the 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 net of amounts billed on account. 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.

Major clients

The group has no reliance on any one client – no more than 2% (2015: 3%) of group revenue and 2% (2015: 3%) 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 page 127 and above.

3 Segmental reporting *continued*

Revenue 2016	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	4	481	3	488
Other assurance work	-	55	-	55
	4	536	3	543
Tax	-	455	5	460
Deal Advisory	-	414	29	443
Risk Consulting	1	261	29	291
Management Consulting	-	261	70	331
	5	1,927	136	2,068
Operating profit 2016				
Audit and directly related services	**2**	**51**	**2**	**55**

Revenue 2015	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	27	443	1	471
Other assurance work	1	54	-	55
	28	497	1	526
Tax	-	431	1	432
Deal Advisory	-	379	24	403
Risk Consulting	1	270	45	316
Management Consulting	-	240	41	281
	29	1,817	112	1,958
Operating profit 2015				
Audit and directly related services	**4**	**65**	**1**	**70**

Revenue arising in KPMG Audit Plc continued to decline during the year ended 30 September 2016, reflecting the decision taken in 2013 to seek re-appointment under KPMG LLP where possible, in order to improve the efficiency of the group's audit service offering.

As set out on page 128, 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 2016 £m	Group 2015 £m
Audit and directly related services for audit clients	**488**	471
Non-audit services for audit clients	**243**	281
Non-audit services for non-audit clients	**1,337**	1,206
	2,068	1,958

4 Other operating income

Included in other operating income are the following items:

	Group	
	2016 £m	2015 £m
Charges to other KPMG International member Firms	**67**	64
Rental income	**1**	2
Profit on disposal of associated undertaking	**4**	-
Other items	**9**	9
	81	75

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	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Members	**631**	617	**631**	617
Staff	**13,112**	11,652	**-**	-
	13,743	12,269	**631**	617

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	
	2016	2015
Audit	**3,506**	3,095
Tax	**2,515**	2,321
Deal Advisory	**1,574**	1,419
Risk Consulting	**1,483**	1,423
Management Consulting	**1,437**	1,156
Central	**3,228**	2,855
	13,743	12,269

5 Members and staff *continued*

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.

	Group	
	2016 £m	2015 £m
Salaries (including bonuses)	**833**	751
Social security costs	**88**	81
Cost of retirement benefits (note 20)	**38**	37
Staff costs per income statement	**959**	869
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 20)	**4**	6
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**(6)**	(5)
Total staff related costs	**957**	870

Members' profit shares

In accordance with the LLP Partnership Agreement, 90% of the partnership profits must be allocated to members; 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 being £308 million for the year ended 30 September 2016 (2015: £342 million), 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, average partner remuneration for the year (including both members' profit shares charged as an expense and profits available for discretionary allocation) totalled £582,300 (2015: £623,400).

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/December 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 2016, the benchmark pay component was approximately 90% of an individual member's remuneration (2015: 90%).

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 reinforcing our commitment and drive to delivering excellence to our clients through a one-firm approach. For the year to 30 September 2016, the profit share component was approximately 10% of an individual member's remuneration (2015: 10%).

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.

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 Committee, 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.

6 Other operating expenses

Other operating expenses include property and IT costs, together £110 million (2015: £84 million), and employee training costs of £24 million (2015: £27 million). All other general overhead expenses associated with the provision of professional services are also classified within other operating expenses, including the costs of insurance, communications and marketing. Also included in other operating expenses are impairment reversals on trade receivables of £1 million (2015: £1 million reversal) (see note 14).

6 Other operating expenses *continued*

	Group	
	2016 £000	2015 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**313**	246
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
- Audit of financial statements of subsidiaries	**163**	171
- Audit related assurance services provided to the group	**15**	16
- Audit of certain group pension plans	**52**	49
	543	482

In 2016, audit related assurance services were provided in respect of group sustainability reporting and grant claim reporting assurance (2015: group sustainability reporting and expenses verification work). These services are not related to the statutory audit of the group and therefore are considered as non-audit services.

7 Financial income and expense

	Group	
	2016 £m	2015 £m
Net change in fair value of financial assets at fair value through profit or loss	**6**	2
Exchange gains	**14**	7
Other financial income	**-**	1
Financial income	**20**	10
Net interest on defined benefit pension plan liabilities (note 20)	**4**	6
Discount on provisions (note 18)	**2**	2
Interest expense on bank borrowings	**6**	4
Exchange losses	**9**	7
Financial expense	**21**	19

The total interest income on financial assets that were not classified as fair value through profit or loss was £nil (2015: £1 million). The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £6 million (2015: £4 million).

8 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	
	2016 £m	2015 £m
Current tax expense		
Current year	**15**	10
Share of overseas taxes of joint operation	**2**	2
Deferred tax (see note 19)	**(4)**	(1)
Total tax expense in income statement	**13**	11

Notes

Forming part of the consolidated financial statements *continued*

8 Tax expense *continued*

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

	Group	
	2016 £m	2015 £m
Profit before taxation and members' profit shares	**374**	383
Less profit arising in partnership, on which tax is payable by the members personally	**(342)**	(380)
Profit before taxation arising in group companies	**32**	3
Tax at 20% (2015: 20.5%) being the average rate of corporate taxes levied on the profits of group companies	**6**	1
Impact of tax exempt items	**9**	9
Taxes payable by subsidiary undertakings	**15**	10
Share of overseas taxes of joint operation	**2**	2
Deferred tax (see note 19)	**(4)**	(1)
Total tax expense in income statement	**13**	11

There was no tax (credit)/charge recognised in the statement of comprehensive income (2015: £nil).

Factors affecting the tax charge in future periods

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the corporate subsidiaries future current tax charge accordingly.

The deferred tax asset at 30 September 2016 has been calculated based on the rate of 18% being the rate expected to be in force at the time the losses are anticipated to be utilised.

9 Acquisitions and disposals

Acquisitions

The details set out below provide the information required under IFRS 3 'Business Combinations' for those acquisitions that occurred during the year ended 30 September 2016 together with summary information in respect of those that occurred during the year ended 30 September 2015. If the 2016 subsidiary acquisition of KPMG Crimsonwing Limited (as detailed below) had occurred on 1 October 2015, consolidated revenue and profit before taxation and members' profit shares for the year ended 30 September 2016 would have been £2,086 million and £375 million respectively.

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 recent years.

Acquisitions – year ended 30 September 2015

During the year ended 30 September 2015, the group made six acquisitions. Summary details of those acquisitions are as follows:

Crimsonwing Plc:

On 5 February 2015, the group acquired 85% of the shares in Crimsonwing Plc, through a new legal entity KPMG Investments Malta Limited, for a consideration of £17 million. The Crimsonwing group was listed on the Maltese stock exchange and provides Microsoft Dynamics and e-Commerce business solutions; the activities of the Crimsonwing group are considered to be a strategic fit to those of the group. The remaining 15% of the shares in Crimsonwing Plc were acquired by the KPMG International member Firms in the Netherlands and Malta.

At the time of this acquisition, the member Firms in the UK, the Netherlands and Malta also entered into a shareholders' agreement, resulting in joint control of the acquired group under the terms of the shareholders' agreement. Accordingly, KPMG UK member Firm did not have sole control of Crimsonwing Plc and equity accounted for its investment as an associate in the year ended 30 September 2015. Subsequently, in June 2016, the shareholders' agreement changed giving the UK member Firm control (see below).

Nunwood Investments Limited:

On 14 May 2015, the group acquired 100% of the shares in Nunwood Investments Limited (now KPMG Nunwood Investments Limited), the parent of a group of companies specialising in the provision of customer experience insight and management consultancy services, for a total consideration of £15 million. A further £1 million was paid during the year ended 30 September 2016 in loan note repayments and £2 million in earn out payments. Intangible assets of £7 million relating to customer relationships and similar items, and internally generated software and goodwill of £10 million were recognised in accounting for this acquisition.

9 Acquisitions and disposals *continued*

Boxwood Limited:

On 18 June 2015, the group acquired 100% of the share capital in Boxwood Limited (now KPMG Boxwood Limited), a UK-based management consultancy company specialising in the delivery of business and operational transformation, for a consideration of £13 million. A further £1 million was paid during the year ended 30 September 2016 in earn out payments. Intangible assets of £4 million relating to customer relationships and similar items, and goodwill of £4 million were recognised in accounting for this acquisition.

High-Point Rendel Limited:

On 18 July 2015, the partnership acquired the strategic management and commercial consultancy arms of High-Point Rendel Limited ('HPR'), an international project consultancy company, for a consideration of £7 million. The consideration represented payment for transfer of employees and certain client relationships. Intangible assets of £5 million relating to customer relationships and similar items, and goodwill of £2 million were recognised in accounting for this acquisition.

Towers Watson Limited:

On 14 August 2015, the group acquired the Human Resource Service Delivery ('HRSD') practice of the HR professional services Firm Towers Watson, for a consideration of £4 million. The consideration represented payment for transfer of employees and certain client relationships. It is intended that the acquisition will provide the group with the necessary qualification and market recognition as a HR transformation provider. Intangible assets of £2 million relating to customer relationships and similar items, and goodwill of £2 million were recognised in accounting for this acquisition.

Flareware Systems Limited:

On 18 September 2015, the group acquired 100% of the shares in Flareware Systems Limited, a UK-based software development company specialising in tax reporting systems, for a consideration of £500,000. The assets of the company were integrated fully into the group structure and the cost was therefore written off to the income statement in the year ended 30 September 2015.

In respect of the acquisitions of Nunwood Investments Limited and Boxwood Limited and the assets acquired from High-Point Rendel Limited and Towers Watson Limited, further amounts become payable within the next two years, subject to the acquired business achieving revenue levels against set targets and certain individuals remaining in employment within the group. These amounts are immaterial and not considered to be part of the consideration for acquiring the business, given the terms under which they become payable. These amounts will be expensed to the income statement over the period to which they relate, in line with the accounting treatment followed for similar payments made during the year ended 30 September 2016, as set out above.

Acquisition and disposal – year ended 30 September 2016

KPMG Crimsonwing Limited

In June 2016, the shareholders' agreement between the KPMG International member Firms in the UK, Netherlands and Malta was amended such that the UK Firm obtained control of the Crimsonwing sub-group, owned by KPMG Investments Malta Limited, from that date.

Under IFRS, this transaction is treated as a stepped acquisition and the group is therefore required to recognise the disposal of its share in associate and subsequently recognise an acquisition of a subsidiary. The fair value of the Crimsonwing sub-group was assessed by the group to be £20 million at that time; the UK share of 85% of KPMG Investments Malta Limited was £17 million. Accordingly, the group recognised a £4 million profit on disposal of its £13 million investment in associate and this is reflected in the income statement in other operating income. The fair value at that date is deemed to be the consideration in respect of the acquisition of the Crimsonwing sub-group.

The acquisition of KPMG Crimsonwing Limited as a subsidiary had the following impact on the group's assets and liabilities at the date of acquisition:

	Note	£m
Property, plant and equipment		1
Intangible assets	11	3
Deferred tax assets		1
Trade and other receivables		6
Cash and cash equivalents		4
Trade and other payables		(10)
Deferred tax liabilities		(1)
Total identifiable net assets acquired		**4**
Fair value of pre-existing interest		17
Non-controlling interests		1
Goodwill on acquisition	11	**14**

9 Acquisitions and disposals *continued*

Amounts acquired in respect of trade receivables are net of impairment provisions of £nil. In all cases, the fair values disclosed above approximate to the contractual amounts receivable, due to their short maturity.

Goodwill is attributable to the skills and knowledge of the workforce and the synergies expected to be achieved from integrating the acquired entity, which are not separate assets recognisable under IFRSs. Revenue and profit after taxation of £7 million and £nil million respectively for the period from acquisition to 30 September 2016 are included within these consolidated financial statements.

10 Property, plant and equipment

Group

The group's property, plant and equipment include those of the partnership, as reflected in the table below, and of its newly acquired subsidiary, Crimsonwing Plc (KPMG Crimsonwing), together totalling to a net book value of £448 million (2015: £449 million). At 30 September 2016, the property, plant and equipment of KPMG Crimsonwing included computer and communications equipment (cost and net book value of £0.3 million) and office furniture, fittings and equipment (cost and net book value of £0.2 million) with a total net book value of £0.5 million.

