UK Annual Report 2017

December 2017

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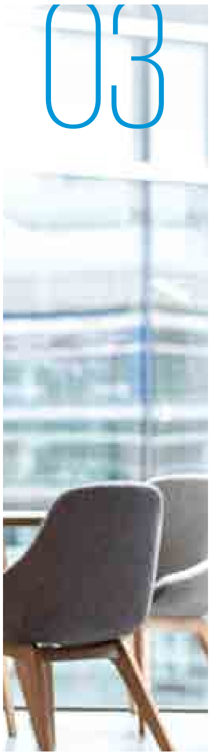

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This Annual Report incorporates our Transparency Report by integrating herein the information required to be disclosed in accordance with the Statutory Auditors (Transparency) Instrument 2008 and the Audit Firm Governance Code. Appendix 4 details where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

Highlights

Total revenue
£2,172m
(2016: £2,068m)

Profit before tax and members' profit shares
£301m
(2016: £374m)

Average partner remuneration
£519k
(2016: £582k)

Total tax payable to HMRC
£824m
(2016: £790m)

UK employees
13,969
(2016: 13,112)

Partners
623*
(2016: 615**)

Community support: Individuals directly supported
17,344
(2016: 16,483)

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 623* Partners and 13,969 professionals working together to deliver value to our clients across our 22 offices.

* Figure as at 1 November 2017
** Figure as at 1 November 2016

01 Strategic report

Bill Michael

Chairman and Senior Partner

Chairman's statement

Unprecedented change across the globe brings both disruption and opportunity. Our Firm is evolving to help our clients survive and thrive in these uncertain times.

Average partner remuneration	Chairman's remuneration
£519k	£1.4m*
(2016: £582k)	(2016: £1.8m)

This year has been a period of tremendous uncertainty and great opportunity brought about by geopolitical, technological and regulatory change. As the recently elected Chairman of KPMG in the UK, I'm passionate about helping our clients navigate through this change.

It's a demanding but fascinating time for our profession and for the UK. With Brexit, the time for complacency is over – we have to determine the role of the UK in an increasingly fragmented and polarised world. We also have to do some soul searching to resolve what many describe as a 'crisis in capitalism'.

The UK has a proud history in professional services, which is one of the country's largest exports. KPMG has a pivotal role in shaping the future of the UK, the broader global economy and the destiny of our profession. And we have a responsibility to support the communities in which we operate. To fulfil this role, I am putting our clients at the heart of our new operating model. The changes will help us remain agile in servicing our clients' needs, helping them to adapt and evolve.

Restoring public trust

Across society, public trust in government and big business is getting weaker. We appreciate there's still a lot to do and are committed to working hard with all of our stakeholders to defend public trust in our profession. After all, public trust is our licence to operate.

Audit quality remains an absolute priority for us, to fulfil our responsibility towards investors as well as the companies subject to audit and society as a whole. Examples of corporate failure and fraud in the last decade have highlighted a gap

* Reflects nine months remuneration for the former Chairman (excluding payments under the Firm's partner retirement provisions) and three months remuneration for the current Chairman.

between what society expects of an audit and what an audit has been designed to do. We continue to work hard to contribute positively to this debate and identify ways of closing this expectation gap – for example, by offering extended audit opinions which give a view on financial statement risks. However, there is still much to do.

In the future, sophisticated data analytics will help to restore trust through ensuring even higher standards. We'll be able to probe company accounts more deeply than ever before, turning auditing into a high-tech, forensic career – very different from the traditional caricature of the auditor as a 'bean counter'.

We've also been a leader in addressing public concerns about tax. The OECD's Base Erosion and Profit Shifting ('BEPS') project and other international initiatives have raised awareness around tax and increased tax transparency. This has underlined the need for responsible tax behaviour and has made tax strategy a boardroom matter, as it should be. We anticipated these developments as we built our fast-growing global tax compliance service.

Our potential lies in our people

KPMG must become a magnet for talent from around the globe. In the UK, our workforce is made up of 115 nationalities and this will become an increasing challenge in a post-Brexit world.

It's time to get real and value inclusion and diversity in all its forms. This is both a social imperative and a bottom-line issue. We're simply far more effective when our teams represent the very best talent with the broadest range of perspectives. That is why inclusion and diversity is one of my top strategic business priorities.

To get there, we have to be more transparent around the area of pay. This starts from now. As we release our 2017 Pay Gap Report, we're showing data on our gender and ethnicity pay gap. We hope this transparency will increase not only our own accountability, but also the accountability of the profession as a whole.

Outlook

The UK is a leading destination for foreign direct investment globally. This puts us at the heart of substantial trade corridors.

Our value as a Firm comes from being connected to a powerful international network of KPMG Firms. This network allows us to offer our clients a truly global service and to invest in their needs.

As Brexit reshapes the business landscape for the UK, our connectivity will become even more important. This is especially true for clients looking to re-evaluate their business models or re-engineer supply chains both domestically and globally.

By helping our clients and our people navigate this period of unprecedented change and disruption, we will continue to be a trusted Firm.

Our role in building trust

We take our role in building trust seriously, working towards providing the highest quality of work for investors, clients and all of our stakeholders.

This year, we have refreshed our Code of Conduct to give our people practical advice on how to live our Values day to day. Far from being just words on screens, our Values continue to define how we work and what we stand for.

An organisation's culture can often be discerned by how it answers the question: "What do I need to do to get on around here?"

At KPMG in the UK the answer is simple: help clients and always do the right thing. It is an imperative embodied in the last of our seven value statements: "Above all, we act with integrity."

Philip Davidson

Managing Partner

Managing Partner's statement

We put clients at the heart of everything we do. The solutions we deliver to them need to be informed by their markets and industries. To bring our best capabilities to work, we have organised ourselves to deploy our services more effectively for clients, energise our people and inform our long term investments in technology and talent. This will differentiate and enable us to be the clear choice for our clients.

2017

Times Top 100 Graduate Employer

#10

KPMG in the UK ranked in the 2017 Stonewall Workplace Equality Index

Our future depends on us bringing the very best of our capabilities together in solutions that have a real impact and deliver true value to our clients.

We are therefore sharpening our market and client focus further. Under our new leadership team we are fine-tuning the way we organise ourselves. Our evolved operating model helps us connect with clients in a much more effective way. It also enables us to deeply embed technology in all aspects of our business and to deliver our services more efficiently.

We are now matching our capabilities – Audit, Tax, Pensions and Legal ('TPL'), Deal Advisory and Consulting – with the markets we cover, namely Financial Services, Corporates and our National Markets business. Where capabilities and coverage intersect we have created performance groups in which our partners and staff can work more cohesively for clients.

We describe this model as being capability-led and market-informed and its aim is clear. We want to make it much easier for our clients to engage with the Firm, by letting them see more clearly where our specialist capabilities lie, which markets we cover and how they both fit together.

Clients rarely demand generic services. They rightly expect us to get under the skin of their sector and most difficult business challenges. Our experience tells us that the best outcomes come when we work shoulder to shoulder with them to create tailored solutions. Client needs inform the solutions we create today and are guiding our investment in technology and people.

Magnet for Talent

At KPMG in the UK we put people before tasks. We aim to attract, develop and retain the best and most diverse talent, offering unique experiences in our different business areas – in the UK and internationally – by opening attractive career paths for high performers.

The talent agenda is vital to our vision of being the clear choice for our clients. The tools and solutions we build certainly set us apart. But where clients see the biggest difference in us is through the KPMG people they interact with.

We recently appointed Anna Purchas as our new Head of People. She is setting our people strategy on inclusion and diversity, talent development and recruitment. Reward is another integral part of being a magnet for talent and we are gearing it towards recognising high performance and great client service.

Again we are building on some strong foundations here, not least our innovative and market-leading approach to graduate recruitment, which is helping us attract a more diverse group of young people, in terms of skills and background.

KPMG is deeply committed to inclusion and diversity. It is vital that our Firm reflects the diversity that exists in our clients' organisations and in society at large because it helps us to create better client outcomes. But like many organisations, we have our challenges and are by no means satisfied with what we have achieved to date. We will work hard on this issue in 2018 and beyond.

The people agenda is also heavily driven by technology. We will be creating jobs in the next five years that are unimaginable today. Jobs which were the foundation of our profession will be drastically transformed or may even disappear completely. This will provide challenges, but also offer exciting opportunities. We are getting the Firm ready for both.

Digital transformation

Our digital transformation is going hand in hand with this and we have appointed Aidan Brennan as Head of Digital Transformation to the Executive Committee. His task is to reshape both our internal and external technology architecture – once more with the client front of mind. To manifest the importance of technology to our business further, it is now its own performance group, sitting across the business alongside KPMG Business Services ('KBS') where all our business support services reside.

Technology will transform our entire business end-to-end. It is the key area of investment for us and we are increasing our firepower by working closely and co-investing with other Member Firms across the global KPMG network.

We are making very good progress in deploying cutting-edge tools and integrating technology in our client delivery, for example:

- We have been rolling out the new generation of digital audit tools with our KPMG Clara application
- In tax, mass data analysis is being used to help companies transform their businesses and clients tell us that our solutions are market-leading
- The innovative learning service we have developed for the Civil Service is now helping us construct solutions for other clients
- We have built an automated methodology to help a global bank vet and on-board new customers in a rapid, innovative, cost-effective and compliant way.

Foundations for profitable growth

The creation of KBS is another important step this year.

The comprehensive transformation of our non-client facing activities combines them all into one unit to create an agile and collaborative organisation that supports excellent delivery of client services. Digital will again be critical for this transformation. Heavy investment over the next two years will allow us to leapfrog our competitors, using state-of-the-art technologies and cloud-based applications.

This year we have achieved better use of existing resources by improving our cost base and by synchronising headcount and revenue growth more closely. We are also transforming our delivery models in some areas of the business and have improved the operational efficiency of alliances and acquisitions.

All this will position us for success in the future. It will make us more competitive, enable us to offer more competitive rewards and further liberate our freedom to invest.

Outlook

Our results for 2017 were not where we wanted them to be, but this was to be expected in a transitional year in which we had to absorb some non-recurring costs. Revenue growth was good, however.

The markets we operate in are buoyant and we are well placed to serve them. Our project pipeline is looking good and we have laid the necessary foundations for profitable growth, especially as we harness the power of the KPMG global network to invest in bringing exciting solutions to our clients.

Our leadership team is energised and that energy is clearly evident throughout the entire partnership. There is also a renewed sense of community around the business, which will be further enhanced by our new, more focused operating model.

We will build on all this in 2018 and have every reason to feel confident about the future of the Firm.

Our business

Our purpose

Inspire Confidence.
Empower Change.

This is why we're here.

Our values

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

This is what we believe in.

Our vision

The Clear Choice:

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

This is what we want to be.

Our strategy

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 how we'll get there.

Our promise

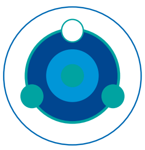
With passion and purpose, we work shoulder to shoulder with you, integrating innovative approaches and deep expertise to deliver real results.

This is how we want the world to see us.

Our business model

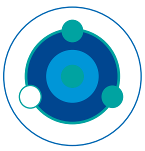
Our business model

Who we serve



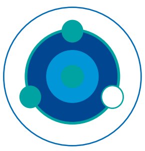
Win and retain clients

We have a broad client base ranging from individuals and investors 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 our tax and advisory 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 skills, 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 skill sets and combine individual services to provide a tailored solution to meet the needs of our clients.

Our business model

Who we are

Internal resources

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 152 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, the communities where we work, 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.

We believe that responsible, diverse and inclusive businesses are more successful. Being responsible helps us: to attract, develop and retain the talent that underpins our success, to better understand and help our clients, and to build public trust. More broadly we recognise the importance of operating to a set of values that are consistent with society's needs.

Clients

Our business model depends on recurring relationships. We must manage these whilst remaining focused on delivering a service and opinion that is independent and objective. We have an issues-based approach to meeting client needs. Combining our expertise across multiple areas to deliver multi-disciplinary 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 be a magnet for talent.

Performance indicators

Issues led

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

Revenue growth

5.0%

People

People are at the heart of our business and embody what we stand for as a Firm.

Values Day attendance

100%*

Public trust

We are committed to restoring trust in our profession and providing the highest quality of work for investors, clients and all of our stakeholders.

Audit Quality

65%**

Clients

Our business model depends on recurring relationships and being the clear choice for our clients.

Improving Net Promoter Score***

9.0%

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* Full attendance at our Values Day for all eligible employees since January 2017.

** 65% (15 out of 23) of our engagements reviewed by the Audit Quality Review team of the Financial Reporting Council were rated as good (grade '1') or requiring limited improvements (grade '2a').

*** The Net Promoter Score ('NPS') is an index ranging from -100 to +100 that is used to gauge the loyalty of customer relationships. Figure refers to percentage increase on the NPS index.

Sarah
Willows

CFO and Head
of Operations

Financial overview

2017 saw our continued market focus lead to net sales growth of 3% (4.4% including Crimsonwing in which we now hold 75%). Audit (+10%) and Management Consulting (+11%) posted particularly strong net sales growth.

Revenue

£2,172m

(2016: £2,068m) +5%

Profit before tax and members' profit shares

£301m

(2016: £374m) -19.5%

Looking at our capabilities Audit had a strong year growing net sales by 10% year on year, and exceeding its gross contribution budget by 7%. Tax, Pensions and Legal Services also achieved good growth of 4%.

Deal Advisory had strong growth in Transaction Services although overall net sales were down 4% due to falls in Restructuring and insolvency work which was to be expected at this stage of the economic cycle.

Risk Consulting contracted by 7% due to prior year large one-off projects not recurring. Management Consulting posted the strongest net sales growth at 11% although contribution was impacted by a small number of multi-year contracts in their early stages and poor performing contracts.

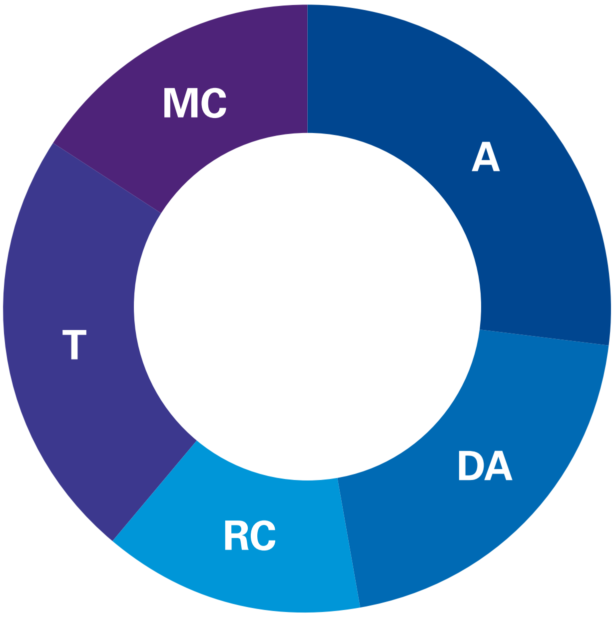
With a market lens both International Markets and Government ('IMG') and National Markets ('NM') achieved growth of 2% and 4% respectively. For IMG the growth was mainly in Audit and Management Consulting whereas for NM the growth was across all capabilities (with the exception of Restructuring).

During 2017 we continued to invest in new solutions and alliances spending £44 million. Our support services (now called KPMG Business Services) performed very strongly providing the support needed to our front line staff whilst at the same time delivering sizeable cost savings against budget.

Profit before tax and members' profit shares declined from £374 million to £301 million. 2016 benefited from favourable outturns on a small number of long term client engagements and contingencies. In contrast 2017 reflects a number of underperforming contracts, other provisions and investment write offs.

Leaving aside the one-off items as described above the core business grew and grew profitability and our continuing investments in technology and people set us up well for future years.

Total net sales* by



Audit
£495m
(2016: £451m**) +10%

Tax
£425m
(2016: £410m) +4%

Deal Advisory
£372m
(2016: £386m) -4%

Management Consulting
£285m*
(2016: £257m*) +11%

Risk Consulting
£254m
(2016: £273m**) -7%

Total net sales
£1,831m
(2016: £1,777m) +3%

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 89 of the Annual Report. The reconciliation of net sales to reported revenue is summarised as follows:

	2017 (£m)	2016 (£m)
Net sales reported internally	1,831	1,777
Entities not reported internally, elimination of intra-group trading and other financial adjustments	18	(7)
Net sales	1,849	1,770
Recoverable expenses	323	298
Revenue	2,172	2,068

* Total net sales reported internally exclude net sales from KPMG Crimsonwing ('KCW'); including KCW gives MC net sales of £308m and like for like growth of 12% for the year.

** Audit and Risk Consulting comparatives restated due to moving the position of internal audit work from Audit into Risk Consulting.

Our people

A Magnet for Talent

We're bringing a renewed focus to our people strategy with a purpose-driven agenda to attract and retain the very best talent and empower our existing employees to achieve great things for our clients, our communities and reach their full potential.

Our people embody what we stand for as a Firm. It's through them, their attributes, skills and capabilities, that our clients really see what sets KPMG in the UK apart in the marketplace.