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 2014	270	55	168	15	508
Additions	-	9	99	6	114
Disposals	-	(6)	(31)	(3)	(40)
Balance at 30 September 2015	270	58	236	18	582
Additions	-	10	27	5	42
Disposals	-	(5)	(1)	(5)	(11)
Balance at 30 September 2016	**270**	**63**	**262**	**18**	**613**
Depreciation and impairment					
Balance at 1 October 2014	20	34	75	6	135
Charge for the year	5	10	18	3	36
Disposals	-	(5)	(31)	(2)	(38)
Balance at 30 September 2015	25	39	62	7	133
Charge for the year	5	12	22	3	42
Disposals	-	(5)	(1)	(3)	(9)
Balance at 30 September 2016	**30**	**46**	**83**	**7**	**166**
Net book value					
At 1 October 2014	250	21	93	9	373
At 30 September 2015	245	19	174	11	449
At 30 September 2016	**240**	**17**	**179**	**11**	**447**

The leasehold land and buildings at 30 September 2016 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 security for the revolving credit facility (see note 22). The net book value of assets owned under a finance lease was £240 million (2015: £245 million).

11 Intangible assets

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	Total £m
Cost				
Balance at 1 October 2014	73	15	11	99
Additions	6	-	-	6
Acquisitions	1	17	18	36
Balance at 30 September 2015	80	32	29	141
Additions	10	-	-	10
Acquisitions	1	2	14	17
Exchange differences	-	-	2	2
Balance at 30 September 2016	**91**	**34**	**45**	**170**
Amortisation and impairment				
Balance at 1 October 2014	42	8	-	50
Charge for the year	12	5	-	17
Balance at 30 September 2015	54	13	-	67
Charge for the year	7	6	-	13
Balance at 30 September 2016	**61**	**19**	**-**	**80**
Net book value				
At 1 October 2014	31	7	11	49
At 30 September 2015	26	19	29	74
At 30 September 2016	**30**	**15**	**45**	**90**

Internally generated software includes components of the SAP based ERP system, held by the partnership. Following a decision taken during the year to extend the use of this system, its useful life was extended by 4 years to the end of 2020. Consequently, the depreciation charge has reduced from £7.5 million to £1.5 million per annum and will continue to be recognised over the remaining useful life to the end of 2020.

Goodwill has been recognised in respect of the following business acquisitions:

Acquisition	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		7
KPMG Nunwood Consulting Limited	30 September 2015	9	10
KPMG Boxwood Limited (formerly Boxwood Limited)	30 September 2015	9	4
HPR practice of High-Point Rendel Limited	30 September 2015	9	2
HRSD practice of Towers Watson Limited	30 September 2015	9	2
KPMG Investments Malta Limited (KPMG Crimsonwing sub-group)	30 September 2016	9	14

11 Intangible assets *continued*

Subsequent to acquisition, the goodwill arising on KPMG Investments Malta Limited, which is denominated in euros, has been revalued to the year-end exchange rate, resulting in an exchange difference of £2 million.

Goodwill has been allocated to the group's functions within National Markets which are considered to be its cash generating units (CGU) for this purpose:

	Group	
	2016 £m	2015 £m
Deal Advisory	**9**	9
Management Consulting	**36**	20

The recoverable amount of the CGU has been calculated with reference to its value in use, using cash flow projections of the relevant CGU based on budgets approved by management. The key assumptions of this calculation are determined using values reflecting past experience ; the initial three year budgets are based on current pipeline activity and known plans for that particular part of the business, whilst the assumptions applied beyond three years are more prudent as shown below:

	2016	**2015**
Period on which management approved forecasts are based	3 years	3 years
Growth rate applied beyond approved forecast period	0%	0%
Discount rate	9.2 - 11.5%	6%

The growth rates used in the value in use calculation reflect a prudent view given the uncertainties around integration and market growth in these functions.

The calculated recoverable amount is greater than the carrying value and therefore no impairment arises. A reasonable change in the key assumptions does not have a significant impact on the difference between value in use and carrying value.

Partnership

	Internally generated software £m	**Customer relationships and similar items £m**	**Goodwill £m**	**Total £m**
Cost				
Balance at 1 October 2014	73	-	-	73
Additions	5	-	-	5
Acquisitions	-	5	2	7
Balance at 30 September 2015	78	5	2	85
Additions	7	-	-	7
Balance at 30 September 2016	**85**	**5**	**2**	**92**
Amortisation and impairment				
Balance at 1 October 2014	42	-	-	42
Charge for the year	12	1	-	13
Balance at 30 September 2015	54	1	-	55
Charge for the year	6	1	-	7
Balance at 30 September 2016	**60**	**2**	**-**	**62**
Net book value				
At 1 October 2014	31	-	-	31
At 30 September 2015	24	4	2	30
At 30 September 2016	**25**	**3**	**2**	**30**

12 Investments

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

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Shares in subsidiary undertakings	**-**	-	**13**	13
Interest in associated undertaking	**-**	15	**-**	-
Other investments	**8**	8	**-**	-
	8	23	**13**	13

Group

Interests in associate undertaking at 30 September 2015 reflected the group's investment in the Crimsonwing sub-group (see note 9). As set out in note 9, the shareholders' agreement between the member Firms in the UK, Netherlands and Malta was amended such that the UK Firm obtained control of Crimsonwing sub-group from June 2016. Accordingly, the interest in associate undertaking was disposed of during the year.

During the year, the group has invested £nil (2015: £5 million) in third party investments where the shareholding is less than 20% in each case and the group exercises neither significant influence nor control.

The subsidiary undertakings and associated undertaking of the group are set out in note 26 together with summary financial information in respect of associated undertaking.

Partnership

The subsidiaries of KPMG LLP are set out in note 26.

13 Other non-current assets and liabilities

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Other non-current assets:				
Other prepayments	**-**	-	**53**	54
Other receivables	**-**	-	**33**	31
Deferred tax assets (see note 19)	**4**	-	**-**	-
	4	-	**86**	85
Other non-current liabilities:				
Amounts owed to other UK group undertakings	**-**	-	**90**	90
Other payables	**-**	1	**-**	-
	-	1	**90**	90

Notes

Forming part of the consolidated financial statements *continued*

13 Other non-current assets and liabilities continued

Partnership

Under the Asset Backed Funding ('ABF') arrangement (see note 20), the partnership prepaid £60 million into the defined benefit plans; £52 million in the pre-2000 fund and £8 million in the TMcL fund, at the inception of the agreement. Under the agreement the Scottish Limited Partnership ('SLP'), a group entity set up on inception of the agreement, makes monthly payments totalling £4.5 million per annum to the pension plans for 25 years from the date of implementation. The prepayment of £60 million is therefore expected to reduce to £nil over the period of 25 years with the discount unwinding through financial income.

At 30 September 2016, the prepayment was £58 million (2015: £59 million); £53 million (2015: £54 million) is non-current, whilst the remaining £5 million (2015: £5 million) is current, classified as other prepayments within trade and other receivables.

In addition, at the inception of the ABF, the partnership contributed £30 million to the SLP which it expects to recover on future termination of the ABF. It is the expectation that the pension deficits would reduce over the period and therefore the ABF would generate a return of £60 million to the partnership at the end of the 25 year life. At 30 September 2016, a receivable balance of £33 million is classified as other receivables within other non-current assets with the discount unwinding through financial income (2015: £31 million).

Also under the ABF, the partnership has transferred £90 million of its trade receivables 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. A financial expense of £4.5 million has been recognised in the partnership's income statement in respect of the unwinding discount on this liability.

Other payables at 30 September 2015 represented amounts due as deferred consideration on the acquisition of Nunwood Investments Limited (see note 9).

14 Trade and other receivables

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade receivables	**366**	363	**341**	348
Unbilled amounts for client work	**350**	319	**314**	293
Amounts due from other UK group undertakings	**-**	-	**26**	20
Other prepayments	**34**	48	**38**	48
Other receivables	**26**	14	**10**	8
Amounts due from other KPMG International member Firms	**62**	63	**55**	46
	838	807	**784**	763

Trade and other receivables are due within 12 months.

Trade receivables are shown net of impairment losses amounting to £3 million (2015: £4 million) for the group and £3 million (2015: £4 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 2016 £m	**Impairment 2016 £m**	Gross 2015 £m	Impairment 2015 £m
Trade receivables				
Overdue 1-30 days	**49**	**-**	50	-
Overdue 31-180 days	**42**	**-**	56	-
More than 180 days	**5**	**3**	8	4
	96	**3**	114	4

14 Trade and other receivables *continued*

Partnership

	Gross 2016 £m	Impairment 2016 £m	Gross 2015 £m	Impairment 2015 £m
Trade receivables				
Overdue 1-30 days	**44**	**-**	48	-
Overdue 31-180 days	**42**	**-**	54	-
More than 180 days	**5**	**3**	8	4
	91	**3**	110	4

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

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Balance at 1 October	**4**	5	**4**	5
Impairment reversal recognised in the income statement	**(1)**	(1)	**(1)**	(1)
Balance at 30 September	**3**	4	**3**	4

15 Other financial assets

		Group		Partnership	
		2016 £m	2015 £m	**2016 £m**	2015 £m
Bonds	Fair value through profit or loss	**41**	35	-	-
Equities	Fair value through profit or loss	**17**	13	-	-
		58	48	-	-

16 Cash and cash equivalents

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Bank balances	**42**	32	**8**	-

17 Trade and other payables

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Accruals	**220**	220	**112**	202
Amounts billed on account	**228**	229	**199**	206
Other taxes and social security	**66**	56	**41**	33
Other payables	**16**	7	**5**	6
Trade payables	**36**	22	**31**	21
Amounts due to other UK group undertakings	**-**	-	**154**	65
Amounts due to other KPMG International member Firms	**9**	12	**8**	10
	575	546	**550**	543

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

Notes

Forming part of the consolidated financial statements *continued*

18 Provisions

Group

	Annuities £m	Property provisions £m	Other £m	Total £m
Balance at 1 October 2015	55	6	40	101
Utilised during the year	(4)	(1)	(7)	(12)
Income statement:				
- Provisions made during the year	5	1	-	6
- Provisions reversed during the year	-	-	(4)	(4)
- Unwinding of discounted amounts	2	-	-	2
Balance at 30 September 2016	**58**	**6**	**29**	**93**
Non-current	55	5	29	89
Current	3	1	-	4

Partnership

	Annuities £m	Property provisions £m	Other £m	Total £m
Balance at 1 October 2015	55	6	11	72
Utilised during the year	(4)	(1)	(1)	(6)
Income statement:				
- Provisions made during the year	5	1	-	6
- Provisions reversed during the year	-	-	(4)	(4)
- Unwinding of discounted amounts	2	-	-	2
Balance at 30 September 2016	**58**	**6**	**6**	**70**
Non-current	55	5	6	66
Current	3	1	-	4

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:

	2016 £m	2015 £m
Within 12 months of the year-end	**3**	4
Between 1-5 years	**12**	12
Between 5-15 years	**22**	21
In more than 15 years	**21**	18
	58	55

18 Provisions *continued*

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:

	2016 %	2015 %
Discount rate	**2.20**	3.70
Inflation rate (retail price index)	**3.25**	3.25

The mortality tables used for the former members' annuities provision at both 30 September 2016 and 2015 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.

		Impact on annuity provision increase/ (decrease)	
Assumption	**Change in assumption**	**£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 £1 million (2015: £1 million) for the group and £1 million (2015: £1 million) for the partnership will be utilised within 12 months and the balance is expected mainly to be utilised within the next five years.

Other provisions largely represent costs relating to professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities. Where appropriate, provision is made for the uninsured cost (including related legal costs) to the partnership and group of settling these matters. Separate disclosure is not made of insured costs and related recoveries in the notes to the partnership financial statements 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 the next five years.

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	
	Assets £m	**Liabilities £m**
Balance at 1 October 2015	1	(3)
Acquisition of subsidiary	1	(1)
Deferred tax credit	2	2
Balance at 30 September 2016	**4**	**(2)**

Deferred tax assets have been recognised at 30 September 2016, totalling £3.3 million in respect of temporary differences arising in the corporate entities (2015: £nil) and £0.6 million in respect of tax losses of £3 million (2015: £0.5 million recognised in respect of tax losses totalling £3 million).

20 Retirement benefits

Group and partnership

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

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Contributions to defined contribution schemes	**38**	37	-	-
Current service cost for defined benefit pension plans	-	-	-	-
Cost of retirement benefits	**38**	37	**-**	**-**

The net financing cost of £4 million (2015: £6 million) and remeasurement gains of £6 million (2015: £5 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 trustee directors of KPMG Pension Trust Company Limited.

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.

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 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 final results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2016. The actuarial valuation resulted in an actuarially assessed funding deficit of £105.1 million. The Trustees of the pre-2000 fund and the group agreed a recovery plan to address the 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 in addition.

The KMG Thomson McLintock Pension Scheme

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan providing benefits based on final pensionable pay. It is closed to new entrants and ceased future service accrual on 1 April 2016. The weighted average duration of the defined benefit obligation for the TMcL plan is approximately 16 years.

The most recent actuarial valuation of the TMcL plan was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2014. The final results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2016. The actuarial valuation resulted in an actuarially assessed deficit of £17.3 million. The Trustees of the TMcL plan and the group agreed a

20 Retirement benefits *continued*

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 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 in addition.

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided on an IAS 19 'Employee Benefits' (IAS 19 Revised) basis as at 30 September 2016 and 30 September 2015 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 higher present value than the current deficit within the TMcL plan. As such, an additional liability of £1.5 million (2015: £nil) has been recognised for the TMcL plan and no adjustment has been made for the pre-2000 fund at 30 September 2016 (2015: £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. During the year ended 30 September 2016, the Trustees continued implementing revised investment strategies for the plans, reducing the level of equity exposure and increasing the interest rate and inflation hedging through a combination of diversified credit and Liability Driven Investments ('LDI') with the aim of reducing funding level volatility. The Trustees of the plans continue to 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.

Other matters

The group expects to contribute approximately £11 million (which includes payments of £4.5 million from the Asset Backed Funding arrangement – see below) to its defined benefit pension plans in the next financial year.

At the time that the funding plans were agreed with the Trustees, KPMG LLP entered into an Asset Backed Funding ('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 from the date of implementation.

The plans have a limited interest in the SLP and are entitled to 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 from the date of implementation. These payments will be in addition to the group's deficit reduction contributions as per the funding plans. This distribution is linked to the funding level within the plans, whereby the payments to a plan will cease 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 group's statement of financial position, IAS 19 deficit and income statement are unchanged by the establishment of the SLP. 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.

20 Retirement benefits *continued*

As a result of the transactions under the ABF, the partnership statement of financial position, at the inception of the agreement, was 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 deficit and income statement were 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.

Composition and fair value of plan assets

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Quoted in an active market				
Debt instruments				
UK government fixed interest	**99**	70	**468**	360
UK government index-linked	**50**	35	**196**	135
Investment funds				
Global equity	**-**	11	**-**	-
Corporate Bonds	**-**	11	**-**	104
Diversified credit	**87**	48	**364**	177
Cash and cash equivalents				
Cash	**10**	2	**37**	6
Not quoted in an active market				
Derivatives				
Equity contracts	**-**	(3)	**(1)**	(10)
Credit contracts	**(90)**	(59)	**(398)**	(303)
Investment funds				
Fund of hedge funds	**-**	-	**-**	1
Global macro fund	**-**	6	**1**	24
Distressed debt fund	**5**	5	**20**	21
Fair value of plan assets	**161**	126	**687**	515
Present value of funded defined benefit obligations	**(170)**	(141)	**(804)**	(641)
Net deficit	**(9)**	(15)	**(117)**	(126)
Additional liability due to minimum funding requirements	**(2)**	-	**-**	-
Net liability in the statement of financial position	**(11)**	(15)	**(117)**	(126)

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.

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Benefit obligation at 1 October	**(141)**	(143)	**(641)**	(627)
Current service cost	**-**	-	**-**	-
Interest on obligations	**(4)**	(6)	**(20)**	(24)
Remeasurement gain/(loss) arising from changes in demographic assumptions	**1**	3	**5**	(4)
Remeasurement loss arising from changes in financial assumptions	**(33)**	-	**(173)**	(10)
Remeasurement gain arising from experience on the plan's liabilities	**-**	-	**3**	-
Benefits paid	**7**	5	**22**	24
Benefit obligation at 30 September	**(170)**	(141)	**(804)**	(641)
Of which: amounts owing to active members	**-**	(13)	**-**	-
Of which: amounts owing to deferred members	**(110)**	(73)	**(600)**	(469)
Of which: amounts owing to pensioner members	**(60)**	(55)	**(204)**	(172)

TMcL plan: During the reporting period there was a curtailment credit of £0.4 million as a result of closure of the TMcL plan to future accrual of benefits. This closure meant that the link between active members' benefits and their salaries was broken, resulting in the curtailment credit. There have been no settlements over the reporting period.

Pre-2000 fund: 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Fair value of plan assets at 1 October	**126**	122	**515**	497
Interest income	**4**	5	**16**	19
Return on plans assets, excluding interest income	**36**	3	**169**	13
Contributions by employer	**2**	1	**9**	10
Benefits paid	**(7)**	(5)	**(22)**	(24)
Fair value of plan assets at 30 September	**161**	126	**687**	515

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

	2016 £m	2015 £m
Personnel costs:		
- Current service cost	-	-
Finance income and expense:		
- Net interest expense on net defined benefit obligations	**4**	6
Total expense recognised in the income statement	**4**	6

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

Remeasurements recognised in statement of comprehensive income

	TMcL plan		Pre-2000 fund	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Remeasurement gain/(loss) arising from changes in demographic assumptions	**1**	3	**5**	(4)
Remeasurement loss arising from changes in financial assumptions	**(33)**	-	**(173)**	(10)
Remeasurement gain arising from experience on the plan's liabilities	**-**	-	**3**	-
Return on plan assets, excluding interest income	**36**	3	**169**	13
Change in additional liability due to minimum funding requirement	**(2)**	-	**-**	-
Total remeasurements recognised in statement of comprehensive income	**2**	6	**4**	(1)

Remeasurement gains and losses arise as a result of changes in assumptions or represent experience adjustments. Remeasurement gains and losses are recognised in the statement of comprehensive income in the period in which they occur.

Assumptions

Under IAS 19 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 only.

The significant financial and other assumptions used to calculate the liabilities over the life of the plans on an IAS 19 basis were:

Actuarial assumptions

	2016 %	2015 %
Discount rate to calculate defined benefit obligation	**2.20**	3.70
Discount rate to calculate pension expense	**1.90**	3.25
Future salary increases (TMcL plan only)	**n/a**	4.25
Increase of pensions in payment (RPI linked)	**3.10**	3.10
Increase for deferred pensioners (CPI; TMcL plan only)	**2.25**	2.25

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 2016 were the SAPS Series 2 Light tables with CMI 2015 projections using a long-term trend rate of 1.25% p.a. for both males and females (2015: SAPS Series 2 Light tables with CMI 2014 projections, 1.25 p.a. long-term trend rates for both males and females).

These tables lead to life expectancies as follows:

	2016 Years	2015 Years
Retiring today, age 60		
Males	**28.2**	28.3
Females	**29.3**	29.5
Retiring at age 60, currently aged 45		
Males	**29.5**	29.6
Females	**30.8**	31.0

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

Sensitivity analysis

The principle 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 plans liabilities to changes in these assumptions.

		Impact on plan liability increase/(decrease)		
Assumption	**Change in assumption**	**TMcL plan £m**	**Pre-2000 fund £m**	**Total £m**
Discount rate	Increase by 0.25%	(6)	(33)	(39)
Increase of pensions in payment (RPI linked)	Increase by 0.25%	2	7	9
Increase for deferred pensioners (CPI; TMcL plan only)	Increase by 0.25%	1	-	1
Life expectancy	Increase by 1 year	4	18	22

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

Members' other interests defined as equity includes members' other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members and foreign currency translation reserves in respect of overseas subsidiaries. Also included in members' other reserves are remeasurement gains and losses arising on the defined benefit pension plans (see note 20).

b) Members' capital

Group and partnership

The group is financed by members' capital. In addition, the working capital and longer term requirements of the group will be met by the bank facilities (see note 22d). 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 2014	52
Capital introduced by members	16
Repayments of capital	(6)
Balance at 30 September 2015	62
Capital introduced by members	7
Repayments of capital	(9)
Balance at 30 September 2016	**60**

21 Equity, members' capital and other interests *continued*

c) Amounts due from/(to) members

In addition to members' other interests defined as equity, Members' interests also comprise amounts due from/(to) members as follows:

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts due from members	**45**	42	**45**	42
Amounts due to members	**(169)**	(235)	**(169)**	(235)
	(124)	(193)	**(124)**	(193)

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, 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) Accounting classifications and fair values

The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2016 and 2015, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1. The following table shows the classification and carrying amounts of the group's and partnership's financial assets and financial liabilities.

The only assets designated at fair value for the group are the bonds, equities and other investments shown below; the partnership has no financial instruments carried at fair value at either 30 September 2016 or 30 September 2015.

When measuring the fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy 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).

All assets designated at fair value are classified as Level 1 with the exception of other investments which are classified as Level 3. There have been no transfers between Level 1 and 2 during the current or prior year.

22 Financial instruments *continued*

	Note	Group 2016 £m	Group 2015 £m	Partnership 2016 £m	Partnership 2015 £m
Loans and receivables					
Trade receivables	14	**366**	363	**341**	348
Unbilled amounts for client work	14	**350**	319	**314**	293
Cash and cash equivalents	16	**42**	32	**8**	-
Amounts due from members	21c	**45**	42	**45**	42
Non-current loans and receivables	13	**-**	-	**33**	31
Other receivables	14	**26**	14	**10**	8
Amounts due from other UK group undertakings	14	**-**	-	**26**	20
Amounts due from other KPMG International member Firms	14	**62**	63	**55**	46
Total loans and receivables		**891**	833	**832**	788
Financial assets designated as at fair value through profit or loss					
Bonds	15	**41**	35	**-**	-
Equities	15	**17**	13	**-**	-
Other investments	12	**8**	8	**-**	-
Total financial assets at fair value through profit or loss		**66**	56	**-**	-
Total financial assets		**957**	889	**832**	788
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	21c	**169**	235	**169**	235
Bank borrowings		**431**	362	**361**	280
Members' capital	21b	**60**	62	**60**	62
Other payables	17	**16**	7	**5**	6
Trade payables	17	**36**	22	**31**	21
Amounts due to other UK group undertakings	17	**-**	-	**154**	65
Amounts due to other KPMG International member Firms	17	**9**	12	**8**	10
Other non-current liabilities	13	**-**	1	**90**	90
Total non-derivative financial liabilities measured at amortised cost		**721**	701	**878**	769
Total financial liabilities		**721**	701	**878**	769
Total financial instruments		**236**	188	**(46)**	19

b) 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. There were no open interest rate contracts at 30 September 2016 or at 30 September 2015.

Notes

Forming part of the consolidated financial statements *continued*

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	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Fixed rate instruments					
Bonds	15	**41**	35	**-**	-
Variable rate instruments					
Bank borrowings	22d	**(431)**	(362)	**(361)**	(280)
Bank balances and cash deposits	16	**42**	32	**8**	-
		(389)	(330)	**(353)**	(280)

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 £4 million (2015: £1.8 million) and increased or decreased partnership profit by £3 million (2015: £1.3 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exchange rate risk

The functional currency of the partnership is pound sterling. The functional currencies of other group entities are assessed individually and are considered to be euro, US dollar and Indian rupee. 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 2016 the group had receivable and payable balances, denominated in non-functional currencies as follows:

	Group		Partnership	
Receivables	**2016 £m**	2015 £m	**2016 £m**	2015 £m
US dollar	**21**	13	**19**	13
Euro	**17**	20	**11**	15

	Group		Partnership	
Payables	**2016 £m**	2015 £m	**2016 £m**	2015 £m
US dollar	**3**	7	**3**	6
Euro	**4**	2	**4**	2

22 Financial instruments *continued*

The net bank balances and cash deposits in non-functional currencies were as follows:

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
US dollar	**11**	4	**11**	4
Euro	**5**	4	**5**	4

A 5% movement in the US dollar or euro closing exchange rates would have increased (or decreased) group profit by £2 million and £1 million (2015: £1 million and £1 million) and partnership profit by £1 million and £1 million (2015: £nil and £1 million), respectively.