As we put our new operating model into effect, we are building on the work we've done in recent years to develop and inspire our people with a renewed effort to put our people right at the heart of our strategy for future growth.

We are doing that through a new, purpose-driven people agenda that we call "Magnet for Talent" that deliberately gets away from a process dominated approach to people that can sometimes restrict thinking and stifle achievement.

Instead we aim to create an inclusive and diverse workplace where people feel comfortable to be themselves, recognise and welcome difference, look constantly for opportunities to learn and where, ultimately, they can achieve great things for our clients and themselves.

A key part of that agenda is to make sure we attract the best and brightest people to KPMG – an absolute imperative if we want to remain relevant to our clients in a time of massive social and technological change.

But Magnet for Talent is equally about retaining, developing and engaging the talented people we already employ so that they have all they need to succeed and to meet our clients' rapidly evolving needs.

We're also targeting another, under-utilised KPMG asset – the 37,000 KPMG alumni. We want them to feel linked to the Firm for life and create valuable networks where they can share insights and learning.

We face some tough challenges, however. Competition for talent is as intense as it has ever been and the world of work is changing fast.

Our revised people agenda will allow us to attract, develop and retain the right people today, with the skills they need to tackle the challenges of tomorrow – people who we want to play a key role in our management and leadership in the future.

Community

Here, as in everything we do, we want to be the clear choice for our clients.

The creation of performance groups as part of our new operating model is helping us to revitalise our people agenda with that in mind.

Although still in the early stages, these communities are already helping us to reconnect our partners, directors and team members in terms of their performance, learning and development, and day-to-day working, in a way that really resonates with them.

They give all of our people a home within the business. This sense of community can be especially important for people at the start of their careers, providing a place to work alongside others who know what it's like to do exacting client work while working hard towards their qualification.

A network of 160 performance leaders – highly skilled people tasked with understanding people's needs and aspirations, developing their skills and setting goals for them – work within these communities. To re-enforce the importance of clients to this work, we now expect all performance leaders to have relevant client experience and continued client exposure.

The connection of our client and people agendas are also reflected in the leadership of our people team. Anna Purchas was recently appointed as our new Head of People, responsible for the Magnet for Talent agenda. She brings with her 25 years of front-line client experience working across our Audit, Tax and Advisory practices, as well as serving as Chief Operating Officer for KPMG in Denmark between 2014 and 2016.

Graduates and school leavers

Our graduate and school leaver recruitment programmes are designed to attract a more diverse range of talented young people in a way that both meets their expectations and fires their imaginations.

KPMG remains one of the most popular employers in the UK, ranking number 8 in The Times Top 100 Graduate Employers survey for 2017. Last year we received over 20,500 applications for 1,253 graduate, school leaver and vacation places. In November, Business in the Community ('BITC') placed our Firm in the Best Employer for Race list, and has also awarded us the Workplace Equality Award for Recruitment.

In 2016 we unveiled Launch Pad, our ground breaking new approach to graduate recruitment. This was in direct response to feedback from young people who expressed real frustration that recruitment processes take too long and offer little or no feedback.

Launch Pad condenses the process into one intense and highly immersive day, with the promise that we will make a job offer, or provide good feedback to unsuccessful candidates, within two working days.

In 2017 the award-winning team that devised Launch Pad have been working to build on the dynamism of this new approach and keep it going as our successful candidates begin working for the Firm.

The result of this is Academy Induction, a 120-day programme of first class learning programmes, events and challenges that make sure our recruits are immersed in our culture, values and strategy and have the right basic skills to hit the ground running.

There is no one-size-fits-all where this kind of induction is concerned and we've gone out of our way to make the process more inclusive. We've also added a wider selection of learning modules to choose from. We want our joiners to take responsibility for their learning and development from the start, deciding for themselves which aspects of KPMG life most interests them.

Table 1: Female graduate and school leaver offers accepted

	Female		
Programme	2017	2016	2015
Graduate	49%	50%	41%
School leavers (school leaver programme and apprenticeships)	46%	47%	43%[1]

Table 2: BAME graduate and school leaver offers accepted

	BAME		
Programme	2017	2016	2015
Graduate	35%	37%	32%
School leavers (school leaver programme and apprenticeships)	41%	37%	37%[1]

1 School leaver percentages account for c.80% of its intake, where this information was submitted.

Table 3: Offers accepted by graduate and school leaver applicants – state educated

Programme[1,2,3]	2017	2016	2015
Graduate	65% (4%)	64% (5%)	64% (5%)
School leavers (school leaver programme and apprenticeships)	86% (1%)	83% (1%)	85%[4] (1%)

Table 4: Offers accepted by graduate and school leaver applicants – parents/guardians have no university degree

Programme[1]	2017	2016	2015
Graduate	34% (3%)	36% (5%)	36% (5%)
School leavers (school leaver programme and apprenticeships)	67% (1%)	63% (1%)	51% (2%)

Table 5: Offers accepted by graduate and school leaver applicants – eligible for free school meals

Programme[1,3]	2017	2016	2015
Graduate	11% (9%)	11% (10%)	8% (13%)
School leavers (school leaver programme and apprenticeships)	19% (3%)	18% (5%)	15% (3%)

Apprenticeships

Not all young people want to go to university. Increasingly, many are looking for alternative ways to break into our profession, but with the chance to progress to the same level as our graduates during their career.

Our 360º Apprenticeship scheme fits this bill and is proving a great way to access this fantastic new pool of talent right across the country. This year we will extend the programme to introduce a new digital apprenticeship scheme, 360º Digital, where successful candidates will rotate through some of our key digital departments including technology enablement, cyber security and forensic technology.

Our people experience

Our Deal is a market-leading package of rewards and benefits and continues to win fantastic support from people joining KPMG in the UK and from our existing employees.

We've created five clear pillars to Our Deal which not only spell out what we offer, but now explain the commitment we look for in return.

For example, we commit to giving people access to a raft of excellent learning opportunities throughout their careers. In return, we make it clear that we expect people to remain curious and always willing to learn.

During the year we focused particularly on helping people successfully navigate important milestones in their careers. Our experienced hires attend the KPMG Values Day event to ensure they too get their KPMG careers off to a great start.

Since January 2017 Values Day attendance has been 100% across all eligible colleagues. Feedback has been extremely positive highlighting that the day surpassed expectations in "bringing the company culture to life and making new joiners feel included in the Firm" (19 June 2017). We're also helping existing colleagues make the transition to new or more senior roles, inviting them to become part of a supportive cohort of people who have been through the same experience themselves.

In managing individual performance, we've built in more time for goal-setting discussions and placed more emphasis on making people really understand their role in delivering our strategy.

Where partners are concerned, independently run 360º feedback is helping them understand areas for personal development and to set goals for the year ahead in their roles as leaders of our Firm and our people. In 2017, the process drew over 9,000 pieces of feedback for our partners.

More widely we are recognising the vital role all of our partners and directors play in the people experience at KPMG, making it clear that we expect high levels of engagement from them on this issue.

Encouraging people to think deeply about their health and wellbeing is also a key part of Our Deal. In recent years we've been focusing increasingly on mental health, work that's been led by our Be Mindful network and the charity, Mind. It was the focus of our Health Awareness week in May, for instance, where we launched a very popular mindfulness campaign called "Take 30 To Thrive".

1 The percentage of those that respond prefer not to say / I don't know is outlined in brackets.
2 State school attendance includes state selective as this was separated as an option in 2016 only.
3 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.
4 School leaver percentages account for c.80% of its intake, where this information was submitted.

Case study: Becoming a 360º apprentice? The best decision I've made.

As she was studying for A Levels in Business, Mathematics and Religious Studies, the path looked set for Alia Saddique. Her plan was to study accounting and finance at either Manchester or Salford University.

That's until KPMG in the UK came to her sixth form college in Bolton to talk about the KPMG360º Apprenticeship scheme. It's an increasingly popular alternative route into the Firm to our well-established graduate recruitment programme and one that gives us access to an exciting and diverse new pool of talent.

It immediately appealed to Alia. "When I heard about it I just thought this sounds really interesting. I particularly liked the fact that you rotate round KPMG to get first-hand experience in different parts of the Firm before deciding whether to specialise in Audit, Tax or Advisory."

Alia joined the Manchester office at 18 as part of the scheme's very first intake. Now in her third year she has completed placements in Pensions Advisory, public sector Audit and private client Tax, before deciding to specialise in Corporate Tax, where she particularly loves working directly with clients on a range of issues.

Alia successfully applied to fast track, meaning she is on course to qualify in five years rather than six, when she will be 23.

Adjusting to full-time working life was a little tricky at first, but she says she's received fantastic support from her performance manager, not least in timetabling her work and study commitments to get everything done.

Being highly organised is proving vital as other doors have opened since joining the scheme. She spoke passionately about her apprenticeship at the Conservative Party conference this Autumn, volunteers to support students from local schools to develop employability skills, and is already a school governor.

So, a good choice?

"It's the best decision I've made and I'd definitely recommend it to anyone else," she says.

She advises anyone interested in the scheme to research their options, speak to other apprentices, attend Get Ahead sessions run by KPMG, and to talk things through with friends and family, adding: "If it appeals, don't hesitate."

Inclusion and diversity

We see it as a commercial imperative to make KPMG in the UK a truly inclusive and diverse place to work.

As we seek to speed up our response we are focusing on the retention of diverse talent and ensuring our gender balance at senior manager grade and above shows greater diversity. We've made some good progress here in recent years but change is proving frustratingly slow.

While 29% of people promoted to partner in November 2017 were women, we still have considerable work to do to meet our overall targets for female partners. Similarly we need to ensure more of our black and mixed race colleagues progress to senior roles and into the partnership.

During the year, we were delighted our Deputy Chair, Melanie Richards, was named as the leading champion of women in business in the FT's HERoes awards, 2017 – a testament to her fantastic work in this area.

Individual initiatives play an important role in this work, and so do the networks within the Firm. For instance, our "IT's Her Future" initiative is helping us recruit more women into technology roles.

Additionally, our "Beliefs, Biases and Behaviours" training is helping colleagues at all levels to think more carefully about unconscious bias and being more inclusive.

We're particularly proud of a new reverse mentoring scheme involving young black and ethnic minority colleagues working with members of our Executive Committee and Inclusive Leadership Board to explain and tackle the barriers they face in progressing to senior roles in the Firm (see page 40).

In April 2017, KPMG in the UK also launched the Black Leaders Network ('BLN'). The initiative is aimed at providing an opportunity for senior black business leaders and high performing talent from across all spheres of business to meet, share business experiences and discuss key business challenges.

Table 6: Inclusion and diversity targets

	Grade	2014 Population (%)	2015 Population (%)	2016 Population (%)	2017 Population (%)	2018 Target (%)
Female	Partner	15	14	16	18	25
	Director	23	26	26	28	36
	Senior Manager	36	38	40	42	46
BAME[1] (Black & Minority Ethnic)	Partner	7 (0.9)	7 (1.2)	7 (1.3)	8 (1.3)	9 (2.2)
	Director	9 (1.2)	9 (1.4)	10 (1.5)	11 (1.6)	14 (4.4)
	Senior Manager	14 (2.0)	15 (2.2)	16 (2.7)	16 (2.7)	18 (4.1)
Disability	Overall	1.4	1.5	1.4	1.3	2.8
LGB[2]	Overall	3	3	3	3	4.1

1 BAME stands for Black, Asian and Minority Ethnic which means anyone who has identified themselves as non-white. KPMG has a specific focus on black professionals who are part of the BAME population.

2 LGB stands for Lesbian, Gay, Bisexual.

This is in line with our commitment as a Firm to support the objective of improving representation of black employees in the business community at all levels and particularly into senior roles and we believe that it is the first network for senior black business leaders of its kind in the UK.

Extending inclusion and promoting greater diversity also depends on supporting colleagues at key points in their personal lives. That's particularly true of parents and we want to help them to have a happy family life as well as a fulfilling career.

We've created a great programme – Empowering Parents – packed with advice and information for mothers, fathers and, importantly, for their managers too. The content covers crucial times in family life – before the baby is born, during maternity and paternity leave, when the parents return to work and as the child gets older and starts primary and secondary school.

We also continue to provide group and individual coaching for parents, offering them the chance to form networks with other mothers and fathers to receive expert advice and support from our counsellors.

Social mobility

We're proud to have played a leading role in promoting greater social mobility, an issue that has a significant impact on the UK's competitiveness but which, in recent years, has proved increasingly intractable for policymakers. More information on this can be found in the Corporate Citizenship section on page 37.

We were the first Firm in the UK to publish comprehensive data analysing the socio-economic profile of our workforce in December last year. We continue to measure this and the progress we are making – see tables 7-9.

Within the Firm we continue to tackle the issue head on in support of our Access Accountancy commitments. KPMG Discovery is a great example of this. It is a formal work experience programme run in all of our offices. It offers Year 12 students the chance to get a real feel for working in the professional services, a view on the wider world of business, and the chance to improve their employability.

We specifically focus our Discovery outreach and recruitment activities on schools with a higher proportion of students from lower socio-economic backgrounds. A total of 341 students were offered places on the programme this year of which 64% were from lower socio-economic backgrounds as defined by Access Accountancy.

Table 7: Employee has a parent or guardian with a university degree

	2017	2016
Response rate[1]	97%	95%
No	43%	43%
Yes	48%	48%
Prefer not to say/I don't know	9%	9%

Table 8: Employee school type at age 11-18[2]

	2017	2016
Response rate	63%	56%
UK state school	61%	60%
UK selective state school	14%	14%
UK independent/fee-paying school	22%	23%
Prefer not to say/I don't know	3%	3%

Table 9: Employee's parental occupation[3]

	2017	2016
Response rate	49%	39%
Routine and manual occupations	16%	16%
Intermediate occupations	13%	11%
Higher managerial, administrative and professional occupations	56%	58%
Prefer not to say/I don't know	15%	15%

1 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.

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

3 Coded using the National Statistics Socio-economic Classification.

Audit

At a time of huge social, technological and regulatory change, our ambition to lead the audit profession depends on being recognised as the most trusted auditor in the marketplace.

Net sales

£495m

(2016: £451m*) +10%

Societal expectations of audit are changing, technological advancements continue to transform our capabilities and those of the companies we audit, and the rules that govern our work are having to evolve rapidly to keep up.

We must respond to this brave new world without losing sight of the crucial social and economic role that audit plays.

Audit at its best underpins confidence. Whether that's in supporting investment decisions in the capital markets, providing assurance over the governance of public spending or helping emerging companies to prosper. Audit also plays an essential role in the efficient allocation of capital around the world, powering growth, job creation and innovation.

We recognise that fundamental to building and maintaining public trust in our audit services is a fierce commitment to continuous and consistent improvement in quality. That means investing in our technology and our people, and engaging investors, clients and regulators in the debate about the future of audit.

By numbers of companies audited, we are the number one auditor in both the FTSE 250 and FTSE 350, and number two in the FTSE 100, as well as providing assurance to thousands of smaller companies. Our vision is to build on this market strength to become the most trusted auditor and, through our commitment to quality, to remain as leaders in the marketplace.

We've risen to the immense challenge of compulsory retendering, now in its fourth year. This was reflected in our results, with net sales rising 10% to £495 million during the year.

While this is a result to be proud of, we know we can achieve much more.

* Audit comparative restated due to moving the position of internal audit work from Audit into Risk Consulting

Audit quality

For us, everything we do begins and ends with quality. Audit quality underpins our brand and is always at the forefront of our minds. As a result, we are building a culture of continuous improvement so that we are recognised, through our work and through our role in the public trust debate, as the leader in our profession.

We welcome the challenge provided by the Financial Reporting Council's annual Audit Quality Inspection. In 2017, the AQI rated 65% of our audits to be either good (grade '1') or requiring limited improvements (grade '2a'). It was disappointing however that two audits were found to require 'significant improvements'. In response, we are addressing the weaknesses identified through our Quality Transformation Programme, launched in October 2017, providing more training, new tools and extra guidance to make sure our teams execute consistently and have their sights permanently fixed on quality.

Globally KPMG is also investing in root-cause analysis so that we can thoroughly scrutinise our processes and controls. In the UK, we've expanded the programme to cover firm-wide procedures, carrying out individual interviews and applying the findings of both internal and external reviews.

To achieve greater consistency across the practice, our 'Second Line of Defence' team undertakes regular reviews throughout the audit process as well as supporting and coaching colleagues to help them apply more complex areas of methodology. This year they supported over 130 teams and are expected to work with even more next year.

We have continued to extend engagement with investors and investor organisations to listen to and understand their needs as primary users of corporate reporting and to work out how to respond. We have hosted roundtables, bringing together audit committee members, executives, regulators and others, where we cover a broad range of issues and aim to build a consensus for positive change.

In addition, our Audit Committee Institute, which celebrated its 15th anniversary during the year, continues to be an influential forum for the debate on the future of audit and the governance challenges.

Innovation

During the year we began the roll out of KPMG Clara, our powerful data-enabled platform that allows our teams across the world to work in smarter ways and to use data more effectively. KPMG Clara has already enabled us to analyse a staggering 111 billion lines of data.