There were no open forward foreign exchange contracts at 30 September 2016. At 30 September 2015 open forward foreign exchange contracts to sell 55 million Saudi Riyals and €2 million in exchange for pounds sterling were outstanding. The fair value of these contracts at 30 September 2015 was a gain of £168,000.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	**2016**	2015
Euro	**1.2868**	1.3482	**1.1625**	1.3519
US dollar	**1.4252**	1.5457	**1.3006**	1.5189

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 Head of Finance.

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 £17 million (2015: £13 million) and other investments of £8 million (2015: £8 million).

c) 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.

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 assets as set out in the table in section a) on page 150.

d) 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.

Notes

Forming part of the consolidated financial statements *continued*

22 Financial instruments *continued*

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 borrowings under this facility are the only financial liabilities of the group and partnership that are interest bearing.

Committed borrowing facilities of £560 million (2015: £405 million) were available to the group at 30 September 2016. Actual amounts drawn were £431 million (2015: £362 million) by the group and £361 million (2015: £280 million) by the partnership. Of the facilities available as at 30 September 2016, £10 million (2015: £5 million) expires in one year or less, and the revolving credit facility of £550 million (2015: £400 million) is due to expire in January 2022 (see note 27); in both cases, £250 million of the draw down has been classified as non-current at 30 September 2016.

Borrowing facilities

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-current borrowings	**250**	-	**250**	-
Short term borrowings	**181**	362	**111**	280
	431	362	**361**	280

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 2016 and 2015. The revolving credit facility is secured on the lease of 15 Canada Square, London.

The group and partnership have non-derivative financial liabilities as set out in the table in section a) on page 150. All of those financial liabilities are measured at amortised cost. In each case, the carrying amount reflects the contractual cash flows due to the short maturity; they are all due for payment within 12 months, except the non-current bank borrowings of £250 million which has a maturity of 1-5 years (2015: £nil).

23 Operating leases

Total commitments under non-cancellable operating leases are as follows:

Non-cancellable operating lease rentals

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Within one year	**43**	43	**43**	42
Between 1-5 years	**120**	113	**118**	113
More than five years	**176**	172	**176**	172
	339	328	**337**	327

A number of office facilities are leased under operating leases. The periods of the leases vary between 1-15 years; lease payments are generally subject to rent review every five years.

Group and partnership

	2016 £m	2015 £m
Amounts receivable from sub-let properties:		
- within 1 year	**1**	2
- within 2-5 years	**-**	1
Operating lease cost for the year in 'Other operating expenses'	**31**	25
Operating lease income for the year in 'Other operating income'	**1**	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 paid, therefore no future liability exists.

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 £3 million (2015: £11 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

The guarantee given by the partnership 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$4 million (£3 million) has expired during the year.

25 Related parties

The group is wholly owned and controlled by the UK members.

The group has a related party relationship with its key management, considered to be the members of the Board and the Executive Committee (as set out on pages 82 and 87) who were also individual members of the partnership.

Transactions with key management

The members of the UK Board and the Executive Committee are responsible for planning, directing and controlling the activities of the group. The members of the UK Board and the Executive Committee all share in the profits of the partnership and the following disclosures relate to those members only.

As set out in note 1, 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 £22 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 £1.8 million (2015: £2.2 million).

There were no balances due to or from key management at 30 September 2016 or 2015 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. 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:

	2016 £m	2015 £m
Amounts due from key management	**1**	1
Amounts due to key management	**(15)**	(13)
	(14)	(12)

Total members' capital invested by key management in the partnership amounted to £2 million at 30 September 2016 (2015: £2 million).

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 between the partnership and fellow group entities are set out below.

	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**
2016				
UK group undertakings – services provided	**37**	**25**	**14**	**-**
KPMG UK Limited – provision of staff	**947**	**-**	**-**	**142**
2015				
UK subsidiaries – services provided	33	43	3	-
KPMG UK Limited – provision of staff	849	-	-	48

Notes

Forming part of the consolidated financial statements *continued*

25 Related parties *continued*

Transactions with associate undertaking

As discussed in note 9, following the change in terms of the shareholder agreement in June 2016, the investment in KPMG Investments Malta Limited no longer fell to be classified as an associate from this date. Hence the information presented below with respect to transactions with associated undertaking, which are not eliminated on consolidation, represents transactions up until 1 June 2016:

	Group		Partnership	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Transactions with associate undertaking:				
Revenue	**1**	1	**-**	1
Balances outstanding with associate undertaking at the year-end:				
Amounts owed by other KPMG International member Firms	**-**	2	**-**	2

These transactions were settled in cash, were on an arm's length basis and followed the UK member firm's normal trade terms.

26 Group undertakings

All of the group and partnership's investments in subsidiaries and joint arrangements at 30 September 2016 are listed in the table below.

All of the subsidiary undertakings make up their accounts to 30 September and are consolidated within these financial statements. The joint operations provide management information at 30 September for the purposes of group reporting. All entities prepare their accounts under uniform accounting policies and operate principally in their country of incorporation.

	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
Subsidiary undertakings				
KPMG Holdings Limited	England	Holding company	UK registered Auditor	100
KPMG Audit Holdings Limited	England	Holding company	UK registered Auditor	100[3]
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
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]
KPMG Overseas Services Limited	England	Advisory services	None	100[3]
Makinson Cowell Limited	England	Advisory services	FCA Regulated	100[3]
Makinson Cowell US Limited	England	Advisory services	None	100[3]
KPMG Pension Trust Company Limited	England	Trust company	None	100
KPMG Pension Funding (GP) Limited	Scotland	General Partner of SLP	None	100
KPMG Nunwood Investment Limited	England	Holding company	None	100[3]
KPMG Nunwood Holdings Limited	England	Holding company	None	100[3]
KPMG Nunwood Consulting Limited	England	Advisory services	None	100[3]
Knowledge Systems (Nunwood) Limited	England	Internal IT support services	None	100[3]

26 Group undertakings *continued*

	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
Nunwood Services Limited	England	Dormant	None	100[3]
Nunwood Inc.	United States of America	Dormant	None	100[3]
Market Analysis (Nunwood) Limited	England	Dormant	None	100[3]
KPMG Boxwood Limited	England	Advisory services	None	100[3]
KPMG Gulf Holdings Limited	England	Holding company	None	100[3]
Queen Street Mutual Company PCC Limited	Guernsey	Insurance	Guernsey Insurer	0[2]
K Nominees Limited	England	Dormant	None	100[3]
KPMG CW Properties Limited	England	Dormant	None	100
EquaTerra UK Limited	England	Dormant	None	100[3]
KPMG Europe Holdings Limited	England	Holding company	None	100
Daymer International Limited	England	Advisory services	None	100[3]
KPMG Investments Malta Limited	Malta	Holding company	None	85[3]
Crimsonwing Plc	Malta	Holding company	None	85[3]
KPMG Crimsonwing Limited	England	Advisory services	None	85[3]
KPMG Crimsonwing (Malta) Limited	Malta	Advisory services	None	85[3]
KPMG Crimsonwing BV	Netherlands	Advisory services	None	85[3]
Promentum Academy BV	Netherlands	Dormant	None	85[3]
Crimsonwing BV	Netherlands	Dormant	None	85[3]
Flareware Systems Limited	England	Dormant	None	100[3]
Joint operations				
KPMG Resource Centre Private Limited	India	Internal support services	None	50[3]
KPMG Global Advisory Holdings (Bermuda) LP	Bermuda	Holding company	None	50[3]
GKAS (Mauritius) Limited	Mauritius	Holding company	None	50[3]
KPMG Global Services Management Private Limited	India	Internal advisory support services	None	33[3]
KPMG Global Services Private Limited	India	Internal advisory support services	None	33[3]
KPMG Global Services Inc	United States of America	Internal advisory support services	None	33[3]

1. This company employs the staff occupied in the businesses of KPMG LLP and certain 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.

Notes

Forming part of the consolidated financial statements *continued*

26 Group undertakings *continued*

The partnership has an interest in a Scottish Limited Partnership ('SLP'), KPMG Pension Funding Limited Partnership, which is fully consolidated into these group accounts. The SLP is not required to present and file accounts at Companies House as it is not a qualifying partnership as defined in the Partnerships (Accounts) Regulations 2008. The SLP was set up during the year ended 30 September 2014 in connection with the ABF (see note 20).

The group is a 33.33% partner in KPMG Global Services Private Limited and KPMG Global Services Management Private Limited, joint arrangements 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.

Although these entities 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.

The following financial information reflects 100% of the associate of the group, KPMG Investments Malta Limited. The information for 2015 includes the results of the associate for the period from 1 October 2014 to 30 September 2015. The information for 2016 includes the results of the associate only for the period from 1 October 2015 to 1 June 2016, when the associate became a subsidiary.

	2016 £000	2015 £000
Assets	**-**	25
Liabilities	**-**	(7)
Revenues	**13**	11
Loss	**(2)**	(2)

27 Events after the year-end

The group's revolving credit facility of £550 million has been extended for a further period of one year and matures on 31 January 2022.

Appendices

4

1

Appendix 1

1 Structure and governance

1.1 UK Firm structure and governance

1.1.1 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' which is 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 ('the Firm', together 'KPMG UK' or 'the group'), and details of their legal structure, regulatory status, principal activity and country of incorporation are 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 Section 1.2 of Appendix 1.

As described in Section 1.2 of 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.

1.1.2 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 2016, there was an average of 631 Partners in KPMG LLP (2015: 617 Partners).

1.1.3 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 Committee, and the Audit & Risk, Nomination & Remuneration, Public Interest and Ethics committees including their background and meeting attendance are set out on pages 82 to 89 of this report.

The Firm's governance structures and management team and their Members are subject to formal, rigorous and on-going performance evaluation.

1.1.3.1 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 Committee 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.

1.1.3.2 The Board

The main governance body of the Firm 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, its purpose, its vision and 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.

Non-Executive Members of the Board are elected by the Members for fixed terms. The current Non-Executive Members are serving two or three-year terms up to a maximum of six years, in order to maintain relevant skills and breadth of experience on the Board.

As at 30 September 2016 the Board of KPMG LLP was made up of three Members of the Executive Committee, one Vice Chair and eight Non-Executive Members, as set out on pages 82 to 87.

The Board met formally 12 times in the year to 30 September 2016. In addition, the Board held a number of ad-hoc calls and meetings to discuss other matters arising during the year.

1.1.3.3 The Executive Committee ('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, investment and managing the risk profile of KPMG UK.

The ExCo is chaired by the Managing Partner who is appointed by the Senior Partner. The Members of ExCo are appointed by the Senior Partner and Managing Partner and, as at 30 September 2016, in addition to the Senior Partner and Managing Partner, included the Chief Financial Officer and Head of Operations ('CFO'), the Head of Quality & Risk Management, Head of International Markets and Government, Head of National Markets, Head of Audit, Head of Brexit and General Counsel. In the year to 30 September 2016, ExCo met formally 21 times.

1.1.3.4 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.

At 30 September 2016, the Audit & Risk Committee consisted of four Board Members: three of whom were Non-Executive Members and the Vice Chair. One of the Non-Executive Members was appointed as Committee Chairman, an appointment ratified by the Board.

The Members of the Audit & Risk Committee are appointed by the Board for a period of three years with the option for this to be renewed for an additional two-year period.

The Audit & Risk Committee met six times in the year ended 30 September 2016.

Four of these meetings during the year were 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.

A report on the activities of the committee in the year is provided on page 91.

1.1.3.5 The Nomination & Remuneration Committee

The key responsibilities of the Nomination & Remuneration Committee are to review the process for profit allocation and distribution to Members; to make recommendations on the performance of and profit distribution to the UK Senior Partner; to review the recommendations of the Senior Partner and Managing Partner in relation to the performance of and profit distribution to ExCo; and to provide oversight of the processes for the appointment of Leadership positions and Public Interest Committee Members.

During the year ended 30 September 2016, the Nomination & Remuneration Committee met 12 times.

As at 30 September 2016, the Nomination & Remuneration Committee consisted of five Members, all of whom were Non-Executives. The Senior Partner, Managing Partner, CFO, General Counsel and Head of Partner Matters are invited to join the meetings when the Nomination & Remuneration Committee deem necessary.

A report on the activities of the committee in the year is provided on page 92.

1.1.3.6 The Ethics Committee

The Ethics Committee provides 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 ended 30 September 2016, the Ethics Committee convened 11 times. As at 30 September 2016, the committee consisted of seven Members, being four Partners at large and three Members of the Board (including the Head of Quality & Risk Management).

A report on the activities of the committee in the year is provided on pages 93 and 94.

1.1.3.7 The Public Interest Committee

The Public Interest Committee ('PIC') consists of individuals who, not being otherwise connected with KPMG UK, we considered to be independent. Members of the PIC were selected to provide specific insights considered to be relevant to the activities of the PIC and the development of the Firm, including expertise in corporate matters, leadership of professional services Firms and governance and investor needs. As at 30 September 2016, the PIC consisted of three Members.

The key responsibilities of the PIC 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 PIC normally meets together with the Audit & Risk Committee given the commonality of interests. In such meetings the PIC will form their own separate conclusions on matters raised and may adjourn for private deliberations if thought necessary. In advance of such meetings, the PIC will meet by itself to discuss matters relating to its own remit and whatever else the PIC Chair believes appropriate. The Committee also met with the Ethics Committee and Audit & Risk Committee to review the ethical health of the Firm, and receive the Annual Report on Whistleblowing from the Independent Ombudsman.

During the year to 30 September 2016, the Committee met formally four times.

The Members of the Public Interest Committee are appointed by the Senior Partner on the recommendation of the Nominations & Renumeration Committee with the approval of the Board. The appointments are for a fixed term of either two or three years which may be renewed subject to the individual serving a maximum total term of five years.

KPMG has considered the UK Audit Firm Governance Code and the FRC's revised Ethical Standard in drawing up criteria for appointment of the Members of the PIC. These criteria recognise the need for the external Non-Executives who comprise our PIC 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 on pages 104 and 105.

1.1.3.8 Communication with the Members

During the year, the UK Senior Partner and Managing Partner had primary responsibility for communication with the Partners in the UK. They did this through a number of mechanisms including face-to-face meetings, weekly communications from the Senior Partner and Managing Partner on external and operational matters, respectively, and WebExs. Where there is an immediate need to communicate matters then an all-Partner voicemail message facility is used, or exceptionally, roundtable meetings convened. In addition, all Members are invited to the Annual Partner Conference which is held each December to discuss a range of topics including the results for the year and the forthcoming business plan, and in May 2016 a Spring Leadership Conference was held for all Partners to consider the Firm's strategic plan.

1.2 Network arrangements

Legal structure

The independent Member Firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of Member Firms but does not provide professional services to clients. Professional services to clients are exclusively provided by Member Firms.

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, 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, or 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.

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 multi-national 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 commit to a common set of KPMG values.

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.

Professional indemnity insurance

A substantial level of insurance cover is maintained in respect ofprofessional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG Member Firms.

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 KPMG International has no share capital and, therefore, only has Members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board Members. It includes representation from 58 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 four other senior partners of Member Firms. The list of Global Board Members, as at 1 October 2016 is available in the International Annual Review.

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.

Global Management Team

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 Chief Operating Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team Members as at 1 October 2016 is available in the International Annual Review.

Global Steering Groups

The Global Steering Groups work closely with regional and Member Firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality; and
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in the KPMG International Transparency Report.

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.

Further details about KPMG International including the governance arrangements, can be found in the KPMG International Transparency Report*

*https://home.kpmg.com/xx/en/home/campaigns/2016/12/kpmg-international-transparency-report-2016.html

2

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 ('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, to help our personnel act with integrity and objectivity, and perform their work with diligence. In June 2016, a revised ISQC1 was issued which is effective for financial periods commencing on or after 17 June 2016. We are considering the requirements of the revised standard and reviewing our policies and procedures to ensure compliance with the revised standard and will report on this next year.

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').

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. The system of quality control applies to all of our personnel whether based in the UK or at one of our off-shore locations.

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 met on a monthly basis during the year and these meetings included 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 were debated, other observations collected from client-facing teams were 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. This includes progress on the actions agreed with the AQR and Quality Assurance Department ('QAD') in response to their quality findings. In October 2016 the Audit Leadership Team launched a broader Quality Improvement Plan ('QIP'). This was developed as a response to the results emerging from the tightening of our own internal quality monitoring programme which highlighted the pace of improvement was below that targeted. Actions within this wider Quality Improvement Plan include a number of initiatives to drive continuous improvement of quality through behavioural change. 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 considered matters relating to maintaining and improving audit quality. During the year, the Audit Quality Council comprised 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 the Business Unit Heads of Audit. The Audit Quality Council met six times during the year ended 30 September 2016, 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 continuous improvement of audit quality; 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 which is compliant 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 a 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, and how they were applied in the year, 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 statutory auditors 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. In addition to Audit Matters, we issue regular technical bulletins addressed to all audit professionals to cover emerging issues, new developments, policies, and guidance; and key audit 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 2016, 18 matters which required investigation were reported to the UK hotline (2015: 29 cases investigated). Matters reported to the hotline are investigated under the supervision of our external ombudsman, Richard Pratt. Richard has reported to a joint meeting of the Audit & Risk, Public Interest, and Ethics committees on the operation of the hotline in the year. His 2016 report concluded that the whistle-blowing hotline is a useful tool and none of the cases raised issues of major policy concern for the Firm.

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 principles, 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. As part of this evaluation, all key audit tender documents and a sample of others are reviewed by Quality & Risk Management prior to release to ensure that quality messages are factual and appropriate and that the proposals are balanced and consistent with the latest, often unpublished, trend information.

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 effective 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 and knowledge at the right time throughout the audit, thereby enhancing effectiveness, efficiency and delivering value to our stakeholders.

KAM contains examples and guidance for, 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 judgement in all aspects of planning and performing an audit and exercise professional scepticism and appropriate challenge when undertaking procedures and reaching conclusions. 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 or where the audit team considers it appropriate or necessary.

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 (Ethical Standards) issued by the FRC's Audit & Assurance Council. In June 2016, the FRC issued the revised Ethical Standard 2016 and, where necessary, our policies and procedures have been updated to reflect the requirements of the revised Ethical Standard which is generally effective for audits of financial periods commencing on or after 17 June 2016.

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 Ethics Committee oversees policies and procedures in relation to ethical matters and breaches of requirements (see pages 93 and 94).

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. Partners are required to obtain specific clearance from the Partner Independence Team ('PIT') for any investment they or their immediate family propose to make. The PIT maintain the partners' KICS account and are the gateway for pre-clearing any investments.

Certain changes have been made to our policies and procedures with respect to personal independence to reflect the additional requirements introduced in the revised Ethical Standard 2016.

We monitor Partner and manager compliance with these requirements as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2016, 296 (2015: 311) of our people were subject to these audits (this included approximately 20 percent (2015: 30 percent) of our Partners). In addition to these, all direct-entry Partners are subject to a compliance audit as a condition of their admission, and are subject to a further audit after 12 months in the Firm.

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. Our internal policy in relation to retiring, or recently retired Partners goes beyond the requirements of the revised Ethical Standard. Matters not governed by the revised Ethical Standard or our internal policy but which are considered to have a bearing on independence are presented to the Ethics Committee for their conclusion.

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 revised Ethical Standard 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.

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. In addition, during the year ended 30 September 2016, all of our client-facing personnel were required to perform additional training in respect of the revised Ethical Standard 2016 issued by the FRC in June 2016 including the changes made to our internal 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 revised Ethical Standard (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 revised Ethical Standard 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 percent 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 percent 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 2015 and will take place again in 2017.

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.

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 3,600 new people in the year ended 30 September 2016 (2015: over 3,500).

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, our people management procedures, our values and the KPMG Story.

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 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.

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 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.

These standardised quality and risk metrics (which are issued to all engagement leaders) 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. For 2016, individuals receive risk metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance. The 2016 results indicate generally a good level of quality and risk compliance across our whole Firm and are consistent with those arising in 2015 – in particular 94 percent of our engagement leaders were awarded green metrics, 4 percent amber and 2 percent red in one or more of the three categories of Quality, Ethics and Compliance.

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 for Quality and Ethics related matters generally result in a reduction in the overall compensation paid to the Partner concerned. The proceeds of these sanctions are donated to the KPMG Foundation.

We use the same system of quality and risk metrics for manager grade staff to reinforce the message that 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 Partner 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 the best choice for our clients and people. 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 2016, KPMG LLP recruited 17 new Partners from the external market (2015: 28) and promoted 50 from within the Firm (2015: 40).

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. Within the Audit function, 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 and each UK Business Unit Head of Audit. Each Business Unit Head of Audit (or their approved delegate) meets every audit engagement leader in their Business Unit 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 Business Unit 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 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. This year, as part of our annual portfolio review process, we have obtained feedback from client teams about the strength and depth of our central support teams to ensure these teams have timely access to appropriate specialist support.

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 is extended to all audit staff through Audit Quality Department Workshops) which cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition, this year we ran Audit Readiness Workshops for all audit partners and staff which focused on quality and audit planning and all audit partners and staff complete quarterly technical training which focuses on performing an effective quality audit with different topic areas included as relevant.

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 with input from relevant audit technical teams including DPP Auditing, DPP Accounting & Reporting, and Audit Quality & Risk Management.

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, common queries raised through internal consultation processes and technical helpline queries from the relevant technical teams working directly with audit teams.

Delivery of formal training is through a blend of classroom, e-learning and virtual classroom. Certain training programmes also include an assessment that is required to be passed in order to complete 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.

The process of feedback from client teams discussed above also covered access to these specialist groups.

2.5.4 Consultation

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances.

We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting and DPP Audit Support. These resources are crucial in terms of the support they provide to the Audit function and audit teams. They provide technical guidance to client service professionals on specific engagement-related matters, develop and disseminate specific topic-related guidance on emerging local technical and professional issues and disseminate 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.

If consultation within the team or with peers does not enable teams to resolve the issues then discussions with DPP technical specialists will be undertaken. If resolution is not reached after discussions with DPP, then the issue may be elevated to a Client Panel. A Client Panel is a discussion between a number of independent, senior and appropriately qualified Members of the Firm. In exceptional circumstances, a matter may be referred to the Head of Audit or an appropriately qualified delegate.

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 and other technical resources used by our audit teams.

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 quality 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 quality 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.

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 Leader 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 enables the engagement team to obtain maximum benefit from the Engagement Leader's experience and skill. Timely involvement of the Engagement Leader at other stages of the engagement allows the Engagement Leader 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. To ensure a holistic approach, we conduct an annual formal portfolio review with each engagement leader. The purpose of this is to review each individual's commitments and conclude on their capacity to address the allocated responsibilities.

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, maintain professional scepticism and demonstrate appropriate challenge 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 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 Audit Quality & Risk Management or the UK Head of Audit. Accreditation to act as an EQC reviewer is granted to appropriate individuals by the Audit Quality & Risk Management Partner and the EQC reviewers for individual engagements proposed by the regional Heads of Audit and ratified by Audit Quality & Risk Management and specifically, for high risk engagements, the 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. As well as considering recommendations in the FRC's recent thematic review of EQC reviews, in recent years we have taken a number of actions to reinforce this, including:

- Issuing practice 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 Appendix 2.4.6 and Appendix 2.6.1) to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

2.6.6 Clear reporting of significant findings

Experienced audit engagement leaders arrive at all audit opinions based on the audit performed. In preparing audit reports, Engagement Leaders 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.

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.

As part of the commitment to restoring trust, our approach to our audit reports goes 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.

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 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 (such as cyber security and corporate culture); 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 2,500 Members across both the private and public sectors and membership of our FTSE 100 Audit Committee Chairs' group includes representatives from 82 percent 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 2016. We live in a world where the spotlight continues to shine on the role of the Audit Committee and the expectations placed upon the role continue to increase.

This year, key areas considered and discussed by the ACI include Data & Analytics, Auditor Transition and Engaging with Shareholders 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 Leader 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 recent guidance and training has focused on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, and the conclusions reached by the group team, on the group file.

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.

Within Quality and Risk Management the Firm has a Director in charge of Information Protection and a dedicated National IT Security Officer ('NITSO') both whom have the necessary authority, skills and experience to lead the UK's information protection function. Our approach of continuous improvement has led to organisational changes through the year to bring Quality and Risk Management, IT Security, Business Continuity and Office of General Counsel teams together to deliver upon the next phase of our information protection programme and enhance our capabilities in this area.

Our information protection requirements are set out in the Global Information Security Policy 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 Protection Group.

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.

During the year an Information Governance Oversight Committee ('IGOC') has been established. IGOC is chaired by the Head of Quality and Risk Management and has representatives from ExCo, business functions, IT Services, and other Quality and Risk Management professionals. IGOC oversees and steers all aspects of information governance within the UK Firm including the setting of policies and procedures, monitoring the effectiveness of key information protection controls, and providing strategic direction on the information protection programme.