We are also deploying market-leading predictive audit analytics which focus on significant audit risks and judgements. These are just some of the reasons KPMG's capabilities in data and analytics ('D&A') are held in such high esteem. Indeed, Forrester Research has ranked us one of the leaders in the D&A space, across our Audit, Tax and Advisory practices.

Our new platform is transforming the way our audit clients interact with us, and their own data, through a secure portal giving them direct access to the D&A insight.

People

Technology is already advancing the quality and scope of our audits, enriching our service and creating new career paths for our colleagues. As we continue to innovate and grow our technological capability, its influence on our work will only increase. This means we will be investing more in our people and evolving our resourcing model to reflect these changes.

Audit is unique in that the vast majority of our partners and directors are promoted from within the practice. That means it's vital that we create a pipeline of future leaders that will be more diverse. It's a source of great pride that we are almost at gender parity among our trainees, newly qualified colleagues and managers. But the fact that this number drops to a third at director level is something we are determined to change.

Clients and growth

As the new audit retendering regime continued at pace in 2017, we recorded some high profile wins including BT, Legal & General and Micro Focus, maintaining an overall win rate among FTSE 350 companies of 37%.

Over the next six years we anticipate there being some 150 FTSE 350 audit tenders with an approximate value of £380 million globally.

Transitioning to a new mandate – as we've done this year with both Barclays and Standard Life (2016 wins) – continues to be a key focus. Last year, research measuring how clients have rated the process of transition was very positive, with 92% of those UK clients moving to a KPMG audit strongly agreeing that the process was highly effective and efficient compared with 56% for those who moved to competing firms.

We're immensely proud of our market leadership but determined to build on it. To do so we will maintain our laser focus on audit quality and redouble our efforts to be recognised as the most trusted auditor by clients, shareholders and the general public alike.

Tax, Pensions and Legal Services

Our Tax, Pensions and Legal Services business achieved another year of good growth in 2017. At a time of extraordinary complexity in international tax affairs, demand for our services is rising rapidly and we see a clear opportunity to build on our leadership in key markets.

Net sales

£425m

(2016: £410m) +4%

It is hard to remember a time of greater complexity and change in global tax affairs.

Tax has risen sharply up the public and political agenda in recent years, and as a result there has been a shift towards increased transparency and tougher scrutiny by government authorities across the world.

International focus on multinational tax affairs continues. The recommendations from the OECD's Base Erosion and Profit Shifting ('BEPS') project are being implemented with the UK further ahead than most. More recently the European Union ('EU') has increased activity in this area with a number of State Aid investigations and its Anti Tax Avoidance Directive. Brexit, and possible US tax reforms, create further complexity and uncertainty. On top of this there have been significant changes in employment working practices and technological advances, specifically in the way both clients and tax authorities manage data.

Clients need our assistance to navigate this complex and changing environment to help them comply with increasingly complex regulations in more efficient ways.

All this plays to our strengths of helping clients pay the right amount of tax.

Solid performance

Our success to date can be seen in the position we've established in global compliance services and in serving our National Markets clients.

We continue to develop and grow our Legal Services practice and have increased the pace of investment with new senior hires in 2017 which will help drive growth in 2018 and beyond.

Overall, across all our practice areas, our net sales grew 4% to £425 million, a solid result and one we can build on under our new operating model, with a renewed focus on profitable growth.

Public trust

Tax remains a boardroom issue. Our role is to help our clients communicate their tax strategies in a way that protects their reputation and allows them to operate sustainably.

Governments need to play their part too, creating tax laws and rules that are clear, consistent and stable. We believe fair and effective tax policy can also be used to enhance competitiveness and encourage investment – critical issues for the UK after Brexit.

We will continue to provide open and transparent assistance to governments and revenue authorities on how policy proposals can be achieved, whether they are likely to deliver their aims in an effective manner, and what unintended consequences they could give rise to.

Global compliance

In the last 10 years we've seen a seismic shift in the tax compliance market, with more and more multinational companies outsourcing their compliance needs, across multiple jurisdictions, to a single global provider.

With tax authorities now gathering much more data – and routinely sharing and comparing information between themselves – this trend has been accelerated as clients look for help in ensuring their filings are on time, accurate and consistent across the world.

We have a strong position in the global tax compliance market in the UK and, in 2017, continued to record some significant wins in a number of sectors, including financial services, life sciences and energy.

These multi-year engagements not only provide strong income streams, year on year, but also offer opportunities to build relationships with clients and to offer other tax and advisory services.

Pressure on financial institution clients continues to build not least with the introduction of Corporate Criminal Offence legislation in the UK which requires financial sector businesses in particular to demonstrate proper and appropriate governance around ensuring that no assistance is given to illegal tax behaviour. We are providing cross-disciplinary services in this area to a growing number of international banks.

Brexit will also inevitably add to the complexity. As clients scenario plan the impact and their response, demand for our help in providing multi-jurisdictional analysis, and advice on transfer pricing, operating models and the implications for employees working across borders, is growing.

The UK market

We've built a successful tax practice serving our National Markets clients in part by developing key specialist capabilities in our centres of excellence.

HMRC is planning radical changes to how it collects tax, through its Making Tax Digital programme. For personal tax that means it will gather information itself and then present it to individuals rather than wait for a return. Doing this for companies will be tougher but there will be a higher dependence on real time data and clients will continue to need assurance and comfort over that information.

They need help too in meeting new reporting requirements, including data on the Living Wage and the Gender Pay Gap. Here clients want help not only with compliance but on implementing innovative compensation packages, especially as new ways of working flexibly proliferate.

Our core tax business remains very strong across the country. But we have successfully added complementary services in recent years that continue to prove increasingly useful to clients. That's particularly true of our Legal Services business, where the combination of high quality lawyers working on a closely integrated basis with our other capabilities is proving highly compelling for clients grappling with complex multi-disciplinary projects.

Pensions remains a high profile issue for many clients and we continue to see high demand for our advice across our full range of pension services. Our corporate advisory pensions team continues to help many of the UK's largest employers manage their pension liabilities and our trustee services business again saw strong growth, helping UK pension schemes run efficiently and have effective investment strategies.

The digital drive

We continuously look for ways to increase our efficiency, and technology plays a significant role here as we automate routine or repetitive services.

A great example is KPMG Vault, a new system designed to streamline and automate the preparation of personal tax returns for our Global Mobility Services business. Since June 2017 the teams at our Glasgow Centre of Excellence have processed more than 9,500 returns using the system.

Elsewhere our Helios technology is transforming the way we deliver our global compliance services and was key to some of our biggest wins during the year.

People

A main aim of our people agenda within Tax, Pensions and Legal Services is to turn our specialists into effective business advisors who can work closely with our Consulting and Deal Advisory colleagues to develop effective client solutions. We need people with data analytics and change management skills and a confident understanding of our clients' broad business issues, on top of their specialist skills.

Internationally KPMG's Tax network has launched Catalyst 10K Strong to train a quarter of our tax experts globally to become leaders in the field of tax technology, a project we are deeply involved with. In the UK we've launched our Next Generation programme to help colleagues develop sales and relationship building skills, backed by individual mentoring.

Case study: BP masters its worldwide compliance demands with a futurist vision, advice and support

Declaring that "The world is changing fast and BP is changing with it," the UK-based oil and gas giant is embracing transformation across its 72-country operation, including within its global Tax group. Amid complex regulatory changes, BP is responding to tax authorities' demands for faster, more detailed and digital compliance data, while also aiming to streamline its tax processes.

These forces prompted BP to launch a tax effectiveness and efficiency programme across its compliance and reporting activities, with a vision to create a network of local, regional and global delivery capabilities. To do so, it sought a strategic advisor to help implement the programme and map out the best way to combine the skills and resources of its Global Business Services ('GBS') division with an outsource service provider that could complement GBS and BP Tax capabilities.

"BP wanted a long term advisor who shared their view of the future of tax compliance and the role of technology," says Andy Cox, Partner, BP Global Lead Partner and Head of Energy, KPMG in the UK. "We showed them that we have the strategic and executional know-how to design and deliver the right combination of process transformation, automation and outsource support to create a compliance function for the changing world they envisage."

BP was impressed by the significant capabilities available through KPMG's Global Compliance Management Services practice. For example, KPMG's LINK 360 technology will provide BP management with up-to-the-moment access to programme status and detailed compliance data across its international operations. But they also recognised KPMG's commitment to its own vision and to investment and innovation in technology and compliance delivery, which made us ideally placed to work alongside BP for the long term.

As part of this 5-year change programme, KPMG is providing tax compliance services across a large number of BP locations, including rapid global team response to emerging tax issues. KPMG is also sharing fresh perspectives by bringing the best of our ongoing technology innovations and by using our customised 'Lean for Tax' approach to help BP leadership improve the effectiveness and efficiency of their tax processes.

Chris Scott, EMA Head of Tax for KPMG and Lead Partner on the programme notes, "With BP, we are demonstrating how we are an integrated, global team that can support them across their worldwide footprint and help them achieve their desired future state."

Deal Advisory

Global merger and acquisition ('M&A') markets remain extremely busy with record deal values, a trend we see continuing. In response, we have rebalanced our Deal Advisory business to offer clients a wider range of services, relevant at every stage of the transaction and across the economic cycle.

Business today is under more pressure than ever to deliver better results for stakeholders. In Deal Advisory, we focus on helping our clients buy, sell, partner, fund and fix through all elements of the deal life cycle.

The performance of our Deal Advisory business, a traditional core of the Firm, is able to maximise opportunities whatever the economic environment.

We've seen that same dynamic at work in our results for 2017. Total net sales were down at £372 million mostly due to a sharp fall in traditional restructuring and insolvency work, with net sales for Restructuring down by 10%. Meanwhile, Transaction Services continued a record of strong growth this year and, together with Corporate Finance, has achieved a compound annual growth rate of 11% over the last four years.

In recent years we've adjusted the balance of our services to reduce the cyclical nature of the business. We've done this by putting a growing emphasis on helping companies transform their finance and operating models before falling into distress. In other words, we've built a business that is more resilient than in the past and one that is relevant right across the economic cycle.

Net sales

£372m

(2016: £386m) -4%

A market poised for further growth

Global M&A markets remained very quiet for a number of years after the financial crisis. Since then they have come back to life at astonishing speed, with high volumes of deals and rapidly rising deal values. Although volumes have declined in the last year, values continue to increase sharply and there are good reasons to think this trend will continue.

Dealmakers have shown their determination to press ahead with transactions in the face of significant geo-political uncertainty. Take Brexit, for example. While deals did temporarily slow down in the weeks following the UK referendum, the UK's decision to leave the EU has not otherwise dented business sentiment towards deals.

Indeed, events like Brexit are only encouraging companies to look again at their operating models and growth strategies and, very often, M&A is a key part of their response. With politics becoming more inward looking, companies are also re-examining their cross-border operations and simplifying supply chains. Often that means doing deals, some of which would not have happened had it not been for current political uncertainties.

But there are other, longer term reasons to believe deal making will continue at high levels.

The cost of debt financing remains at historically low levels. This, together with increased liquidity, has, in turn, driven increased competition and innovative debt structuring to support a growing deals market.

We are also seeing a migration of public finance to private pools of capital, with sovereign wealth, pension funds and insurers looking to deploy capital more actively.

Responding to new client trends

One key trend is that, unlike past M&A booms where deals were often driven by financial engineering, the motivation for our clients is increasingly strategic and driven by a fundamental business need.

Our clients need a wider range of advice at every stage of the deal to succeed – from conception through to completion, the subsequent integration and, eventually, a possible sale, Initial Public Offering ('IPO') or separation.

As a business, we are broadening our services to address both the current market trends and a new set of demands from our clients. We are continuing to help our clients transact, but are increasingly working with them to extract long term value – a task that requires us to support our clients as one Firm, pulling together the full range of our Tax, Consulting and Deal Advisory capabilities.

During the year significant deals of note included assisting British American Tobacco Plc ('BAT') on the acquisition of Reynolds and thereafter the combined group listing in both London and New York. We worked on a number of Private Equity transactions including Miller Homes and Pelican Rouge. In addition, we continued our role on large infrastructure projects such as High Speed Two ('HS2'), and the Heathrow expansion project.

We have successfully built both Debt and Equity Advisory practices in recent years, and we are starting to make our mark in this area.

We have also worked on a wide number of fascinating deals during the year at all levels of the market including the sale of Clarke Energy, Utiligroup, Village Vets and also the merger of Booker and Tesco.

Common themes across the business are the increasing complexity of deals, the rise in deal values and a growing emphasis on cross-border transactions. These features play to our strengths and we are well placed to respond.

Deal technology

We continue to invest in technology as we become more content and data driven. We have developed analytical tools that draw on both public and proprietary sources of content to deliver better insights to clients more quickly and efficiently. We have also launched various tools under the umbrella of DealTech. These are benefiting clients in a number of ways including helping them to validate the quality of data, evaluate key performance drivers and ultimately to achieve greater value from a deal.

People

While technology and content will play an increasingly important role in our work, our people will always be right at the heart of our efforts to provide solutions to clients. The skills we need are changing, however. We are investing in a wider pool of skills across our Deal Advisory business, hiring more technologists and data scientists and more people with deal skills in Consulting and Tax who are able to assess and articulate value in a deal.

Our business plays a central role in facilitating global trade flows. For that reason, it's vital we maintain a global workforce and we are doing this through a combination of hiring and by supporting an active international secondment programme for our existing colleagues.

Consulting

We are bringing our Management, Risk and Strategy Consulting businesses together to meet our clients' increasing demand for connected consulting services drawing on all our skills.

As disruption accelerates, business and operating models are coming under growing stress and strain.

We already use specialists from across our Consulting businesses to help our clients respond to these challenges, but we know we can be far more effective by bringing them together to create one connected and capability-based Consulting response.

With this new strategy, our focus will be on six key areas:

– regulatory-driven business change
– back office transformation
– helping clients meet rapidly changing customer demands
– insight-led performance improvement
– high-value consulting drawing on our thought leadership
– internal audit and assurance

Few organisations have our ability to combine deep strategic insight, with skills in process engineering, technology implementation and managed services. We start by really understanding the problem – whether that's the impact of regulation, a cost, supply chain or learning challenge – and then, working side by side with our clients, create a wrapped-up, technology-enabled solution. We are doing this already for major clients. For example, we are helping an international bank meet new customer vetting regulations and we are transforming the supply chain of a global drinks company.

Management Consulting
Net sales

£285m*

(2016: £257m) +11%

Risk Consulting
Net sales

£254m

(2016: £273m**) -7%

* Total net sales reported internally exclude net sales from KPMG Crimsonwing ('KCW'); including KCW gives MC net sales of £308m and like for like growth of 12% for the year.
** Risk Consulting comparative restated due to moving the position of internal audit work from Audit into Risk Consulting.

Management Consulting

Our Management Consulting ('MC') practice outgrew the market in 2017 (based on market forecasts), achieving net sales growth of 11% (including Crimsonwing 12%) and indeed through our investments and extended capabilities MC has grown its net sales by 36% over the last two years. We achieved this by constant focus on our clients and continuing to invest in digital platforms. We invested in cloud-based business transformation, digital learning and in analytics to help clients both improve operational performance and create better connections with their customers.

We are building deeper relationships with large-scale clients in banking, insurance, public sector and the international and domestic corporate market. These clients want to contract with us through multi-year, outcome-based commercial contracts. Consequently we have deliberately invested this year in the build stages of major contracts to enhance our digital infrastructure and services and create a strong platform for medium term growth. Many of these investments are coordinated globally within KPMG International, with the UK Firm playing a lead role.

The client issues we face are complex. We therefore invest in and implement first-of-a-kind solutions with clients. Our stand out solution is 'Powered Enterprise' which continues to hold a market-leading position. It uses pre-configured technologies to create more cost-effective operating models in areas such as customer service, finance, Human Resources ('HR'), Information Technology ('IT') and risk services. We are investing in robotics and performance analytics to enhance these solutions and give clients greater value.

Core to our strategy are alliances with leading cloud software providers, for example with Oracle, who have awarded us Consulting Partner of the Year for the third consecutive year. We have deepened the relationships with our alliance partners and are now implementing digital products that we will subsequently take into the wider market.

Our investments in Boxwood, Nunwood and Crimsonwing are fully integrated and play an important role in how we work with our clients and extend our services.

We strengthened our leadership and talent in key markets this year through experienced partner hires and promotions. We were also pleased to play a significant role in rethinking the KPMG graduate recruitment process in the UK. In parallel we have invested to reset our learning programmes for people in their first years at the Firm. In all regards we remain determined to improve inclusion and diversity in our teams.

Our clients are investing time and capital in digital to better serve their customers and employees. We are similarly investing in reshaping our own delivery model, using KPMG content and the latest available digital tools, analytics and workflows to serve our clients better.

Risk Consulting

Net sales in our Risk Consulting businesses were down 7% in the year, but that expected result masks some tremendous highlights for our business. We not only continue to win high profile work in areas of traditional strength, but we are increasingly joining up our capabilities in new ways to best serve our clients' complex needs.