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 and Information Management policies are also in place governing the handling of personal and confidential 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 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 ExCo 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 KPMG UK, 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 2016 Quality Performance Review results

	Number of engagements reviewed (2015)	% of engagement leaders reviewed (2015)
Audit	**99 (115)**	29% (36%)
Tax	**180 (164)**	36% (40%)
Advisory	**229 (210)**	33% (36%)

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.

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 policies 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.

As part of our response to the findings of the AQR contained in its 2015/16 report on the Firm we reviewed the protocols applied to assessing engagements under our internal quality review process. As a result of this review we concluded that we would apply stricter criteria when considering work done where the nature or extent of testing performed was insufficiently clear from the evidence available on the file and situations where the audit team needed to provide oral explanations of the basis for the work done or conclusions reached. This change, which is consistent with our continuous improvement agenda, has resulted in a significant increase in the number of engagements rated less than satisfactory. After considering all of the available evidence we do not believe these results indicate a fall in standards. None of the engagements reviewed were identified as requiring prior year adjustments in the underlying financial statements. Rather, we believe that standards continue to improve but not at the pace we wish to see. We are already addressing this through a package of enhanced actions.

In 2016, 70 percent of engagements reviewed were graded as 'Satisfactory' (2015: 82 percent), 20 percent of engagements were graded as 'Performance Improvement Necessary' (2015: 12 percent) and 10 percent of engagements were graded as 'Unsatisfactory' (2015: 6 percent). Even before the impact of changed assessment process, 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.

The reviews show an increase in the number of engagements reviewed being graded as 'Performance Improvement Necessary' with contributory factors including a stricter internal assessment process and enhancements to the Firm's internal guidance which has resulted in a short-term increase in engagements not meeting the 'Satisfactory' grading. Some recurrent themes remain and we have continued to address the root causes for these and 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 further 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 also 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 Appendix 2.4.3).

Tax and Advisory

In Tax and Advisory, the functions follow a similar three-tier engagement grading system of 'Satisfactory', 'Performance Improvement Necessary' or 'Unsatisfactory'. In 2016, 91 percent of Tax engagements were graded as 'Satisfactory', 7 percent graded as 'Performance Improvement Necessary' and 2 percent of engagements were graded as 'Unsatisfactory'. This compares with comparative scores for the 2015 programme of 92 percent graded as 'Satisfactory', 7 percent graded as 'Performance Improvement Necessary' and 1 percent of engagements graded as 'Unsatisfactory'.

In 2016, 77 percent of Advisory engagements were graded as 'Satisfactory', 21 percent were graded ''Performance Improvement Necessary' and 2 percent of engagements were graded as 'Unsatisfactory'. This compares with scores for the 2015 programme of 88 percent graded as 'Satisfactory', 10 percent as 'Performance Improvement Necessary' and 2 percent 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 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, but 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 'Yellow' (2015: 'Yellow') indicating substantial compliance with KPMG's policies and procedures but where issues identified require attention in order to meet the highest standards to which we hold ourselves.

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 GCR inspection in October 2015 which generally showed improvements on the previous inspection in 2013. The review identified a small number of opportunities for improvement including areas which were generally identified by the UK Firm's own compliance and quality control processes. The next GCR is scheduled for 2018.

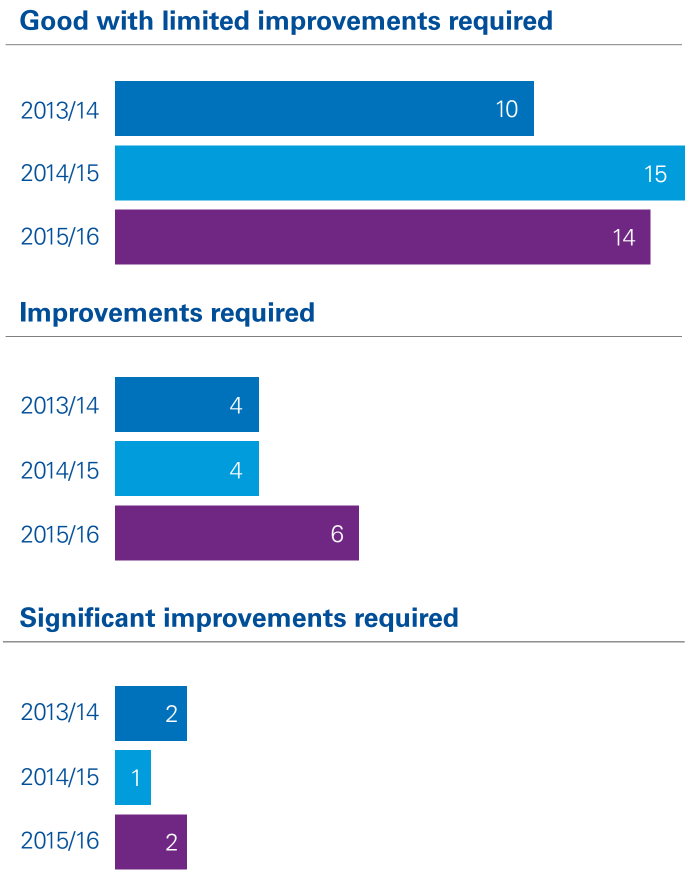
2.7.2 External monitoring

2.7.2.1 Audit Quality Review ('AQR')

In the UK, the Audit Quality Review team has been carrying out independent inspections for a number of years. They completed their work on the 2015/16 inspection of the Firm in January 2016 and their public report on the inspection was released in May 2016 and the report and our response, included within Appendix B of the report, are available on the FRC website[1]. The Firm's audit registration was renewed in June 2016.

In its latest report, the AQR concluded that our Firm had enhanced its audit quality monitoring processes for monitoring

AQR results



completed audits and the approach for reviewing Firm-wide quality control processes and has continued to improve its central processes in respect of partner independence. 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:

- Take further actions to address recurring findings from internal and external quality reviews and monitor their effectiveness;
- Improve the consultation and approval processes for non-audit services;
- Improve the audit procedures performed to test controls, including IT controls, and the testing of reports relied upon;
- Improve the scope and depth of the audit work performed by some specialists of the Firm;
- Improve the extent of challenge of management in relation to areas of judgement, in particular valuations, impairment reviews and provisions; and
- Review its methodology and training for the audit of revenue.

1 FRC website: https://www.frc.org.uk/Our-Work/Audit/Audit-Quality-Review/Audit-Firm-specific-reports/Audit-Firm-specific-reports-2016.aspx

We have already taken action in all these areas and in the other areas where the AQR has made recommendations. We were pleased with the comments by the AQR recognising positive developments, including some good practice observations in complex challenging areas, but disappointed that in their review the AQR considered that significant improvements were required.

2.7.2.2 FRC Thematic Reviews

The AQR of the FRC also undertakes thematic reviews to supplement their annual programme of audit inspections of individuals Firms. In a thematic review, Firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed. During the year ended 30 September 2016, the FRC published the following reports which set out the principal findings of thematic reviews:

- Firms' audit quality monitoring – we welcome the comments that Firms are allocating substantial resources to their monitoring of the quality of audits and are considered to be keen to develop this further to increase the challenge of audit teams and provide assurance on the audit reports issued. We note the FRC's overall message that further strengthening of Firms' own monitoring will result in more challenging and robust outcomes supporting the Firms' culture of promoting audit quality and better equip audit teams to achieve the standards required. We significantly enhanced the resources available to our RCP team in 2015 before this thematic review was announced. We believe that a number of the good practices identified by the FRC in this area were undertaken at KPMG. However, we have responded to specific feedback and carefully considered the full report and implemented a number of enhancements to our engagement and Firm level monitoring programmes.
- Engagement Quality Control reviews – we are pleased that the FRC has seen evidence of Engagement Quality Control reviews directly contributing to improving the quality of audits. For KPMG this reflected a number of additional initiatives and increased leadership focus which included additional guidance and the enhancement of processes to ensure such challenge is evidenced in our audit files. Reflecting the importance of this role in enhancing audit quality we updated our materials in relation to EQC reviews incorporating feedback provided to Firm's ahead of publication of the final report. This allowed us to inform EQC reviewers and teams of good practices prior to December 2015 year-end audits despite a publication date prior to February 2016 for the thematic review itself.
- Root-Cause Analysis – we are pleased by the comments that generally root-cause analysis is being performed on a more timely basis than in prior years, that guidance and training is provided to those performing the analysis and that the FRC identified evidence of the analysis positively affecting the actions to address underlying issues. We note the FRC's recommendations for Firms to consider behavioural related training and have actioned the recommendation to communicate details of our root-cause analysis in our Transparency Report (see page 98). This is an area of rapid development and we significantly enhanced our root-cause programme in the period between data gathering and finalisation of the thematic report. We have further refined and improved our procedures in response to the report but recognise this is an area where there will continue to be evolution in approach in the years to come.

Two further thematic inspections are scheduled for 2016–17, covering data analytics and quality control procedures over the quality of audit work conducted prior to the issuance of the audit report. We will set out the results of these in next year's Report.

2.7.2.3 ICAEW Quality Assurance Department and Practice Assurance reviews

In addition, the Quality Assurance Department ('QAD') of the ICAEW undertakes inspections of those audits which are outside the remit of the AQR team. The Firm receives a private annual report from the QAD documenting their findings.

The overall conclusion in their 2015–16 report was that the overall audit quality of the files reviewed had improved compared to the prior year and that there had been a reduction in the significance and frequency of weaknesses in documentation. All 10 of the files reviewed were either satisfactory or generally acceptable.

2.7.2.4 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 is required to include in its annual inspection one or more of the audit engagements meeting these criteria.

We were notified that our re-registration with both the Jersey and Guernsey Financial Services Commissions was successful during 2016.

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 and KPMG LLP during 2015 and issued its report in relation to that review on 9 November 2016.[2] The 2015 inspection considered five audits, including three where KPMG UK was the principal auditor and two where it was not the principal auditor. The review identified a number of specific deficiencies in relation to procedures to test:

- the design and operating effectiveness of controls related to valuation and completeness of certain liabilities and as a result failure to perform sufficient substantive procedures over valuation and completeness of certain liabilities;

2 The report from the PCAOB inspection in the UK is available at the following link: www.pcaobus.org/Inspections/Reports/Pages/Default.aspx

- the design and operating effectiveness of controls related to valuation of certain financial instruments and insufficient substantive procedures to test the valuation of certain financial instruments;
- the design and operating effectiveness of controls over accounting for acquisitions;
- the design and operating effectiveness of controls over the occurrence, completeness and allocation of revenue and insufficient substantive procedures to test the occurrence and completeness of revenue;
- the valuation of certain financial instruments; and
- the design and operating effectiveness of controls over the valuation of certain assets and insufficient substantive procedures to test the valuation of certain assets.

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.

2.7.2.5 Regulatory investigations and sanctions

During the year, the FRC commenced investigations into the provision of non-audit services by KPMG Audit Plc during the audit of the financial statements of Ted Baker plc and one of its significant affiliates for the periods ended 26 January 2013 and 25 January 2014 and an investigation into the audit of the going concern basis of preparation of the financial statements of HBOS plc performed by KPMG Audit Plc for the year ended 31 December 2007.

The FRC investigations into the preparation, approval and audit of the financial statements of Quindell Plc for the period ended 31 December 2011 to the year ended 31 December 2013 (announced August 2015) (KPMG LLP only audited the 2013 financial statements), the role of KPMG Audit Plc in reporting to the FSA on BNY Mellon's compliance with the FSA's client asset rules for the years ended 31 December 2007 to 31 December 2011 (announced June 2015) and 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 (announced January 2014) remain open. In September 2016, the FRC completed investigations into our audit of the accounts of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2007, 2008 and 2009 (announced March 2012) and has delivered a formal complaint against KPMG LLP and a Partner and a former Partner of the Firm.

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

During the year the Firm accepted a reprimand and a fine of £2,000 (plus £7,005 of costs) under a Consent Order issued by the ICAEW in relation to audit reports in respect of a client's compliance with the Client Asset Sourcebook rules of the FCA when the audits had not been conducted with regard to the applicable version of the APB's Practice Note 21.