We successfully integrated Internal Audit into our practice to help clients identify, assess, and assure risk across the entire business in a holistic way. We saw double-digit growth here as we did in cyber, where demand continues to be high for our services. Clients are also increasingly turning to us to help them manage the risks connected with digital transformation.

We've had great success building solutions that combine technology with our deep domain expertise to help clients monitor and anticipate risks rather than simply responding to them.

As Audit makes greater use of technology, demand for our help in managing the risks involved has risen sharply. That has meant diverting resources away from other areas of the business, which has dampened our results. There has also been a fall-off in large remediation projects, but we see a growing demand for our help as clients turn their attention from dealing with past issues to transforming their businesses for the future.

Increasingly we are working alongside our Management Consulting colleagues, particularly in the area of regulatory risk and on our Powered Enterprise solutions. We have a strong reputation in the field of risk and regulation which is reflected in the exceptional feedback we get from clients. Combining that with our technology and Management Consulting capabilities means we are well placed to help transform our clients' operations.

We are working closely with our global colleagues both to invest in new technologies and in managing complex global risks such as anti-bribery and corruption rules, financial crime, global regulation and cyber security.

There are few generalists in our practice. Finding people with the right skills, whether technology experts or deep domain specialists in key areas of risk, is always a challenge.

As a result, while we continue to recruit strongly, we are putting equal weight on training and developing our existing teams to make sure our technology capabilities are matched by a continued deep understanding of the market and sector context. This combination of skills remains a very important differentiator for KPMG in the UK.

Case study: Insight-propelled growth in the consumer products sector

Consumer products companies in mature markets are finding it increasingly difficult to grow revenues and market share, with the squeeze on margins and hyper competition adding another layer of challenge, particularly at a time when pressure from activist shareholders for faster growth is intensifying.

While many companies now realise that data and analytics can hold part of the answer to this growth challenge, few have managed to use data effectively to create the sort of tactical insight that can propel a real improvement in revenue performance, year by year.

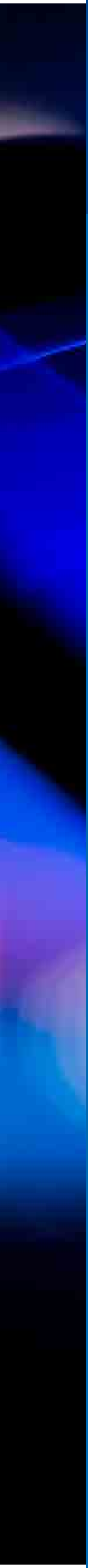
A range of issues often stand in their way, from lack of data integration skills and inability to convert data into insight, through to analysis paralysis and the sort of deferred decision making that often gets in the way of incisive action. When teams do decide to act, it can often be in an unplanned way that makes it difficult to win the support of people taking action on the ground.

That's where KPMG in the UK's unique insight-propelled growth capability comes in. Blending client information with our own proprietary data, it uses advanced analytics and interactive visualisation to pinpoint highly valuable tactical changes the client can make to boost performance.

Focusing on issues such as tailoring the product mix, price, promotion and shopper marketing techniques, and product execution in stores, these 'marginal gains' taken together have been shown to add up to an impressive 2-4% growth for major global consumer groups.

As an example, we provided one major consumer products client with tactical insights to boost the effectiveness of its customer, product and channel mix, allowing it to achieve growth in excess of 2.7%.

And because we went beyond simply providing short term advice, we were able to enhance the company's existing decision making process to create a solution that will help it sustain that improvement in performance for the long term.



Our markets

Our clients – large and small, private and public sector – face a dizzying array of challenges. The risks are high, but we see a great opportunity to help them navigate this period of uncertainty and build a sustainable future.

IMG Net sales

£962m

(2016: £939m) +2%

NM Net sales

£869m

(2016: £838m) +4%

International Markets and Government ('IMG')

Our clients are facing greater disruption to their business models than ever before, all in the context of a world beset by political uncertainty and where it is still impossible to be clear what lies ahead after Brexit.

Our IMG business, serving our biggest financial services, corporate and public sector clients, achieved good growth in 2017 at a time of continued heavy investment in platforms and propositions to meet our clients' increasingly complex needs.

IMG net sales grew 2% to £962 million during the year. While we had targeted higher growth we continued investing heavily in our key propositions, clients and sectors, and this puts us in a very strong position for the future.

We're targeting that investment in areas where we see clear trends emerging for our clients. Our priorities include building up our business transformation capabilities, investing in regulatory tools across sectors, and exploiting technology and data to gain richer insights, with a growing focus on the customer.

We are also continuing to invest heavily in our core Audit and Tax businesses, both of which are growing strongly and won some superb new mandates during the year.

Technology is playing an increasingly critical role in banking and insurance, whether that's in changing regulation or meeting rapidly evolving customer needs. Much of our work is around helping clients deal with a continuing deluge of new regulation, including Markets in Financial Instruments Directive ('MiFID') II, Basel IV and the EU's new Guide to the General Data Protection Regulation ('GDPR') data protection regime.

The corporate market has been the busiest area for us. Three big issues top the agenda here: cross-sector convergence in areas like transport, mobility and healthcare, transforming performance to achieve growth in a low growth environment, and gaining sharper insights from data.

Where customers are concerned, the UK energy sector is very busy, not least with the threat of price caps looming. Elsewhere we've seen a revival of M&A activity in key commodities as the oil price has strengthened.

Unprecedented infrastructure spending on projects like High Speed Two ('HS2'), National Rail and highways has increased demand for our advice in the public sector on big capital projects and work on the Civil Service Learning service is progressing well. Our public sector work can, we think, grow more strongly under our new operating model once rolled into a more streamlined public sector offering.

Attracting the right skilled people in the quantities we need remains a challenge. Competition for talent is fierce. That means we have to find ways to work more flexibly and continue developing the terrific talent we already have.

While this uncertainty creates clear risks, we see huge opportunities to support our clients in creative and valuable ways, in the process providing our people with a fascinating arena in which to work.

In the coming years, clients will need to continue investing in technology as disruption continues and step up their efforts to protect their brands and reputations with consumers. We will see many clients put their Brexit planning into action in 2018 with initiatives implemented around recruitment, talent, investment, location, new business models and trade.

As we help them with this work, focusing on priority clients and sectors and multi-disciplinary propositions will continue to be our strategy.

National Markets ('NM')

Our National Markets business, serving medium-sized listed businesses, private companies and public sector organisations across the UK, saw continued growth in 2017.

We saw good single- or double-digit net sales growth across nearly all of our businesses, with the exception of Restructuring where net sales fell, an expected result at this point in the economic cycle.

All of our regions, with the exception of Scotland, grew by between 4% and 16%, with work for clients based in the Reading/Southampton corridor particularly strong.

We were successful in winning a number of projects with hospital trusts, though these will be delivered later than planned and this held back our Public Sector and Health business where net sales fell by 4%.

Overall, we recorded total net sales of £869 million, a 4% increase.

Two key trends are clear in our market.

The UK continues to see an increase in the number of privately owned businesses, including those backed by private equity. We see this as a huge market opportunity and are focusing on it through KPMG Enterprise, which looks to support private capital businesses throughout their life cycle. We've continued to build our offering here, extending our services in areas like family office consulting and investment advisory.

Our traditional businesses, Audit, Tax and Deal Advisory, dominate the mid-market with strong positions in every region.

However clients are increasingly also looking for broader consulting services, particularly to address their customer and growth agendas.

So, while our traditional services remain absolutely central to our success, over the next few years we will move from a reactive, assurance-based business to a more pro-active, advisory one.

Devolution is another important trend for us. As economic power spreads out to the regions and as the UK's industrial strategy develops in a post-Brexit world, we need to match our resources and solutions to areas of infrastructure investment, regional economic development and the new industries and supply chains that will emerge.

Through our Infrastructure, Government and Health practice, our extensive regional network, KPMG Enterprise, and our investment in broader advisory capability, we have all the building blocks to respond, and be the clear choice in this market.

Case study: Powering regional investment

Building strong relationships with our clients and working shoulder to shoulder with them throughout their development is a central part of our strategy.

Across the UK we are also looking for opportunities to bring the full range of our skills and capabilities into play to help our clients grow.

The links we've built with the thriving Private Equity ('PE') community in the North of England, Europe's largest PE hub outside London, is a great example of this strategy at work.

NorthEdge Capital is one of the PE funds we are working with increasingly closely. Although it only raised its first £225 million fund in 2012, it has gone on to make 21 investments and has now raised a second £315 million fund.

We helped NorthEdge from the earliest days, before they had raised their fund, and invested in our relationship with them across different disciplines. For instance, in September 2016 we advised NorthEdge on the sale of Sumo Digital, a software developer, to Perwyn, which netted a significant return for NorthEdge. Similarly, earlier this year we sold Utiligroup – the company responsible for the software that powers smart electricity and gas meters – to Accel KKR. Again, NorthEdge achieved a significant increase on its original investment.

We're also working with NorthEdge's portfolio companies, to assist in their growth and development. Increasingly that means deploying a broad range of KPMG in the UK's services together to make sure we meet our clients' changing and increasingly complex needs. For example we carried out a profitability review of two NorthEdge businesses during the year and ran cyber security and data protection risk assessments right across its portfolio of companies.

It's these kind of relationships, with some of the most powerful players in our different regions, that are helping us to grow KPMG Enterprise, our business serving private capital companies across their entire life cycle, from start-up right through to maturity.

Our rapid and comprehensive response to Brexit means we are well placed to help clients anticipate the risk and take advantage of opportunities, to manage our own business and play a leading role in shaping the economy after Britain leaves the EU.

Some 18 months after Britain's vote to leave the EU, our clients still find themselves facing widespread unpredictability. With our help, many are using Brexit as a catalyst to rethink how they do business.

We mobilised our resources straight after the UK referendum result, with three main goals: to be the clear choice in our profession; to be a trusted advisor with the tools to support robust client conversations; and to plan rigorously across our own business. We've made excellent progress in all three areas in 2017.

We've been prominent in the public policy and business debate on Brexit. We convened leading figures at the FT's "Brexit and Beyond Summit" in London and at "Brexit in the Boardroom" roundtable dinners across the UK and globally in New York, Tokyo and Frankfurt. Our extensive Brexit collateral includes thought leadership and tools such as the Brexit column, Customs Tax tool and the Brexit Navigator.

This public profile is opening up numerous client conversations. We learnt through the 2017 KPMG CEO survey that more than three out of four CEOs are spending additional time scenario planning. We are now actively advising clients on this, in particular Brexit impacts which range from workforce strategy to supply chain resilience and direct and indirect taxes.

However, as the clock ticks down we see this changing as businesses put in place the legal and regulatory frameworks, as well as the physical and digital infrastructure, they need for the future. The year ahead will see an increasing number put their plans into action.

In the private sector, financial services institutions were the first out of the blocks. We are advising leading international banks, insurers and asset managers across a range of issues from regulatory compliance through to relocation analysis and implementation. Other highly regulated sectors like life sciences, that could lose their licence to operate, or businesses with complex supply chains, notably automotive, have also moved quickly, many with our help. We've also advised global law firms on how Brexit affects their EU national employees.

In the public sector, we have used our Civil Service Learning service to provide trade policy and negotiation training through the Foreign and Commonwealth Office's ('FCO') Diplomatic Academy to all government agencies engaged in trade policy development.

Professional services make a significant contribution to the UK economy and will be vital in supporting the wider financial ecosystem after the UK leaves the EU. Alongside our sector peers, we've made that case very clearly, engaging with Government and policy-makers on issues such as the provision of services across borders, mutual recognition of qualifications, staff mobility, and the need to attract and retain diverse talent across borders.

To give the UK the best possible chance of post-Brexit success, a modern industrial strategy to drive growth and productivity is essential. As a Firm with a long term commitment to social mobility and diversity, we believe this must work for every community and every part of the UK. We were therefore pleased to submit a detailed response to the Government's Green Paper, 'Building our Industrial Strategy', earlier this year.

As this report clearly demonstrates, Brexit is one of the most disruptive forces bearing down on our clients. Looking ahead to 2018, we will continue to make sure our clients are Brexit ready and play a full and active role informing the public policy agenda.

Corporate Citizenship

By taking a bold approach to Corporate Citizenship we aim to unlock opportunities for people within KPMG and across the UK at a time when rising inequality is creating significant social and economic challenges for the country.

In recent years we've played an increasingly active role in tackling some of the biggest social and economic challenges facing the UK today.

We want to make a real impact in addressing these challenges and we see no issue more urgent right now than the widening gap in opportunity affecting people right across the country and the growing levels of inequality between different regions of the UK.

Finding answers is not easy, particularly at a time of waning public trust in business and other institutions. But doing so will become increasingly critical as Britain prepares to leave the EU.

We cannot expect the Government to solve these problems alone. It will take strong collaboration between the public, private and voluntary sectors. And we are determined to play a hands-on role in that effort.

We're doing that by focusing our Corporate Citizenship work on extending social mobility in tangible ways, primarily through our work with schools and colleges, and by making sure we continue to offer people from diverse backgrounds the chance to build rewarding careers at KPMG in the UK.

More broadly we want to help shape the economic landscape of Britain, post-Brexit – by supporting the Government's industrial strategy that promotes inclusive growth by unlocking opportunity, particularly for the communities and people that are currently most excluded.

Our approach

Our approach starts with a simple premise: responsible, diverse and inclusive businesses are more successful.

This means being responsible in our work, towards our people and in the communities where we operate. Being responsible helps us to attract, develop and retain the talented people we need to succeed, to better understand and help our clients, and build public trust. It's tied closely into our people agenda and into our efforts to put our clients right at the centre of our new growth strategy.

Our approach is focused on promoting lifelong learning and increasing numeracy and literacy skills to drive opportunity for people from lower socio-economic backgrounds across the UK.

Lifelong learning is more important now more than ever. People are living and working longer. Four million UK jobs could be replaced by robots in the next decade. Yet, at a time when people need the chance to learn new skills, in-work training is actually decreasing.

A lack of basic literacy and numeracy at a young age can prevent a person from taking advantage of learning and work opportunities as they get older, particularly in technology-driven roles.

17 million adults in the UK have poor numeracy skills, costing the economy £20 billion a year. If every child left school with the reading skills they need, the economy could be £32.1 billion bigger by 2025.

We're tackling these issues in four main ways:

- Education – equipping the next generation of talent with skills for the jobs of the future.
- Employment – building new routes into employment, including work experience, apprenticeships and graduate programmes.
- Engagement – working with colleagues, clients, suppliers, and third sector partners to agitate for systemic change.
- Strategic philanthropy – fundraising and the work of the KPMG Foundation on helping the hardest to reach young people.

Leading the way

Tackling educational and social mobility challenges dominates our volunteering efforts. Everyone in the Firm has six days per year to bring their skills and experiences to deliver social impact.

Over the past year, through our citizenship activities we've reached over 17,000 beneficiaries. 80% of our volunteering and pro bono efforts were focused on social mobility-related projects and over a fifth of our employees volunteered last year. Our challenge next year is to get even more people involved.

We are proud to be the first Firm in the UK to comprehensively map the socio-economic make-up of our workforce in an effort to better understand the barriers to progression within KPMG in the UK and to build a truly inclusive and diverse work environment. We've worked closely with our people team and the Bridge Group to deliver this work. See page 20 for this year's socio-economic workforce data.

Our Inclusive Leadership Board, led by our Deputy Chair, Melanie Richards, has the job of tracking our performance and challenging our leadership to make faster progress on inclusion and diversity, including aligning our social mobility work with our broader inclusion agenda. The Board receives external guidance from Nik Miller of the Bridge Group, Baroness Tanni Grey-Thompson and John Amaechi.

We've won widespread recognition for our work. We came second in the first Social Mobility Employer Index, which recognises organisations that have embedded social mobility into their talent strategies. We were thrilled to receive The Queen's Award for Enterprise for Promoting Opportunity (through social mobility), becoming the first of the Big 4 to win this accolade. And we picked up awards for our leadership, commitment and mentoring at the inaugural UK Social Mobility Awards.

But it's not what we've won, but what we've done that really matters, so we may continue to help lead and shape the debate on these important issues.

Action on numeracy

During 2017 we co-authored a report with Achievement for All on "Closing the Attainment Gap in Maths", in our capacity as co-chair and corporate sponsor of the Fair Education Alliance ('FEA') working group on numeracy. We also worked with the FEA to create a 'Report Card' designed to identify and reduce educational inequality.

We were delighted to support a report from National Numeracy, "The Essentials of Numeracy – a new approach to making the UK numerate". This charts the continuing challenge of raising standards and puts forward a new approach to tackling the issue, supported by a diagnostics and support package for organisations and individuals.

Targeting coldspots

Educational attainment varies radically across the UK. For example, in London, 70% of pupils achieve 5 A* to C GCSEs. This falls to 63% in Yorkshire and Humber. Three in ten secondary schools in Manchester and five in ten in Liverpool are rated less than good by OFSTED.

We began our work to support schools in disadvantaged areas in London with our sponsorship of The City Academy, Hackney in 2007. Nearly a decade later, this fantastic relationship continues: we've worked with over 225 students through learning support, mentoring and work experience programmes in the past year alone.