In addition, the Firm agreed to pay a regulatory penalty of £4,700 decided by Audit Registration Committee of the ICAEW relating to an admitted breach of rule 4.01b of the Crown Dependency Audit Rules and Guidance (the CD Rules) in allowing audit reports to be signed by two individuals who had not confirmed, in writing, to the Guernsey Registry that they agreed to abide by the CD Rules.

2.7.2.6 Client feedback

Understanding our clients' needs and what they value is of critical importance. Client feedback is therefore a subject that we are extremely passionate about. It helps us to develop strong relationships and ensure delivery of services that not only meet, but exceed, clients' expectations.

KPMG's Client Voice programme gives all clients the opportunity to quickly and easily provide feedback following work delivered. Clients are automatically sent an email asking how likely they would be to recommend KPMG for a similar engagement, on a scale of 0 (would not recommend) to 10 (would recommend). This is widely known as the Net Promoter methodology. This straightforward format allows clients to respond in seconds, or to expand upon the score they give with an option to add further comments in a free text field. Once submitted, client feedback is sent to the Engagement Leader and Lead Partner in real time.

Senior Leadership, including our Client Council, has visibility of all feedback to identify trends and ensure appropriate response. And client feedback is collated at a departmental and Firm wide level to aid management decisions and drive continuous improvement.

This simple feedback process sits alongside other forms of feedback, for example Engagement Leaders carry out telephone debriefs, coffee catch ups or more formal interviews; Partners informally catch up with many Board Members; and for larger accounts a broad and deep interview approach is used.

2.7.2.7 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.

2.7.2.8 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 Head of 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.

3

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 2016 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		
A&J Mucklow Group Plc	Andrews Sykes Group Plc	Bart Spices Holdings Limited
Aberdeen Asset Management Plc	Animalcare Group Plc	BAT International Finance Plc
Aberdeen Japan Investment Trust Plc	Annes Gate Property Plc	BECAP Jaeger (UK) Limited
Aberdeen New Dawn Investment Trust Plc	Arbuthnot Banking Group Plc	Bellway Plc
Aberdeen New Thai Investment Trust Plc	Ariana Resources Plc	BHL (UK) Holdings Limited
Aberdeen Smaller Companies High Income Trust Plc	Arlington Securities Limited	BHP Billiton Plc
Aberdeen UK Tracker Trust Plc	Arrow Global Finance Plc	Bidcorp Foodservice (Europe) Limited
Achilles Subholdings Ltd	Arrow Global Group Plc	Bifold Group Limited
Adaptimmune Therapeutics Plc	Artemis Alpha Trust Plc	Blancco Technology Group Plc
Admiral Group Plc	Artemis VCT Plc	BLME Holdings Plc
AEW UK REIT Plc	Ashmore Group Plc	Bloomsbury Publishing Plc
Affinity Sutton Capital Markets Plc	Aspen European Holdings Limited	Blue Finco Limited
AG BARR Plc	Aspire Defence Finance Plc	Blur Group Plc
Air Berlin Plc	Associated British Foods Plc	BNY Mellon Investment Management (Europe) Limited
Alba 2005 - 1 Plc	AstraZeneca Plc	Boing Group Financing Plc
Alba 2006 - 1 Plc	Auctus Scorpion Midco Limited	Booker Group Plc
Alba 2006 - 2 Plc	Autolink Concessionaires (M6) Plc	BPHA Finance Plc
Alba 2007 - 1 Plc	Avacta Group Plc	Braemar Shipping Services Plc
Alba 2012 - 1 Plc	Avanti Communications Group Plc	British American Tobacco Plc
Aldermore Bank Plc	Bae Systems Plc	British Polythene Industries Plc
Aldermore Group Plc	Bank of England	BTG Plc
Allied Minds Plc	Bank of Valletta Plc	BUPA Finance Plc
Allocate Holdco Limited	Barchester Propco Two Topco Limited	Business Mortgage Finance No 3 Plc
Alpha Schools (Highland) Project Plc	Baring Emerging Europe Plc	Business Mortgage Finance No 4 Plc
Alu Midco Ltd	Baronsmead Second Venture Trust Plc	Business Mortgage Finance No 5 Plc
Alumasc Group Plc	Baronsmead VCT 5 Plc	Business Mortgage Finance No 6 Plc
Amati VCT Plc	Baronsmead Venture Trust Plc	Business Mortgage Finance No 7 Plc

Entity name

By Chelmer Plc	City Greenwich Lewisham Rail Plc	Darrowby No 3 Plc
C4X Discovery Holdings Plc	City Natural Resources High Yield Trust Plc	Dart Group Plc
Cable & Wireless Communications Plc	Clarke Energy Operations Limited	De La Rue Plc
Caledonia Investments Plc	Clarke Energy Topco Limited	Derby Healthcare Plc
Caledonian Trust Plc	Clifford Thames (Topco) Limited	Devro Plc
Cambria Automobiles Plc	Clipper Logistics Plc	DFS Furniture Plc
Canaveral Bidco Limited	Cobaco Holdings Ltd	Diageo Capital Plc
Capita Plc	Cohort Plc	Diageo Finance Plc
Capital Hospitals (Issuer) Plc	Compact Media Finance Limited	Diageo Plc
Carclo Plc	Compass Group Plc	Dialight Plc
Card Factory Plc	Computacenter Plc	Diamond Bidco Limited
Cardiff Property Plc	Computer Associates Holding Limited	Dnata Catering Services Limited
Cardtronics Europe Limited	Console Midco Limited	Dukinfield Plc
Care UK Health & Social Care Finance Limited	Consort Healthcare (Blackburn) Funding Plc	Dunedin Enterprise Investment Trust Plc
Care UK Health & Social Care Plc	Consort Healthcare (Mid Yorkshire) Funding Plc	Dunedin Income Growth Investment Trust Plc
Carewatch Bidco Limited	Consort Healthcare (Salford) Plc	Dunedin Smaller Companies Investment Trust Plc
Carillion Plc	Consort Healthcare (Tameside) Plc	Dwr Cymru (Financing) Limited
Case Topco Limited	Consort Medical Plc	DX (Group) Plc
Catalyst Healthcare Manchester Financing Plc	Conviviality Plc	E2v Technologies Plc
Catalyst Healthcare Romford Financing Plc	Co-operative Group Limited	Eckoh Plc
Catalyst Healthcare Worcester Plc	Coretx Holdings Plc	Edinburgh Dragon Trust Plc
Catalyst Higher Education Sheffield Plc	Costain Group Plc	Edinburgh Investment Trust Plc
CC 2 (2011) Ltd	Coventry & Rugby Hospital Co Plc	Edinburgh Worldwide Investment Trust Plc
Central Nottinghamshire Hospital Plc	Crawshaw Group Plc	EDU UK Bondco Plc
Ceres Power Holdings Plc	Credit Suisse International	EDU UK Topco Limited
Chambertin Finance Limited	Crisps Midco 2 Limited	Electric Word Plc
Charcoal Newco 1A Limited	Cross London Trains Finance Company Limited	Electronic Data Processing Plc
Charles Stanley Group Plc	CTRL Section 1 Finance Plc	Elegant Hotels Group Plc
Chromalloy UK Holdings Limited	Daejan Holdings Plc	Elementis Plc
Cineworld Group Plc	Daniel Thwaites Plc	Ellenbrook Developments Plc
Circle Anglia Social Housing Plc	Darrowby No 2 Plc	Elli Finance (UK) Plc
CIS General Insurance Limited		Elli Investments Limited

Entity name		
EMH Treasury Plc	FPE Global (Holdings) Limited	Halcyon Midco Limited
EMIS Group Plc	Frank Recruitment Group Limited	Halfords Group Plc
Endell Properties Ltd	French Connection Group Plc	Halliburton Global Holdings Limited
ENSCO Plc	FTI UK Holdings Limited	Hargreaves Services Plc
Epihiro Plc	Fulcrum Utility Services Limited	Harrington Brooks Group Limited
Epwin Group Plc	Gala Electric Casinos Limited	Hastings Group Holdings Plc
Equitix Capital Eurobond 2 Limited	Gala Group Finance Plc	Hastoe Capital Plc
Equitix Capital Eurobond 3 Limited	Galaxy Bidco Limited	Havelock Europa Plc
Equitix Capital Eurobond Limited	Galaxy Finco Limited	Headlam Group Plc
Equitix MA 1 Capital Eurobond Limited	Gardner Group Limited	Herefordshire Capital Plc
Essentra Plc	Gateley (Holdings) Plc	Hidong Estate Plc
Esure Group Plc	Gattaca Plc	Highway Management (City) Finance Plc
Eurohome UK Mortgages 2007-1 Plc	Gatwick Funding Limited	Hill & Smith Holdings Plc
Eurohome UK Mortgages 2007-2 Plc	Gear4Music (Holdings) Plc	Hiscox Holdings Limited
European Investments (GFP) Ltd	Genfinance II Plc	Home Group Limited
European Investments (Moron) 2 Limited	GESB Plc	Hydrasun Group Finance Limited
European Investments (Olivenza) 2 Limited	GLH Hotels Ltd	Hydrodec Group Plc
F&C Asset Management Plc	Global Graphics SE	ICBC Standard Bank Plc
F&C Finance Plc	Global Resources Investment Trust Plc	ICICI Bank UK Plc
FAIRFX Group Plc	Goals Soccer Centres Plc	IG Design Group Plc
Fastjet Plc	Goodwin Plc	IHC Merwede UK Limited
Fidessa Group Plc	Gosforth Funding 2012-1 Plc	Imagination Technologies Group Plc
FIH Group Plc	Gosforth Funding 2012-2 Plc	Impax Asset Management Group Plc
Filtronic Plc	Gosforth Funding 2014-1 Plc	Impellam Group Plc
Findel Plc	Gosforth Funding 2015-1 Plc	IndigoVision Group Plc
Finsbury Food Group Plc	Gosforth Fundings 2011-1 Plc	Infinis Plc
Focusrite Plc	Go-Sykes Limited	InfraRed Infrastructure Yield Holdings Ltd
Foresight 3 VCT Plc	Grafenia Plc	Inspired Education (South Lanarkshire) Plc
Foresight 4 VCT Plc	Grainger Plc	Intelligent Energy Holdings Plc
Foresight Solar & Infrastructure VCT Plc	Green Tree Finances Limited	International Finance Facility for Immunisation
Foresight VCT Plc	Greenway Infrastructure Capital Plc	Intertek Group Plc
Forest Holidays Group Limited	Greggs Plc	Intrinsic Technology Group Limited
	Haco Limited	Investis Midco Limited

Entity name
IP Group Plc
Ipreo UK Holdings Limited
Ipswich Building Society
Irida Plc
ITV Plc
Ivy Midco Limited
James Cropper Plc
James Fisher & Sons Plc
JB Drinks Limited
JD Sports Fashion Plc
Jewel UK TopCo Limited
Jimmy Choo Plc
Johnson Matthey Plc
Jones Lang LaSalle Capital Investments Limited
JRP Group Plc
Kalibrate Technologies Plc
Karma Communications Debtco Limited
Katanalotika Plc
Kaz Minerals Plc
Keller Group Plc
Kemble Water Eurobond Plc
Kenrick No.1 Plc
Kenrick No.2 Plc
Kestrel Acquisitions Limited
Kodak Alaris Holdings Limited
LAB Investments Plc
LCR Finance Plc
Lend Lease Europe Finance Plc
Lend Lease PFI/PPP Infrastructure Finance Limited
LGS Investments Plc
Liberty Global Plc
Lighthouse Group Plc
Limecay Limited
L-J Finco Limited
LMS Capital Plc
Lock Midco 1 Limited
London Security Plc
Lonmin Plc
Low & Bonar Plc
LSP Holding (UK) Limited
M&C Saatchi Plc
Macfarlane Group Plc
Manchester Airport Group Funding Plc
Mandata (Holdings) Limited
Mapil Midco 1 Limited
Mapil Topco Limited
Matalan Finance Plc
Maven Income & Growth VCT5 Plc
McKay Securities Plc
Mediclinic International Plc
MedicX Fund Limited
MEL Midco Limited
Merlin Entertainments Plc
Midland Heart Capital Plc
Milan Midco Limited
Millennium & Copthorne Hotels Plc
MJ Gleeson Plc
Moat Homes Finance Plc
Molins Plc
Moneysupermarket.com Group Plc
Montanaro UK Smaller Companies Investment Trust Plc
Moody's Group Holdings Limited
Moody's Group UK Limited
Moorgate Funding 2014-1 Plc
Morecambe Leisure 2 Limited
Morgan Advanced Materials Plc
Murgitroyd Group Plc
N Brown Group Plc
NAHL Group Plc
Nando's Group Limited
Nasstar Plc
NCC Group Plc
Nemus II (Arden) Plc
Neptune Midco 1 Limited
New World Resources Plc
NewDay Funding 2015-1 Plc
NewDay Funding 2015-2 Plc
NewDay Funding Loan Note Issuer Ltd
NewDay Partnership Funding 2014-1 Plc
NewDay Partnership Funding 2015-1 Plc
NewDay Partnership Loan Note Issuer Ltd
NewDay Secondary Funding Limited
New Hospitals (St Helens and Knowsley) Finance Plc
Newincco 1359 Limited
Nexus Intermediate Holdings Limited
NFT Distribution Holdings Limited
Nimbus Acquisitions Midco Limited
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
Northgate Public Services Limited
Nufarm UK Limited
Oak No 1 Plc
Octagon Healthcare Funding Plc