We plan to deepen our approach and invest further through our network of offices across the UK.

We're working with The Careers & Enterprise Company as a 'cornerstone employer' to convene local businesses to support young people, offering students career advice and professional insights, in two of the Department for Education's Opportunity Areas, Norwich, and Fenland and East Cambridgeshire.

In Birmingham we've expanded our skills development work and are supporting the Mentoring Programme launched by Andy Street, the Mayor of the West Midlands.

We are a corporate sponsor of the University of Birmingham School, supporting students through employability programmes and enterprise competitions. This year it celebrated its first set of A Level results, with over half the students achieving A* to B grades, and 22% achieving A* and A.

At Birmingham Metropolitan College, where some 52% are classified as being in the highest bands of deprivation, we ran skills workshops for over 100 students.

The next generation of talent

It's vital that our work in communities ties in closely with our efforts to recruit, retain and develop talented people from as diverse a range of backgrounds as possible.

Alongside our formal work experience programmes, we ran a pilot of the Social Mobility Foundation's 'One+1' Campaign where colleagues offering informal work experience also provided a matched placement for someone without access to professional networks. We are now rolling this initiative out nationally to make it business as usual for any informal work experience place offered.

Our WorkReady initiative has reached almost 8,000 young people in approximately 60 schools since its inception. This year we ran a WorkReady tour focusing on the technology skills that will be so important in the fourth industrial revolution. The tour involved 70 KPMG volunteers and reached almost 2,000 students in 15 schools across the UK.

Global support of SDG4

Promoting lifelong learning, in support of the UN's Sustainable Development Goal 4, ('SDG4') is the focus for citizenship activity across KPMG's global network of Member Firms. Global citizenship programmes continue to grow from strength-to-strength.

We continue to expand KPMG's Families for Literacy in the UK, donating educational materials to schools and charities in Glasgow, Manchester, Leeds, Birmingham, London and St Albans.

We were sponsoring partners for the Enactus World Cup in September 2017, with over 1,300 students and almost 900 business representatives taking part. We also provided grants for 11 projects by UK universities.

Young leaders from across KPMG were at the One Young World summit in Bogotá, Colombia. The summit brings together young leaders from industry, non-governmental organisations ('NGOs'), and universities with world leaders to inspire action to solve the world's most pressing challenges.

KPMG Foundation

Focusing on early years interventions, the KPMG Foundation gave £943,079 in grants to 13 education and social projects aimed at children and young people in care, on the edge of care or leaving care, and those who are living in the most deprived families.

The Foundation is providing funding to the Family Rights Group to work with seven local authorities to implement Lifelong Links.

The Foundation is also working with Barnardo's to reduce the number of children vulnerable to sexual exploitation in Rotherham.

Living Wage

We were one of the first companies in the UK to pay the living wage and helped found the Living Wage Foundation. Paying the living wage is not only a matter of fairness, but delivers improvements in productivity, recruitment and staff retention.

We continue to campaign on this issue across the business community, focusing on the benefits of being a Living Wage employer. We support the Foundation in delivering its message through our annual Living Wage Report, which suggests 5.5 million people in the UK are earning less than the real Living Wage today. We also sponsored a parliamentary reception alongside Aviva and Nationwide to raise awareness of the Foundation's work across all political parties and held a senior business roundtable with the Mayor of Greater Manchester, Andy Burnham, to highlight the role employers can play in addressing the critical issue of in-work poverty.

Case study: Tackling the barriers to progression

We track the impact of our efforts to increase the diversity of young people joining the Firm and in recent years the results have been encouraging.

But getting this right at the point of intake is only a part of the challenge. We know from past experience that having a diverse mix of people at junior levels does not guarantee increased diversity throughout the Firm, and certainly not when it comes to senior management and leadership roles.

The truth is that, like many organisations in our profession, we're struggling to make the most of the diverse talent we've worked so hard to attract.

In recent years we've gone beyond recognising that fact, to actually trying to analyse the reasons why.

In autumn 2017, KPMG in the UK commissioned the Bridge Group to research whether, and how, gender, ethnicity and socio-economic background, affect employees' progression in the Firm. The Bridge Group is an independent organisation, based at King's College London, that researches and promotes inclusion and diversity.

The study includes analysis of our anonymised workforce and leavers data, and in-depth interviews with over 60 employees across the business. It also draws on the latest research and guidance across sectors, to identify existing best practices.

The research, which will include specific recommendations, will be finalised in early 2018. KPMG will use the evidence and advice from this rigorous study to inform policy reforms to further ensure that all employees can thrive irrespective of background.

We've also taken some practical steps to explore this crucial area. A great example is the reverse mentoring scheme set up with the help of our African and Caribbean Network for members of our Executive Committee and Inclusive Leadership Board.

Olu Odubajo – in his second year at KPMG and working in our Dispute Advisory practice – quickly put his name forward as a mentor and since December 2016 he has been meeting our Managing Partner, Philip Davidson, every month to help him identify the obstacles blocking career progression for young black colleagues.

Through internal and external research, he's identified a number of potential issues including unconscious bias, a lack of senior black role models, the difficulty of being "heard" at work, and too few opportunities to get picked for high-profile assignments – issues that can be hard for leaders to see because, as he puts it, they get "translated" as they go up the chain.

In the last year he's had the chance, through the scheme, to talk to partners and colleagues, taken on public speaking engagements and presentations, and also represented the Firm at the One Young World conference in Colombia.

Self-assured and articulate, he says the scheme has been "life-changing" for him. "I speak like this now because I've grown in confidence. Now I know people want to hear what I have to say, I feel a lot more comfortable to be myself."

> "KPMG is approaching diversity and inclusion with the same rigour and curiosity that it applies to clients' business challenges. The interrogation of data, alongside deep qualitative research, is ensuring that reforms within the Firm are informed by evidence. We commend this approach, and challenge the Firm to build further on this to embed new activity, and to share transparently its learnings to support wider change amongst employers."
>
> Nik Miller, Chief Executive of the Bridge Group

Philip welcomes Olu's contribution. "I've found it invaluable to receive feedback and guidance from Olu who is completely involved in the business and has refreshing perspectives on issues which, as leaders, we can sometimes miss."

While we have some way to go to ensure we remove all barriers to social mobility within the Firm as a whole, we are incredibly proud to have been recognised as one of the leaders in the business community on this issue, not just for what we've done within the Firm but for our role in bringing the issue to greater public attention.

We are determined to make much greater progress – one reason why we have put social mobility at the heart of our Corporate Citizenship agenda.

Environment

We report annually to CDP on our emissions and achieved an A score in 2016, a year which saw our emissions decline by 1.8% compared with 2015, and by 22.2% against a 2010 baseline. CDP introduced a new benchmark in 2016, measuring engagement with suppliers on reducing supply chain emissions and climate risks. We were one of 29 companies (out of 3,300) to receive an A score. We were proud to maintain this A score in 2017.

Our success in reducing our carbon footprint is partly a result of work to modernise our offices through more energy-efficient buildings. Carbon reduction is critical because this is the area where we have most impact on the environment. We manage our overall environmental impact using an ISO14001 Environmental Management system to ensure continual improvement in our performance.

Today, all electricity purchased for the offices we own and manage comes from renewable sources, equating to 73% of our total consumption. We are continuing to press our landlords to switch to renewable supplies for the remaining buildings in our estate.

We continue to encourage our colleagues to take action to reduce their environmental impact. We are trialling new approaches to reduce waste and increase recycling, for instance we are piloting a coffee cup segregation and recycling scheme in our Watford office, and reducing the packaging we use as we roll out new laptops. We have also seen an 8% reduction in the amount of paper we have consumed.

Sustainable procurement

Our citizenship priorities are clearly reflected in the working relationship we have with our suppliers. Our Sustainable Procurement programme has three priority issues – social mobility, inclusion and diversity, and environmental management.

We've brought these issues to life by staging a regular programme of supplier roundtables covering inclusivity and recruiting a diverse workforce. These events allow us to share best practice with suppliers and draw on the expertise of groups like CDP, Business in the Community, the Business Disability Forum and Stonewall.

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.

Corporate responsibility community data

Community data		FY16/17	FY15/16	FY14/15
Community benefits				
Individuals directly supported	number	17,344	16,483	14,135
Organisations supported	number	1,053	881	1049
Leverage (cash) [1]	£million	1	0.9	2.2
Community investment				
Community contribution (cash, time, in-kind and management costs)	£million	4.1	4.8	5.3
Volunteering during working hours	no. of people	2,915	3,156	2,790
Time spent volunteering during working hours	no. of hours	44,067	47,966	43,190
FTE staff volunteering during work hours	percentage	21%	23%	23%

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

Footnotes:

Community data

1 This figure is not assured.

Environment data

Calculation use Defra guidelines 2016

2 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 CO_2e.

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.

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

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

5 For offices without accurate water consumption data, 2016 consumption has been calculated using average consumption and floor space data. This is an improved methodology on previous year calculations, however has resulted in a reduction in consumption figures.

Corporate responsibility environment data

Environment data

Emissions (kg)		2016 (kg)	2015 (kg)	2010 (kg)
Scope 1				
Natural Gas		2,739,805	2,779,317	3,334,743
KPMG Owned/Leased Car Travel		1,471,817	1,377,016	1,383,514
Total – Scope 1		**4,211,622**	**4,156,333**	**4,718,257**
Scope 2 [2]				
Green energy purchased		-	-	-
Electricity from landlord sites		3,320,378	5,029,363	20,750,717
Electricity total		3,320,378	5,029,363	20,750,717
Total – Scope 2		**3,320,378**	**5,029,363**	**20,750,717**
Scope 3				
Business Related Car Travel		2,533,498	2,316,349	4,213,005
Air Travel				
Short		2,440,596	2,668,221	2,154,324
Medium		3,656,799	3,585,936	3,483,660
Long		30,069,513	29,136,629	26,100,724
Air Travel [3]		36,166,908	35,390,786	31,738,708
Rail Travel		1,690,739	1,781,197	1,474,910
Transmission and distribution electricity		1,114,218	1,313,950	1,670,969
Well to tank [4]		5,325,068	5,373,699	5,295,214
Total – Scope 3		**46,830,431**	**46,175,980**	**44,392,806**
Total gross emissions		**54,362,431**	**55,361,675**	**69,861,780**
Gross emissions per FTE		4,146	4,512	6,814
Additional disclosures				
Water [5]	litres	115,280,700	143,577,680	118,790,000
Paper	sheets	47,190,475	51,213,050	78,433,500
Waste				
Total Waste	kg	2,263,390	2,398,579	2,495,504
Recycled Waste	kg	1,499,327	1,534,914	1,282,719
% Waste recycled		66%	64%	51%
CY Full-time equivalent		13,112	12,269	10,252

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.

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

Ultimate responsibility for the tax strategy and tax compliance rests with the Board of KPMG LLP with the CFO assuming executive responsibility for tax matters.

KPMG in the UK manages all of its tax affairs in a way which seeks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax.

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.

KPMG in the UK – cash taxes paid in the years to 30 September 2017 and 2016 – Summary

	2017			2016		
£m	**Cost to Firm**	**Collecting agent**	**Total**	**Cost to Firm**	**Collecting agent**	**Total**
Employment items	99.3	258.2	357.5	92.7	248.0	340.7
Partners	0.0	175.0	175.0	0.1	181.1	181.2
Corporation tax	12.7	0.0	12.7	11.0	0.0	11.0
Rates	15.7	0.0	15.7	14.3	0.0	14.3
VAT	1.3	257.3	258.6	1.8	238.1	239.9
Other items	3.2	1.2	4.4	2.1	1.1	3.2
	132.2	691.7	823.9	122.0	668.3	790.3

All figures represent cash taxes paid during the relevant year by KPMG and subsidiaries.
In the year ended 30 September 2017 employment items includes payments of the apprenticeship levy of £1.5m from 6 April 2017.

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.

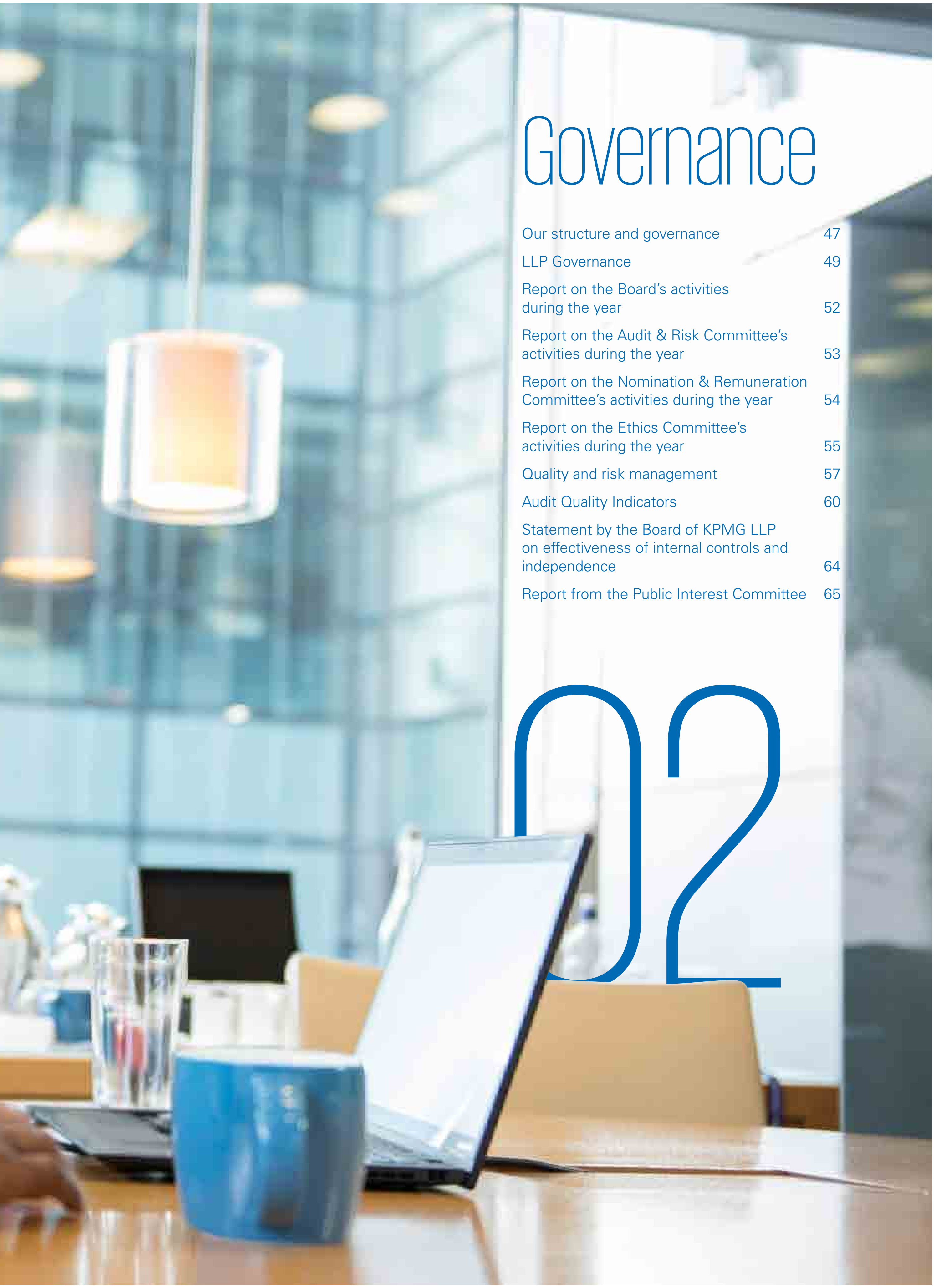
Total partner income tax and national insurance during the year totalled £175 million compared with £181 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of the partners refers to the profits earned in the previous two years and is based upon the statutory rates of 20% and 40% on the first £150,000 of profit, and then at 45% thereafter (2016: 45%), plus a further 2% in national insurance. Tax paid during 2017 was lower than the 2016 level as the taxable profits for the year to 30 September 2016 were lower than those in 2015.

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 2017 was £824 million (2016: £790 million). The table above 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 2017 than 2016.

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.



Governance

02

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, Bill Michael, who was appointed in July 2017 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 Deputy Chair, a number of Vice Chairs, 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, two members from the Executive Committee, and six Non-Executives. During the year, Non-Executives Amanda Tickel and Richard Heis withdrew from the partnership and the Board.

As at 30 September 2017, the Board of KPMG LLP was made up of the Senior Partner (Chairman), one Vice Chair, two members of the Executive Committee and five Non-Executives, as set out on page 49.

Subsequent to the year-end, four Non-Executives rotated off the Board at the end of their terms of office – Stephen Oxley, Nicola Quayle, David Sayer and Ian Starkey, while Melanie Richards continued as a Board member in a new role as Deputy Chair. On the recommendation of the Senior Partner, the following four partners were appointed by the Members as Vice Chair Non-Executive Board members: Jane McCormick, Bernard Brown, Tony Cates and James Stewart. Maggie Brereton was re-elected as a Non-Executive Board member and the following five partners were elected by the Members as Non-Executive Board members: Sue Bonney, Christine Hewson, Paul Korolkowiecz, Ronnie McCombe and Mark Raddan. A third member of the Executive Committee, Sarah Willows, was appointed to the Board (with effect from 1 October 2017).

The Board is attended by the Chair of the Public Interest Committee and by the other Independent Non-Executives on a rotational basis and, subsequent to the year-end, by two senior leaders from the KPMG International network of Member Firms.

The Board has the following sub-committees: Audit & Risk Committee, Nomination Committee, Remuneration Committee, Banking Committee and Ethics Committee.

The Board has also, following year-end, established a Governance Committee (to provide oversight of the ongoing effectiveness of the Firm's governance framework and its compliance with the Audit Firm Governance Code) and a Reputation Committee (to assist the Board in enhancing and protecting the reputation of the Firm).

The Executive Committee

The Executive Committee ('ExCo') is responsible for the day-to-day management of the activities of the Firm. It is chaired by the Managing Partner, Philip Davidson and its members are all KPMG Partners. At the start of the year the members of ExCo comprised ten Partners.

Ann Brown was a member of ExCo during the period in which she was Head of People. On leaving this role Ann stood down as a member of ExCo, following which Anna Purchas joined ExCo as Interim Head of People.

Subsequent to the year-end, with effect from 1 October 2017, ExCo comprised the Managing Partner, Chief Financial Officer, Head of Quality & Risk Management, General Counsel, Head of People, Head of National Markets, Head of Financial Services, Head of Corporates, Head of Audit, Head of Tax, Head of Consulting, Head of Deal Advisory, Head of Brexit and Head of Digital Transformation. With effect from 1 November 2017, ExCo also included the new role of Head of International.

More details are set out on page 49.

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 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), David Pitt-Watson and Lindsay Tomlinson. Professor Laura Empson resigned with effect from 15 December 2016 and Lord Evans of Weardale was appointed with effect from 23 March 2017. David Pitt-Watson was appointed as Chair with effect from 15 December 2016.

Further details of the members of the Board, Executive Committee, Audit & Risk, Nomination, Remuneration, Banking, Ethics and Public Interest committees, along with their background and meeting attendance, are set out on pages 49 to 51 of this report.

This section reports on the activities during the year of the Board (page 52) and the following committees: Audit & Risk Committee (page 53), Nomination & Remuneration Committee (page 54), Ethics Committee (page 55) and the Public Interest Committee (pages 65 and 66).

Review of governance

The General Counsel led a review of the Firm's governance arrangements which resulted in recommended modifications to the Firm's governance framework that were approved by a vote of the Members in August 2017. The revised governance confirms leadership responsibilities and relationships, enhances transparency and accountability and ensures robust oversight mechanisms, in particular taking account of the Audit Firm Governance Code. An in-depth effectiveness review of the Board is performed every three years and the next review will be undertaken in 2018; in the intervening years, a shorter review including self-assessment is undertaken. A new Governance Committee will oversee the compliance and effectiveness of the governance framework and its implementation, making recommendations for improvement from time to time as needed.

LLP Governance

Executive Committee members as at 30 September 2017

** Indicates also a Board member*

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

Jeremy Barton
General Counsel
Jeremy joined KPMG and the ExCo as a partner and General Counsel on 1 December 2015.

Aidan Brennan
Head of Solutions
Aidan has been a partner for 19 years and joined the ExCo in December 2016.

Karen Briggs
Head of Brexit
Karen has been a partner for 18 years and joined the ExCo on 1 January 2015.

Tony Cates
Head of International Markets and Government
Tony has been a partner for 19 years and joined the ExCo in June 2011.

David Matthews*
Head of Quality & Risk Management
David has been a partner for 20 years. He joined the ExCo and the Board on 30 July 2012.

Iain Moffatt
Head of National Markets
Iain has been a partner for 19 years and joined the ExCo on 30 July 2012.

Anna Purchas
Interim Head of People
Anna has been a partner for three years and joined the ExCo as Interim Head of People on 30 May 2017. She was confirmed on a permanent basis with effect from 1 November 2017.

Adrian Stone
Head of Audit
Adrian has been a partner for 20 years and joined the ExCo on 23 November 2015.

Sarah Willows
Chief Financial Officer
Sarah has been a partner for 17 years and joined the ExCo on 28 September 2016.

Changes after the year-end

The following changes have occurred to the ExCo with effect from 1 October 2017:

– Michelle Hinchliffe joined the ExCo as Head of Audit.

– Jon Holt joined the ExCo as Head of Financial Services.

– Scott Parker joined the ExCo as Head of International.

– David Rowlands joined the ExCo as Head of Consulting.

– Sanjay Thakkar joined the ExCo as Head of Deal Advisory.

– Dan Thomas joined the ExCo as Head of Corporates.

– Michelle Quest joined the ExCo as Head of Tax.

On the same date, Karen Briggs, Tony Cates and Adrian Stone stood down from the ExCo.

A list of the Executive Committee members as at the date of this report is included in Appendix 7.

Chairman, Vice Chair and Non-Executive members of the Board as at 30 September 2017

Members of KPMG LLP Board as at 30 September 2017

As at 30 September 2017 the Board comprised the Chairman, the two members of the Executive Committee (as identified by an asterisk above), the Vice Chair and all of the Non-Executives. Amanda Tickel and Richard Heis resigned from the Board as Non-Executives, effective 19 October 2016 and 31 August 2017 respectively.

Bill Michael
Chairman
Bill has been a partner for 17 years and joined the UK Board as Chair and Senior Partner on 1 July 2017.

Melanie Richards
Vice Chair
Melanie has been a partner for 15 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 12 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 22 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 chairs the Nomination & Remuneration Committee.

Nicola Quayle
Non-Executive member

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

Maggie Brereton
Non-Executive member

Maggie has been a partner for seven 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 16 years and joined the Board on 1 December 2015. Stephen is a member of the Audit & Risk Committee.

Changes after the year-end

The following changes have occurred subsequent to year-end:

- Stephen Oxley, Nicola Quayle, David Sayer and Ian Starkey rotated off the Board at the end of their terms of office as Non-Executives.
- Melanie Richards was appointed to the new role of Deputy Chair and was confirmed by a vote of the Members to continue as a Board member effective 14 October 2017.
- The following four partners were appointed by the Members as Vice Chair Non-Executive Board members with effect from 14 October 2017: Jane McCormick, Bernard Brown, Tony Cates and James Stewart.[1]
- Maggie Brereton was re-elected as a Non-Executive Board member with effect from 14 October 2017.
- The following five partners were elected by the Members as Non-Executive Board members effective from 14 October 2017: Sue Bonney, Christine Hewson, Paul Korolkowiecz, Ronnie McCombe and Mark Raddan.[1]
- A third member of the Executive Committee, Sarah Willows, was appointed to the Board with effect from 1 October 2017.

A list of the Board members as at the date of this report is included in Appendix 7.

Members of the Public Interest Committee as at 30 September 2017

David Pitt-Watson
Independent Non-Executive

David Pitt-Watson has been a member of the Public Interest Committee since 1 November 2013 and became its Chair on 15 December 2016. 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.

Lord Evans of Weardale
Independent Non-Executive

Jonathan Evans joined the Public Interest Committee on 23 March 2017. Previously Director General of MI5; currently NED at HSBC Holdings where he leads for the Board on financial crime and cyber risks. He is also a non-executive director of Ark Data Centres Limited and is Chairman of Kent Search and Rescue.

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 2003-11. 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.

A list of the Public Interest Committee members as at the date of this report is included in Appendix 7.

1 Subject to independence clearances

Meeting attendance for the year ended 30 September 2017
(Meetings eligible to attend in brackets)

	Board	ExCo	Audit & Risk Committee	Nomination & Remuneration Committee	Ethics Committee	Public Interest Committee	Banking Committee
Executive Committee							
Simon Collins*	12 (14)	3 (10)	-	-	-	-	-
Bill Michael *	3 (3)	4 (4)	-	-	-	-	-
Jeremy Barton	-	11 (14)	-	-	-	-	2 (2)
Aidan Brennan	-	11 (11)	-	-	-	-	-
Karen Briggs	-	11 (14)	-	-	-	-	-
Ann Brown	-	8 (8)	-	-	-	-	-
Tony Cates	-	8 (12)	-	-	-	-	-
Philip Davidson*	13 (17)	14 (14)	-	-	-	-	2 (2)
David Matthews*	15 (17)	13 (14)	-	-	7 (7)	-	-
Iain Moffatt	-	13 (14)	-	-	-	-	-
Anna Purchas	-	4 (4)	-	-	-	-	-
Adrian Stone	-	13 (14)	-	-	-	-	-
Sarah Willows	-	12 (14)	-	-	-	-	2 (2)
Vice Chair							
Melanie Richards	11 (17)	-	6 (8)	-	7 (7)	-	-
Non-Executives							
Maggie Brereton	15 (17)	-	-	11 (12)	-	-	-
Karl Edge	4 (5)	-	-	3 (3)	-	-	-
Richard Heis	15 (17)	-	2 (3)	5 (5)	-	-	-
Stephen Oxley	14 (17)	-	8 (9)	-	-	-	-
Nicola Quayle	14 (17)	-	9 (9)	-	-	-	2 (2)
David Sayer	17 (17)	-	-	12 (12)	-	-	-
Ian Starkey	16 (17)	-	-	12 (12)	5 (7)	-	-
Amanda Tickel	-	-	-	1 (1)	-	-	-
Independent Non-Executives							
Professor Laura Empson#	3	-	-	-	-	1 (2)	-
David Pitt-Watson#	10	-	2	2	-	6 (6)	-
Jonathan Evans#	5	-	3	1	-	3 (3)	-
Lindsay Tomlinson#	8	-	2	1	1	6 (6)	-
Partners at Large							
Richard Pinckard	-	-	-	-	7 (7)	-	-
Christine Hewson	-	-	-	-	4 (7)	-	-
Mike Linter	-	-	-	7 (9)	-	-	-
Paul Long**	-	-	-	-	-	-	2 (2)
Claire Warnes	-	-	-	-	7 (7)	-	-
Janette Wilkinson	-	-	-	-	3 (4)	-	-

* Indicates also a Board member.
** Indicates non-partner (director).
\# Number of eligible meetings is not included for committees other than the Public Interest Committee as attendance is on a rotation or invited 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 2017, the Board comprised nine members, three of whom were Executive Members, a Vice Chair, and five Non-Executives who are all Partners in the Firm. The external Independent Non-Executives also attend meetings of the Board. In order to discharge its responsibilities, the Board met formally 17 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; from the Managing Partner on financial and operational performance and the activity of the Executive Committee; and from the Head of Quality & Risk Management on quality, risk, ethics and regulatory matters.

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

- Strategy and Vision: working with the Managing Partner and new Senior Partner to develop the Firm's strategy and vision;
- Business Plan and Budget: approving the Business Plan and Budget and monitoring progress against this;
- 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, General Counsel 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 with the Head of Audit; considering the strategic issues related to the status and evolution of the audit;
- Culture and Values: meeting with and receiving regular reports from the Head of Culture; reviewing dialogue with the FRC on the theme of culture, including in relation to the FRC's thematic review of the large audit firms; and received a report on the cultural health of the Firm from the Ethics Committee, in addition to the minutes of its meetings;
- Governance: confirming the process for the Senior Partner election; approving revisions to the role definition for the Independent Non-Executives, in particular, their participation in committees of the Board; approving recommendations for improving the Firm's governance framework and submitting those to the Members for vote;
- 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 2016 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.

Bill Michael, Chairman

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

As at 30 September 2017, 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, members of the Public Interest Committee and the lead audit Partner of our external auditors are invited to join the meetings, with other attendees invited dependent upon agenda items; 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 nine 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 actions 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;
- Assessed the independence of the external auditor and 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;
- Reviewed the narrative content of the Transparency Report to assess consistency with the reporting requirements, prior to approval by the UK Board; and
- The Committee also held joint meetings 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.

The provision of non-audit services is monitored by the Audit & Risk Committee. During the year, fees of £26,870 (2016: £15,350) 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 the vote of the Members 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 2017, the Nomination & Remuneration Committee consisted of three members who were all Non-Executive members of the Board and one co-opted member. One Independent Non-Executive attends meetings of the Committee. The Senior Partner, Managing Partner, General Counsel, Chief Financial Officer 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:

Following augmentation as the Extended Nomination Committee, conducting the selection of candidates for the Senior Partner election

The Extended Nomination Committee conducted a robust selection process, including external capability assessments, in order to present a list of three candidates to the Members for election as Senior Partner.

Review of the performance and remuneration of the Senior Partner

At the end of 2017, the Committee reviewed the criteria for measurement of the performance of the new Senior Partner and structure for the Senior Partner's pay within the framework of the Firm's partner pay model.

Review of the performance and remuneration of the Executive Committee

At the end of 2017, 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 was consulted by the Senior Partner and Managing Partner, in respect of new members of the Executive Committee and other key leadership roles. These included: the new Heads of Coverage and Capabilities and Head of Digital Transformation.

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

Following the Members' approval of the revised governance framework, including revised composition of the Board, the Committee led the process, together with some co-opted members, during autumn 2017 to select a shortlist of candidates who were put to Members' vote in September-October 2017. Six partners were subsequently elected as Non-Executive Board members.

Ian Starkey, 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 and the partnership of the Firm's overall ethical health. The terms of reference for the Committee were last formally reviewed and updated in February 2017. The Committee's remit is broad and includes: oversight of the Firm's ethical policies and procedures, monitoring the overall levels of compliance with these policies and all relevant external regulation (including compliance with the FRC's Ethical Standard), reviewing the available evidence which provides insight into the Firm's overall ethical health (including the trends in disciplinary matters, the results of surveys from our partners and employees (both current and as they are exiting the Firm) and reports to our Values Helpline and Speak Up Hotline) and assessing (and where necessary providing challenge) around the sufficiency of the measures being taken by the Executive to ensure that an appropriate ethical culture prevails within our Firm. Following the most recent review of its terms of reference, the Committee now also additionally monitors the 'tone at the top' set across the Firm by the Chair of the Board, the Board and the Executive Committee.

The Ethics Committee met seven times during the year. As at 30 September 2017, the Ethics Committee consisted of seven members (being four Partners at large and three Board members – including the individual designated as Ethics Partner under the FRC Ethical Standard). In order to foster a much closer interaction between the Ethics Committee and the Public Interest Committee, since September 2017 a member of the Public Interest Committee, Lindsay Tomlinson, attends all Ethics Committee meetings.

In terms of the specific matters it has considered in 2017, the Committee reports as follows:

Setting clear expectations around behaviour

During the year the Firm refreshed and reissued its Code of Conduct. The refreshed Code both seeks to re-establish a common understanding of what living each of KPMG's seven values means for everyone at the Firm and also explains the key laws and regulations that everyone in the Firm must comply with. The Committee input into both the drafting of the refreshed Code and the roll out plans. We consider that the refreshed Code is an important tool in helping everyone understand what the required standards of behaviour are in our Firm and have recommended that as such it should be embedded in our induction, relevant training and HR processes. An area of focus in 2018 will be how well this has been achieved.

Monitoring the behaviour of our partners and people

As part of its work the Ethics Committee meets regularly with the Firm's Head of People and the Head of Partner Matters to discuss aspects relevant to the Firm's overall health. We consider that the tone set by the top of an organisation is key to ensuring that an appropriate culture prevails throughout the Firm. As such, an important part of our remit is the monitoring that we undertake of the behaviour of our partners to ensure that it is in keeping with KPMG's wider Values.

During the year the Firm introduced a new 360 degree feedback programme for partners – which provides (among other areas) insight into how well partners live KPMG's Values. The Committee was pleased to note that 99% of partners in the Firm participated in the programme and received a feedback report. As part of our work we intend to consider what insight the aggregated 360 degree feedback results for the whole partnership provides. The Committee also receives reporting into any allegations of an individual partner's conduct not being in line with either the Firm's Values or the standards we require from a partner. Where exceptionally such reports are made, the Committee seeks to understand how the matter was investigated and provides feedback on whether it believes that appropriate remedial action has been taken.

In addition to considering partner behaviour, the Committee also receives six-monthly reports on the number and nature of staff disciplinary and grievance cases. The Committee notes that the number of cases reported for a Firm of KPMG's size remains modest.

Operating robust channels for people to be able to report concerns

As part of our work we consider the adequacy and accessibility of the channels that exist throughout the Firm to allow our people to report concerns relating to ethical and behavioural matters. The Firm has an established whistle-blowing hotline (now renamed the 'Speak-Up hotline') which is operated under the oversight of an external ombudsman. The Committee receives an annual report from the ombudsman on the operation of the hotline. In the current year 21 separate matters were reported to the hotline for investigation. The Committee considered the ombudsman's report on the hotline cases for the year at a joint meeting with the Audit & Risk Committee and Public Interest Committee in October and is satisfied that all matters were investigated robustly with appropriate follow-up action being taken. In February the Firm also launched a Values Helpline as an additional mechanism for our people to receive counsel and support.