Entity name

Odeon & UCI Finco Plc
OHI UK Healthcare Properties Limited
Old Mutual Plc
OM HoldCo Limited
Omnicom Europe Limited
On the Beach Bidco Limited
On the Beach Group Plc
OneSavings Bank Plc
Orbit Capital Plc
Oxford Instruments Plc
PA Group Holdings Limited
Pacific Assets Trust Plc
PAM Subco Ltd
Panmure Gordon & Co Plc
Parity Group Plc
PD Parks Limited
Peabody Capital No.2 Plc
Peabody Capital Plc
Pendragon Plc
Pension Insurance Corporation Plc
Persimmon Plc
Personal Group Holdings Plc
Petards Group Plc
Pets at Home Group Plc
Photo-Me International Plc
Pisti 2010-1 Plc
Places for People Capital Markets Plc
Places for People Homes Limited
Places for People Treasury plc
Plastics Capital Plc
PMAC 05-01 Plc
PMAC 05-1 Plc
Poplar Harca Capital Plc
Poundland Group Plc
Premier Foods Plc
Prestmade Limited
Proactics Holdings Plc
Progility Plc
Project Ires Bidco Limited
Promontoria (Vantage) Limited
Prudential Plc
Punch Taverns Finance Plc
Punch Taverns Plc
PureTech Health Plc
QinetiQ Group Plc
Quadrant Housing Finance Limited
Quantum Pharma Plc
Quixant Plc
QVC UK Holdings Limited
Ramco Acquisition Limited
Rathbone Brothers Plc
Rathmount 2006-1 Plc
Rathmount 2006-2 Plc
Red Midco Ltd
Redde Plc
Redhall Group Plc
Redstoneconnect Plc
RedT Energy Plc
Renew Holdings Plc
Renishaw Plc
Rentokil Initial Plc
Repono Holdco 2 Limited
Revolution Bars Group Plc
Rightmove Plc
Riverside Finance Plc
RM Plc
RMAC 2003 - NS1 Plc
RMAC 2003 - NS2 Plc
RMAC 2003 - NS3 Plc
RMAC 2003 - NS4 Plc
RMAC 2004 - NS1 Plc
RMAC 2004 - NSP2 Plc
RMAC 2004 - NSP4 Plc
RMAC 2004-NSP3 Plc
RMAC 2005 - NS1 Plc
RMAC 2005 - NS3 Plc
RMAC 2005 - NS4 Plc
RMAC 2005 - NSP2 Plc
RMAC Securities No.1 Plc
Road Management Services (A13) Plc
Rochester Financing No 1 Plc
Rockhopper Exploration Plc
Rolls-Royce Holdings Plc
Rolls-Royce Plc
Rose Petroleum Plc
Rothschilds Continuation Finance Plc
Royal Mail Plc
RSA Insurance Group Plc
Sanctuary Capital Plc
Sandwell Commercial Finance No.1 Plc
Sandwell Commercial Finance No.2 Plc
Satellite Financing Plc
Science Group Plc
SciSys Plc
Scottish American Investment Company Plc
Scottish Amicable Finance Plc
Scottish Mortgage Investment Trust Plc
SDL Plc

Entity name

- Secure Trust Bank Plc
- Secured Property Developments Plc
- Sequel Holdco 1 Limited
- Severfield Plc
- Shawbrook Group Plc
- Sheffield City Trust
- Shield Therapeutics Plc
- Shires Income Plc
- Signet UK Finance Plc
- Skipton Building Society
- Slate No 1 Plc
- Slate No 2 Plc
- Smith & Nephew Plc
- Sophos Group Plc
- Source BioScience Plc
- Sovereign Housing Capital Plc
- Spectris Plc
- Speedy Hire Plc
- Spirit Issuer Plc
- Spirit Pub Company Plc
- SSE Plc
- SSP Group Plc
- Standard Chartered Bank
- Standard Chartered Plc
- Starstone Finance Limited
- State Grid Europe Development (2014) Plc
- Stock Spirits Group Plc
- Stonegate Pub Company Financing Plc
- Strategic Equity Capital Plc
- Sumitomo Corporation Capital Europe Plc
- Sumo Digital Group Limited
- Superglass Holdings Plc
- Superior Energy Services (UK) Ltd
- Surgical Innovations Group Plc
- Sutton & East Surrey Water Plc
- Synectics Plc
- Synexus Clinical Research Topco Limited
- Tangguh Hiri Operating Limited
- Tangguh Sago Operating Limited
- Ted Baker Plc
- Telecom Plus Plc
- TGH Investments Ltd
- Thames Water (Kemble) Finance Plc
- Thames Water Utilities Finance Limited
- The 600 Group Plc
- The Berkeley Group Holdings Plc
- The Local Shopping REIT Plc
- The North American Income Trust Plc
- Thomas Midco Ltd
- Thrones 2013-1 Plc
- Thrones 2014-1 Plc
- Thrones 2015-1 Plc
- TIG Finco Plc
- Tissue Regenix Group Plc
- Tracsis Plc
- Transense Technologies Plc
- Transform Schools (North Lanarkshire) Funding Plc
- Travis Perkins Plc
- Trifast Plc
- TT Electronics Plc
- UIL Finance Limited
- UK WIG II Limited
- Unilever Plc
- United Utilities Group Plc
- United Utilities Plc
- United Utilities Water Finance Plc
- U-POL Finco Limited
- Utilico Emerging Markets Limited
- Utiligroup Acquisitions Limited
- Vancouver Midco 1 Limited
- Varnish Midco Limited
- Verdant Leisure Holdings Limited
- Vesuvius Plc
- Victrex Plc
- Virgil Mortgage No.1 Plc
- Virgin Media Finance Plc
- Virgin Media Secured Finance Plc
- Virgin Money Holdings (UK) Plc
- Virgin Money Plc
- Vitec Group Plc
- Volga Gas Plc
- Voyage Care Bondco Plc
- Voyage Care Midco Limited
- Walsall Hospital Company Plc
- WANdisco Plc
- Watchstone Group Plc
- Weatherford Eurasia Limited
- Weatherford UK Limited
- Wescot Acquisitions Limited
- Wessex Water Service Finance Plc
- West Bromwich Building Society
- Whittan Midco Limited
- WHL 2013 Limited
- Williams Grand Prix Holdings Plc
- Wincanton Plc
- Worldpay Finance Plc
- Worldpay Group Plc
- Wynnstay Group Plc
- Xeros Technology Group Plc
- Zelda Acquisitions Limited

4

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 in Appendix 1.1.
2	Where the transparency reporting auditor belongs to a network, a description of the network and its legal and structural arrangements.	A description of the network and its legal and structural arrangements are set out in Appendix 1.2.
3	A description of the governance structure of the transparency reporting auditor.	A description of our governance structure is set out on pages 80 and 81 and Appendix 1.1.
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 95 to 97 and in Appendix 2. The statement by the Board on the effectiveness of internal controls is included on pages 102 and 103.
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 pages 102 and 103.
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 165 and 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.

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. We note that in July 2016, a revised Audit Firm Governance Code was issued by the FRC and is effective for financial periods commencing on or after 17 June 2016. We are considering the requirements of the revised standard and reviewing our policies and procedures to ensure compliance with the revised standard and will address where applicable in our Annual Report issued for the financial period ending 30 September 2017.

	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 a 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 80 and 81 and Appendix 1. A.1.3: Biographical details of those Members of our governance bodies are set out on pages 82 to 88 and details of attendance at each of the committees are included at page 89. A.1.4: The appointment process for Executive and Non-Executive roles is set out on page 80 and Appendix 1. Management team Members' performance evaluation follows the process described on page 92.
	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 Committee are available on our internet site[3] 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 on our internet site[4] and is summarised in Appendix 2.1.

3 Executive Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/pdf/2016/02/the-executive-committee-tor-feb-16.pdf
4 Code of Conduct: https://home.kpmg.com/uk/en/home/insights/2016/05/kpmg-uk-code-of-conduct.html

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
B – Values (continued)	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.
	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.1.1 and C.2: See page 88 and Appendix 1 section 1.1.3.7 for details of our Public Interest Committee membership. C.1.2: The summary terms of reference for the Public Interest Committee, and other details, are available on our internet site[5] and are summarised in this report. Further details of the Non-Executives are provided in this Report at page 88 and Appendix 1.1.3.7.
	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.2.1: This is covered in Appendix 1 section 1.1.3.7.

5 Public Interest Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/pdf/2016/04/public-interest-comitttee-tor.pdf

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
C – Independent Non-Executives (continued)	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.3.1: Each independent Non-Executive has a contract. C.3.2: Our Firm has appropriate indemnity insurance in place for our Non-Executives. 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] and are summarised in this report. Further details of the Non-Executives are provided in this Report at page 88 and Appendix 1 section 1.1.3.7.
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.	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.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations (continued)	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 the Activities of the Audit & Risk Committee Report on page 91 and in the confirmation by the Board included on pages 102 and 103.
	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.
	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 and Ethics Committees on new reports in the period (refer to Appendix 2.1). An annual report was also received by the Public Interest, Audit & Risk and Ethics Committee (refer to page 105).

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
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.2: KPMG LLP publishes audited financial statements prepared in accordance with IFRS, which are included within this Report. E.2.1, and E.2.2: These disclosures are all included in, or referenced from, pages 108 and 109, and page 113, of this Report.
	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.3 and E.3.1: These disclosures are all included in, or referenced from, pages, 28 and 29, 96 and 97, 108 and 109, and 125 and 126 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 91. Information on the Audit & Risk Committee, including its terms of reference, is on our internet site www.kpmg.co.uk at the following link[6] during the year and are summarised in this Report in Appendix 1 section 1.1.3.4.

6 Audit & Risk Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/pdf/2016/02/audit-and-risk-committee-tor-feb-16.pdf

	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 our stakeholder interactions is summarised in our Audit Quality Indicators at page 101, and 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 104 and 105. Contact details for dialogue about matters covered by the Audit Firm Governance Code is provided on our internet site.[7]
	F.2: Shareholder dialogue principle – shareholders should have dialogue with audit Firms to enhance mutual communication and understanding	The Firm supports these principles in its capacity as an audit Firm through its engagement and dialogue with shareholders and listed companies as described on page 101.
	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.	The Firm supports these principles in its capacity as an audit Firm through its engagement and dialogue with shareholders and listed companies as described on page 101.

7 https://home.kpmg.com/uk/en/home/about/leadership-governance.html

5

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

6

Appendix 6

Independent limited assurance report to the Members of KPMG LLP 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 2016 ('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 limited assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than KPMG and 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 2015, consists of:

- Direct emissions from gas and Firm-owned vehicle fleet (in tonnes of COR2R) Scope 1
- Indirect emissions from purchased electricity (in tonnes of COR2R) Scope 2
- Other emissions from car and air travel, and the transmission and distribution of electricity (in tonnes of COR2R) 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 COR2R figures are calculated using the Defra/DECC guidelines 'Greenhouse Gas Conversion Factors for Company Reporting', issued on 1 June 2015.

The Selected Information subject to our limited assurance engagement in respect of the Community Investment data for the year ended 30 September 2016, 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 (percent)
- 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 3000 and ISAE 3410 involves assessing the suitability of 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 reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our ethical requirements and quality control

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 the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

In accordance with International Standards on Quality Control Grant Thornton maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Limited assurance conclusion

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

Grant Thornton UK LLP
Chartered Accountants

Cambridge
18 November 2016