Recognising and rewarding the right behaviour

During the year, the Firm introduced a new balanced scorecard for partners to drive greater consistency and balance in both the goals set for individual partners and how their performance is evaluated. The assessment of performance under this scorecard includes a wider range of metrics including the partners' overall compliance levels, including ethics and independence policies. The results of their individual 360 degree feedback report for the year are also discussed as part of the year-end performance evaluation. During the year, at the Committee's request, the Firm undertook a review of how the wider HR policies and procedures that are applicable to employees help support and promote compliance with KPMG's Values.

Compliance with overall ethical standards

At every meeting the Committee considers the results of the latest audits into our partners' compliance with the personal independence requirements of the FRC Ethical Standard. It is pleased to note that the audit results show an improving trend and very high level of partner compliance in this area. Given recent changes to the FRC Ethical Standard's personal independence requirements which broaden the restrictions out to many employees, the Committee also now considers both the adequacy of the processes and support that the Firm provides to ensure compliance with the new requirements as well as the result of the personal compliance audits for that population. Finally, the Committee also receives regular reports into any personal and Firm breaches of the FRC Ethical Standard, and exceptionally where these arise agrees the risk metrics and any financial sanctions to be applied.

Oversight of relevant ethical policies

During the year the Committee input into a number of policies relating to the Firms' ethical health. This has included (i) introducing a requirement for the Ethics Committee to be consulted on decisions involving accepting work for audit clients which would either trigger a large non-audit fee multiple or involved a large contingent fee, (ii) considering the refinements necessary to our audit client gifts and entertaining policy and (iii) reviewing the Firms' new policy on fraternisation.

Looking forward

Looking to 2018 and beyond, the Committee intends to remain focused on providing oversight of the wider overall ethical health of the Firm and monitoring the evidence available to enable us to make an assessment of this. In particular the evidence available to support how well its partners and people are consistently living and breathing KPMG's core values and how they are incentivised to do so. The Committee welcomes the involvement of a member of the Public Interest Committee at all of its meetings and the external insight and challenge in particular that this brings to all of our discussions.

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 the revised International Standard on Quality Control (UK) 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. 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 and risk policies – Global methodologies and mandatory training
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	Significant unforeseen change in the regulatory and/or political landscape impacting on the demand for professional services. 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. Poor cost control and ineffective cash management.	– Board role in budget and performance oversight and ExCo budgetary challenge – Monthly financial analysis at Firm and functional level – Pricing panels – Challenge of 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

	Risk description	Mitigation
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 and (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 – Speak-Up hotline
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. Risk of the failure to achieve the Firm's inclusion and diversity targets.	– 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 – People management processes and remuneration benchmarking
Failure to respond to changes in marketplace	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
Increasing complexity of technology and contracting	Investment in more complex and sophisticated technology services and assets increases the risk of failing to properly manage the engagement acceptance, contracting and due diligence processes.	– Rigorous client and engagement acceptance procedures, contracting controls and risk policies – New services and asset approval processes – Employee training and recruitment

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.

Our approach to root-cause analysis is based around the 'five whys' approach. We conducted more than 200 interviews with team members across more than 50 engagements subject to internal or external quality review. This included all engagements with a finding identified in external reviews 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.

Our root-cause analysis covers a wide range of team members and the EQC reviewer for all externally and internally reviewed engagements not achieving a 'Satisfactory' rating. This gives us greater insight into high quality audits and allows 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.

All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' ('PIN') and 'Unsatisfactory'. A 'Satisfactory' grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to comply fully with our internal policies, applicable auditing standards and legal and regulatory requirements in all bar inconsequential areas and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate.

To support our quality improvement aspirations we have tightened this threshold in the current year such that achieving this standard represents a very high bar and a higher hurdle than in prior years. A 'PIN' grading has been attributed this year where the auditor's report is either supported by the work evidenced on file but this work needed some clarification, or where the evidence on file needed to be supplemented by information obtained as part of the audit but not sufficiently referenced in the work documented on file. In prior periods certain engagements rated as 'PIN' in this cycle due to the lack of clarity of the file would have been rated 'Satisfactory'. This change has been introduced to ensure the complete focus of engagement teams on the requirement for the audit file to 'stand alone', without the benefit of information held separately to the audit files. A 'PIN' rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

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, or where there are significant deficiencies in the related financial statements. As part of our continuous improvement actions we are progressively introducing mandatory policies, audit approaches for specific areas and the use of specific work papers. The increase in the number of 'Unsatisfactory' rated engagements reflects the fact that various engagements that might have been performed in substantial compliance with applicable auditing standards were not fully executed in line with these new mandated requirements.

As a result of this change in emphasis and approach, a number of engagements rated as 'Unsatisfactory' in this cycle would not have been so rated in prior periods. This change was introduced to ensure that engagement teams fully recognise the need to comply with the detail of new internal requirements. Having considered each engagement and any additional information provided by the engagement team as part of the review process, we are satisfied that none of the opinions delivered under audits rated 'Unsatisfactory' were inappropriate. We are also satisfied that none of the related financial statements were materially misstated. We believe that the standards to which we are now holding engagement teams through this process is in many areas stricter than that applied by our audit regulators as we now assess 'how' evidence was obtained in addition to 'what' evidence was obtained.

In 2017, 51% of engagements reviewed were graded as 'Satisfactory' (2016: 70%), 28% of engagements were graded as 'PIN' (2016: 20%) and 21% of engagements were graded as 'Unsatisfactory' (2016: 10%). Due to the changed assessment process, year on year comparisons should be viewed with significant caution. As we continue our policy of increased specification in how audits are delivered at the detailed level it is possible that results in the current year will show similar levels of less than satisfactory outcomes as these new requirements become embedded in business as usual.

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) and the actions contained within the Audit Quality Improvement Plan (see page 125). In terms of remedial actions, where appropriate, engagement files are remediated to ensure the audit evidence obtained is adequately documented. In addition, engagement teams may be required to undertake specific training or review specific relevant support materials. All engagement leaders receiving a 'PIN' grading are considered for either a full follow-on review of another engagement or reviews focused on the specific areas of findings. The ratings from the annual QPR Programme are included in the annual quality and risk metrics issued for all engagement leaders and managers for all functions (as described in Appendix 2.4.4). Additional actions may be taken if specific circumstances make this appropriate.

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' (2016: 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.

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').

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

	2016/17	2015/16
Good or limited improvement required	**15**	14
Improvement required	**6**	6
Significant improvement required	**2**	2

QAD review category

	2016/17	2015/16
Satisfactory or generally acceptable	**11**	10
Some improvement required	**0**	0
Significant improvement required	**1**	0

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.

Regulatory investigations and sanctions

In certain situations, it is at the FRC's discretion under both the Accountancy Scheme and Audit Enforcement Procedures, and subject to certain considerations, as to whether to publicise the commencement of an investigation, and subsequent actions and decisions. In relation to matters, where the FRC or other regulatory bodies, are undertaking an inquiry or investigation on a non-public basis the details of such matters are also not disclosed in this report.

On 19 September 2017 the FRC announced the closure of the investigation into the conduct of KPMG's audit of HBOS Plc for the year ended 31 December 2007.

During the year, the FRC announced an investigation into the conduct of KPMG Audit Plc, in relation to the audit of the financial statements of Rolls-Royce Group Plc for the year ended 31 December 2010 and Rolls-Royce Holdings Plc for the years ended 31 December 2011 to 31 December 2013.

In September 2016, the FRC completed its investigation 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.

The FRC investigations into a number of matters remain ongoing:

- 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 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 (announced June 2016);
- 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).

In addition, on 10 October 2016 the Firm agreed to pay a regulatory penalty of £2,350 decided by the 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 an individual who had not confirmed, in writing, to the Guernsey Registry that they agreed to abide by the CD Rules.

Breaches of the FRC Ethical Standard

Our systems and processes are designed to help ensure that our people and our Firm comply with the requirements of the FRC Ethical Standard. Very occasionally (principally where our systems and processes have not been followed) our compliance processes identify breaches of the FRC Ethical Standard requirements. Where we identify such breaches we take prompt action to remedy the issue, we make an assessment of the significance of the breach and how it has impacted on our independence and objectivity as auditors of the entity concerned and we report our conclusions to those charged with governance. Our Ethics Committee considers all breaches arising in the period and approves any sanctions (including financial sanctions) to be applied to the individuals concerned. Every six months we submit a report of such breaches arising in the period to the FRC. In the year ended 30 September 2017 we identified 21 breaches of the FRC Ethical Standard all of which have been reported to the FRC. We concluded that none of these breaches impacted on our independence and objectivity as auditors to the entities concerned.

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 21.

During the year, we have continued to develop and expand our Quality Improvement Plan which includes: our Second Line of Defence team providing real time coaching and support to key engagement teams by a team of technically excellent auditors via in-flight quality reviews with any themes arising being fed back to the business through regular bulletins, workshops and training; and an Audit Quality Transformation Programme which is designed to drive more consistency in the work of our teams on similar audit issues such as standardising our approach to performing and evidencing our work to remove ambiguity and freeing our teams to perform and evidence their work more effectively.

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 2017 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 2017 was 58 hours (2016: 56 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.

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 results from the People Survey conducted during October 2016 for our UK Audit function for the following questions are shown below (results from the previous People Survey performed in 2014 included in brackets):

- There is an appropriate emphasis on quality at KPMG – 85% favourable response (2014: 86% favourable response);
- I have access to the resources I need to do my job effectively – 80% favourable response (2014: 85% favourable response); and
- We are getting the training and development needed to meet our clients' changing needs – 65% favourable response (2014: 67% favourable response).

The latest survey was conducted during autumn 2017 and our next Annual Report will include the results from that survey.

Stakeholder interactions

Investor and Audit Committee liaison

Recognising investors as the clients for our audits and primary users of corporate reporting, 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. Our INEs review our strategy and themes of investor engagement in addition to their role in meeting with investor representative groups.

In addition to regular discussions with individual investors, we have continued our 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 reporting to audit committees our assessment of the presentation of non-GAAP measures and further enhancing the clarity of our 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 2018 we will continue to seek innovative ways to deliver more against our better understanding 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[2] and holds a series of events annually. Some 40 events were held during 2017 which were attended by some 350 individual audit committee members.

These events addressed various current issues facing audit committees, including corporate governance, business models, alternative performance measures, crisis management and audit committee reporting as well as the accounting and reporting implications of Brexit to consider when preparing financial statements. In addition to this, we provide our members with results and findings of surveys into areas such as audit quality, audit transition and the key challenges facing audit committees and boards. Our dialogue with audit committees is supplemented with updates detailing changes to rules and regulations as well as best practice guidance. 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.

2 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 as revised in 2016, 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.

This monitoring covers risk management systems and all key controls including those controls relating to finance, operations, quality, compliance and culture. 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 Audit & Risk Committee and then subsequently to the full Board.
- Regular reports by the Managing Partner and/or Chief Finance Officer to the Board on the Firm's financial performance and on any emerging financial risks and issues.
- Regular reports from the Head of Quality & Risk Management to the Audit & Risk Committee 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.

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 2017 except that, as explained on page 153, between 15 December 2016 and 23 March 2017 the firm had two INEs rather than the three required by the provisions of the revised Audit Firm Governance Code.

Report from the Public Interest Committee

The principal role of KPMG's Independent Non-Executives has been to ensure that the Firm fulfils its public interest remit, particularly with regard to audit. In this report we aim to provide an overview of our work during the year, and to highlight those topics that we believe raise the greatest issues of public interest. It is written for those who depend upon or are interested in the integrity of KPMG's work, and those who are responsible for producing it. This includes the investors, creditors, and other stakeholders of the companies KPMG audits, as well as regulators and policy makers, and of course the Partners and staff of the Firm. Throughout our work we have sought to assure ourselves that the risks facing KPMG are being appropriately managed.

Any such report must begin by noting the very high degree of skill and professionalism within KPMG, both in its leadership and more broadly amongst Partners and staff. It is through that professionalism that the public interest is most surely protected.

This report is divided into three sections; a discussion of developments at KPMG; a report back on the issues we highlighted for work last year and a discussion of some of the key outstanding issues which we believe are important and impact on the public interest.

In the boxed section we summarise the nature of our involvement in the governance of the Firm. We would note that the involvement of INEs in the governance of the Firm has been greatly strengthened this year. This comes partly as the results of INEs' requests to try to be sure PIC issues are more deeply embedded in the governance of KPMG, and partly the result of management's own desire to ensure these external perspectives are present in the governing bodies of the Firm.

1 Overview of developments

This year has seen the appointment of a new Senior Partner and, subsequent to the year-end, a new Board and a new governance structure. INEs were closely involved in the nomination process for the Senior Partner and Board. These were conducted with a high degree of rigour and integrity. The new governance structure includes an enhanced role for INEs, and the introduction, (at our request), of KPMG executives to the Public Interest Committee (see boxed section). These arrangements were introduced at the end of the year, and we will report back next year on their success.

Bill Michael's focus on improving the profitability of the Firm has our full support. His approach is explicit in ensuring this is done by focusing on client requirements, and through upholding the high reputation of KPMG. It is important that it is recognised that the 'clients' of an audit are the investors who depend on the integrity of the audited figures, as well as the board of the company itself. Others also use accounts, and indeed the auditing process is a critical element in ensuring the proper use of the power entrusted to company boards and management.

2 Issues highlighted last year

2.1 Audit and audit quality

KPMG has competed in audit tenders, and won a strong share of new audits. Given the limited number of qualified audit firms, and the restrictions placed on auditors, we are aware that it can sometimes be in a firm's best interest not to win an audit tender. We commend KPMG's determination to compete strongly.

However KPMG's results on the Audit Quality Review undertaken by the FRC are disappointing. Steps are being put in place to resolve this issue, but because of leads and lags in evaluation, it may be some time before these become apparent. This is not the first time that INEs have commented in this vein. However we believe the scale and focus of the response is now considerably greater than in the past.

We are also aware that while they are important, AQR scores are only one measure of audit quality. It is important that the output of the audit is geared to the needs of the investors and others who depend upon it. As INEs we have encouraged a programme of investor outreach and are keen that the results of that consultation are reflected in the way in which audits are conducted. We remain somewhat disappointed that KPMG was less successful than it might have been in rolling out its award winning work on the extended audit, to a wider group of audit clients. This happened despite the fact that these audits were widely welcomed by investors. There may well be a case for investors to find a way to make their voice better heard in audit choice.

2.2. Reputation and risk

This year KPMG International was challenged by reputational issues particularly in South Africa. These are issues which sit outside the control of the UK Member Firm of KPMG International. We discuss this issue more fully in the third section of the report.

In common with other firms, KPMG is subject to a number of investigations of its work by the regulator. Perhaps the most prominent of these was the resolution of the audit of HBOS. It was decided that the audit of HBOS in 2008 did not significantly fall short of the standard required at the time. This leaves open the question of whether those standards were appropriate to protect the public interest, and if not whether they have now been reformed adequately. These issues are discussed below.

Over recent years KPMG has continued to take a more robust attitude to partner behaviour. This has included central oversight of tax and similar matters. It has been robust in holding its ground in cases of possible misconduct. In its nominations process it has been assiduous in reviewing partner conduct.

2.3 Strategy and performance

The past year has seen a continuing and appropriate focus on financial performance. This is discussed in other parts of this Transparency Report. We have been supportive of the action taken.

However, given our public interest remit, we have stressed the need to ensure that the audit function remains a strong and central component of the KPMG strategy, and that KPMG continues to make appropriate investment in the established audit business alongside other emerging business opportunities.

2.4 Governance and culture

The new Senior Partner has brought energy and momentum to KPMG. His relationship with the Managing Partner is working well. They have complementary skills.

KPMG has carefully reviewed the new Audit Firm Governance Code, and we believe that the new governance structures are in keeping with both the spirit and the letter of that code. INEs are now involved in the Board and all its committees – a significantly enhanced role. We will report back next year on the working of the new structures.

A considerable effort is being put into the management of culture within the Firm. In the INEs' opinion the espoused culture at KPMG is strong, and there are many rules in place. The key issue is whether the collegiate nature of the partnership may fail to call out inappropriate behaviour. In this regard the recent introduction of 360 degree evaluation is an important step.

3 Outstanding issues

There are two particular issues, both of which lie beyond the ability of the KPMG UK Firm to resolve alone. The first concerns the 'Purpose of Audit', the second the nature of the global risks to the UK Firm.

3.1 Purpose of audit

We have a concern that at the current time the interaction of accounting standards and audit may not be meeting legitimate public expectations. We note the Treasury Select Committee's concern about the audit of HBOS, and calls by investors for a broader view of what constitutes 'true and fair', and the separation and declaration of distributable and undistributable reserves. Together with other INEs we have raised these issues with the FRC, and are presently participating in discussions with them on whether there is a problem, and if so how it can best be resolved. We believe it is important that these issues are aired and debated. In the meantime, the promotion of extended long form audit reports may to some extent help address these issues. However, as noted above, despite their popularity with investors, these have not seen widespread adoption.

3.2 Global issues

KPMG is part of a global network. Members of that network are independent partnerships, and while that has some strengths, it is vulnerable should quality slip in any firm. As INEs we will be encouraging KPMG LLP to push to improve global governance to ensure that quality standards are fully in place and enforced.

David Pitt-Watson (Chair)
Jonathan Evans
Lindsay Tomlinson

Activities of the Independent Non-Executives

The Independent Non-Executives (INEs) meet formally four times a year, at the Public Interest Committee (PIC). Towards the end of this year we also asked the partner in charge of Audit, and the partner in charge of Quality & Risk, to attend our meetings as non-voting members. Two INEs attend every monthly Board meeting, and we are represented as permanent members on the Ethics, Risk, Nomination and Remuneration committees. We communicate regularly amongst ourselves, and the Chair of the PIC has regular meetings with the Senior Partner. We have been involved in the appointment of the Senior Partner, and of the Board. We have presented to the partnership, and particularly to its audit partners. We meet regularly with the FRC.

Throughout our work we have found KPMG senior management open and responsive to our requests. Indeed much of the extended scope of the INEs has been at the request of KPMG.

There are currently three INEs. We are currently recruiting for a fourth. Since Lindsay Tomlinson is retiring next year, this means we are likely to see two new INEs joining in the coming months.

Financials

Report to the members

The Board submits its report together with the audited consolidated financial statements of KPMG LLP and its subsidiary undertakings ('the group') for the year ended 30 September 2017. 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 (resigned 29 September 2017)

J Barton

PM Davidson

S Willows

Subsequent to the year-end, on 1 November 2017, B Michael was appointed a designated member. At 30 September 2017, the UK Board comprised one of the three designated members and a further eight members, including the Vice Chair and five deemed to be non-executive, as set out on pages 49 to 50.

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 £225 million at 30 September 2017 (2016: £250 million) for the group and £186 million (2016: £169 million) for the partnership. Bank facilities of £560 million were also available to the group at 30 September 2017 (2016: £560 million), against which £479 million had been drawn at the year-end (2016: £431 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 £54 million (2016: £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 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 £59 million at 30 September 2017 (2016: £60 million). Capital is only repayable on retirement or resignation and is therefore relatively stable from year to year.

We benefitted from a material improvement in the actuarial funding level of our defined benefit pension schemes. We have worked to take advantage of this improvement to substantially reduce our exposure to defined benefit pension risk. Our new strategy removes all equity exposure and substantially hedges other financial risks. A key element of this revised strategy is investing in credit instruments to deliver income to meet the anticipated payments from the schemes and aligning the actuarial valuation methodology to this.

Our contributions under our asset-backed funding structure continue although given the improvement in the actuarial funding position, deficit contributions ceased with effect from October 2017. Whilst our actuarial valuation position has materially improved, our balance sheet liability remains £106 million as the value of the asset-backed funding structure is excluded from plan assets under IAS 19 and a different methodology and measurement date is used under IAS 19 compared to the actuarial valuation basis.

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 £772 million at 30 September 2017 (2016: £716 million) for the group and £716 million (2016: £655 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 2023, 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.

Report to the members

continued

Creditor payment policy

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

Disclosure of information to the auditor

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

Auditor

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

Other relevant information

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

Information:	**Location in Annual Report:**
Legal structure	Governance 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 2017	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

We have audited the financial statements of KPMG LLP (the 'parent limited liability partnership') and its subsidiaries (the 'group') for the year ended 30 September 2017 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Statements of financial position, the Statements of changes in equity, the Statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent limited liability partnership financial statements, in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent limited liability partnership's affairs as at 30 September 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent limited liability partnership's 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 as applied to limited liability partnerships; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition, the limited liability partnership's members have requested us to expand our auditor's report to report under ISA (UK) 701 Communicating Key Audit Matters in the Independent Auditor's Report. This involves communicating to the members Key Audit Matters together with Other Audit Planning and Scoping Matters.

Who we are reporting to

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the limited liability partnership'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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall group materiality set at £15.5 million, using profit and loss before taxation and members' profit shares as a benchmark;
- Key audit risks were identified as revenue recognition, defined benefit pension schemes and partner annuities, professional claims and regulatory matters; and the impairment of intangibles;
- We performed a full scope audit of the financial statements of the limited liability partnership. A full scope audit of Queen Street Mutual Company PCC Limited was performed by a Grant Thornton International Limited network firm under our instruction. We completed targeted or analytical procedures for all other subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Revenue recognition The 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 53, 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 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, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – an assessment of the accounting policies and practices surrounding revenue recognition to ensure compliant with relevant accounting standards – 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 engagement and management teams' estimates applied in determining the level of revenue recognised and unbilled revenue recognised within the statement of financial position – certain analytical procedures and 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. **Key observations** Our testing did not identify any significant deficiencies in the revenue recognition policies and practices and we conclude these continue to be in line with IAS 18 'Revenue' guidelines. 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 Statement of financial position. We consider the related disclosure in note 3 to the financial statements to be appropriate and we consider that the disclosures on page 87 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates used in determining the stage of completion of revenue contracts.
Defined benefit pension schemes and partner annuities The accounting policies on defined benefit pension schemes and partner annuities are shown in note 1 and related disclosures are included in notes 2, 18 and 20. The Audit & Risk Committee identified defined benefit pension schemes and partner annuities as a significant risk in its report on page 53, where the Committee also described the action that it has taken to address this risk. There are 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 financial statements. We therefore identified defined benefit pension and partner annuity schemes and the related liabilities as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – assessing the qualification and objectivity of the KPMG internal actuarial team – in conjunction with our internal actuarial specialists, considering the appropriateness of the valuation methodologies and challenging the appropriateness of the valuation assumptions – agreeing asset values to investment manager statements and the ownership of the scheme assets by contacting the investment custodians – assessing the information sources used for membership data.

Independent auditor's report to the members of KPMG LLP

continued

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Defined benefit pension schemes and partner annuities (continued)	**Key observations** 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 custodians and agreed them to the value of assets included within the IAS 19 valuation. We consider that the related disclosure in notes 2, 18 and 20 to the financial statements appropriately describes the significant degree of uncertainty in the underlying assumptions and estimates.
Professional claims and regulatory matters The accounting policy on professional claims and regulatory matters is shown in note 1 and related disclosures are included in note 18. The Audit & Risk Committee identified professional claims and regulatory matters as a significant risk in its report on page 53, where the Committee also described the action that it has taken to address this risk. Insurance cover is maintained for 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 estimated costs for dealing with and settling claims and regulatory matters. This can be highly judgemental. We therefore assessed the identification of and provisioning for the costs of settling professional claims and regulatory matters as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – performing an assessment of the professional claim and regulatory matter notification process, identification and practice protection procedures in operation – consideration of those claims in progress which are, or have the potential to be, material and challenge of management's key assumptions and the underlying level of provision, including whether any exposure was, or was not, covered by the insurance arrangements – confirmation of the existence of insurance cover and consideration of the financial strength of the insurance providers to ensure that sufficient assets were available to honour the levels of cover provided – consideration of whether the information we obtained was complete through review of publicly available information and that held internally. **Key observations** 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 professional 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 did not identify from external sources, or from internal sources, any material claims or regulatory matters or circumstances not already included in the internal reporting procedures. We consider that the disclosures on page 87 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.

Independent auditor's report to the members of KPMG LLP

continued

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Impairment of intangibles The accounting policy on intangibles is shown in note 1 and related disclosures are included in note 11. The Audit & Risk Committee identified the carrying value of intangibles as a significant risk in its report on page 53, where the Committee also described the action that it has taken to address this risk. There are a material amount of intangibles held in the statement of financial position at year end based on significant judgements. We therefore identified impairment of intangibles as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – consideration of management's assessment of intangible assets for impairment and determining whether appropriate judgements were taken – where appropriate, we ensured that appropriate disclosure of any impairment, the accounting treatment and associated judgements had been made within the financial statements. **Key observations** We found the arrangements in place for reviewing impairment to be effective, which resulted in the appropriate accounting treatment being applied. We consider that the disclosures on page 87 appropriately disclose the accounting treatment, valuation inputs and the associated judgements and estimates relating to intangibles and impairment.

Our application of 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 £15.5 million and £14.6 million for the limited liability partnership, which was determined by reference to profit before taxation and members' profit shares. The materiality and associated benchmark were agreed with the Audit & Risk Committee during our planning phase, where the public interest nature of the group was taken into account.

Group materiality and limited liability partnership materiality for the current year are both lower than the levels that we determined for the year ended 30 September 2016 reflecting the decrease in the profit before taxation and members' profit shares. These changes in materiality have not had a significant effect on our scope or 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 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 & Risk Committee to be £775,000. In addition we communicated misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit included an audit of the financial statements of the parent limited liability partnership, together with audits for group reporting purposes of its subsidiary undertakings as detailed in note 26. 91% of group revenues and 90% of group total assets attributable to members were subject to an audit based upon group materiality, with the remaining group net assets subject to targeted audit procedures or analytical review. Substantially all of the subsidiary undertakings are 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 was audited by a Grant Thornton International Limited network firm under our instruction. QSM does not generate any of the group's revenue and represents less than 4% 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 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.

Other information

The members are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 66, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent limited liability partnership's 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 of members for the financial statements

As explained more fully in the members' responsibilities statement set out on page 70, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the group's and the limited liability partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the group or the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 December 2017

Grant Thornton

Consolidated income statement

For the year ended 30 September 2017

	Note	2017 £m	2016 £m
Revenue	3	**2,172**	2,068
Recoverable expenses		**(323)**	(298)
Net sales		**1,849**	1,770
Other operating income	4	**78**	81
Staff costs	5	**(1,010)**	(959)
Depreciation and amortisation	10,11	**(66)**	(55)
Other operating expenses	6	**(543)**	(460)
Operating profit		**308**	377
Financial income	7	**11**	20
Financial expense	7	**(18)**	(21)
Net financial expense		**(7)**	(1)
Share of loss of associated undertaking		**-**	(2)
Profit before taxation and members' profit shares		**301**	374
Tax expense	8	**(12)**	(13)
Profit for the financial year before members' profit shares		**289**	361
Members' profit shares charged as an expense	5	**(281)**	(308)
Profit for the financial year available for discretionary division among members		**8**	53
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**10**	46
Non-controlling interests		**(2)**	7
		8	53

Consolidated statement of comprehensive income

For the year ended 30 September 2017

	Note	2017 £m	2016 £m
Profit for the financial year available for discretionary division among members		**8**	53
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans	20	**14**	6
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		**14**	10
Total comprehensive income for the financial year		**22**	63
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**24**	56
Non-controlling interests		**(2)**	7
		22	63

Statements of financial position

At 30 September 2017

	Note	Group 2017 £m	Group 2016 £m	Partnership 2017 £m	Partnership 2016 £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**431**	448	**431**	447
Intangible assets	11	**92**	90	**40**	30
Investments	12	**1**	8	**13**	13
Other non-current assets	13	**5**	4	**86**	86
		529	550	**570**	576
Current assets, excluding members' interests					
Trade and other receivables	14	**891**	838	**870**	784
Other financial assets	15	**56**	58	**-**	-
Cash and cash equivalents	16	**66**	42	**23**	8
		1,013	938	**893**	792
Total assets, excluding members' interests		**1,542**	1,488	**1,463**	1,368
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**106**	128	**106**	128
Provisions	18	**114**	89	**90**	66
Bank borrowings	22	**300**	250	**300**	250
Deferred tax liability	19	**2**	2	**-**	-
Other non-current liabilities	13	**-**	-	**90**	90
		522	469	**586**	534
Current liabilities, excluding members' interests					
Bank borrowings	22	**179**	181	**116**	111
Trade and other payables	17	**606**	575	**571**	550
Tax payable		**4**	7	**-**	-
Provisions	18	**4**	4	**4**	4
		793	767	**691**	665
Total liabilities, excluding members' interests		**1,315**	1,236	**1,277**	1,199
Net assets attributable to members and non-controlling interests		**227**	252	**186**	169
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(43)**	(45)	**(43)**	(45)
Amounts classified as current liabilities:					
Amounts due to members	21	**170**	169	**170**	169
Members' capital	21	**59**	60	**59**	60
		229	229	**229**	229
Amounts classified as equity:					
Other members' interests classified as equity		**39**	66	**-**	(15)
Total members' interests		**225**	250	**186**	169
Non-controlling interests		**2**	2	**-**	-
		227	252	**186**	169

The financial statements on pages 76 to 116 were approved by the members on 7 December 2017 and were signed on their behalf by:

Bill Michael
Chairman
KPMG LLP registered number: OC301540

Sarah Willows
Chief Financial Officer and Head of Operations

Statements of changes in equity

For the year ended 30 September 2017

		Group				Partnership
	Note	Members' other reserves £m	Translation reserve £m	Non-controlling interests £m	Total £m	Members' other reserves £m
Balance at 1 October 2015		24	-	(5)	19	(41)
Profits 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)
Profit/(loss) for the financial year available for discretionary division among members		**10**	**-**	**(2)**	**8**	**52**
Remeasurement of defined benefit pension plans	20	**14**	**-**	**-**	**14**	**14**
Total comprehensive income		**24**	**-**	**(2)**	**22**	**66**
2016 profits available for discretionary division, allocated to members during the year	5	**(51)**	**-**	**-**	**(51)**	**(51)**
Other movements		**-**	**-**	**2**	**2**	**-**
Transactions with owners		**(51)**	**-**	**2**	**(49)**	**(51)**
Balance at 30 September 2017		**35**	**4**	**2**	**41**	**-**

Statements of cash flows

For the year ended 30 September 2017

	Note	Group 2017 £m	Group 2016 £m	Partnership 2017 £m	Partnership 2016 £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**8**	53	**52**	34
Adjustments for:					
Tax expense	8	**12**	13	**-**	-
Depreciation and amortisation	10,11	**66**	55	**56**	49
Financial income	7	**(11)**	(20)	**(46)**	(36)
Financial expense	7	**18**	21	**21**	24
Profit on disposal of associated undertaking	9	**-**	(4)	**-**	-
Share of loss of associated undertaking		**-**	2	**-**	-
Impairment of investments		**7**	-	**-**	-
Members' profit shares		**281**	308	**281**	308
		381	428	**364**	379
Increase in trade and other receivables		**(53)**	(22)	**(87)**	(19)
Increase in trade and other payables		**28**	14	**21**	5
Increase/(decrease) in provisions and retirement benefits		**14**	(21)	**13**	(15)
Cash generated from operations		**370**	399	**311**	350
Interest and other financial costs paid	7	**(5)**	(6)	**(5)**	(5)
Corporation tax paid		**(13)**	(11)	**-**	-
Net cash flows from operating activities before transactions with members		**352**	382	**306**	345
Payments to members		**(329)**	(389)	**(329)**	(389)
Net cash flow from operating activities		**23**	(7)	**(23)**	(44)
Cash flows from investing activities					
Cash paid on business combinations (net of cash acquired)		**-**	4	**-**	-
Cash received on disposal of interest in subsidiary	9	**2**	-	**-**	-
Dividends received		**-**	-	**34**	20
Disposal/(acquisition) of other financial assets		**4**	(4)	**-**	-
Proceeds from sale of property, plant and equipment		**2**	2	**2**	2
Acquisition of property, plant and equipment	10	**(27)**	(42)	**(27)**	(42)
Development of intangible assets	11	**(27)**	(10)	**(25)**	(7)
Net cash flows from investing activities		**(46)**	(50)	**(16)**	(27)
Cash flows from financing activities					
Repayment of bank borrowings		**(206)**	(362)	**(196)**	(280)
Proceeds from new bank borrowings		**254**	431	**251**	361
Capital introduced by members	21	**7**	7	**7**	7
Capital repayments to members	21	**(8)**	(9)	**(8)**	(9)
Net cash flows from financing activities		**47**	67	**54**	79
Net increase in cash and cash equivalents		**24**	10	**15**	8
Cash and cash equivalents at the beginning of the year		**42**	32	**8**	-
Cash and cash equivalents at the end of the year	16	**66**	42	**23**	8

Notes

Forming part of the consolidated financial statements

1 Accounting policies

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

The consolidated financial statements include the financial statements of the partnership and its subsidiary undertakings ('the group') and include the group's interest in 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.

The group did not early adopt any IFRSs and related amendments in the year ended 30 September 2017. However, the group elected to early adopt the following IFRSs and related amendments in the year ended 30 September 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 2017 except for IFRS 9: 'Financial Instruments' and 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) and subsequent Clarifications to IFRS 15 'Revenue from Contracts with Customers (endorsed 31 October 2017). 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 (endorsed 31 October 2017). 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 2017, the impact under the modified retrospective approach would have been to recognise a right-of-use asset and a lease liability of approximately £252 million.

Notes

Forming part of the consolidated financial statements *continued*

1 Accounting policies *continued*

Other relevant 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 (endorsed 6 November 2017).
- Amendments to IAS 7: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2017 (endorsed 6 November 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2017/1 January 2018.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration; effective for periods beginning on or after 1 January 2018.
- IFRIC 23 Uncertainty over Income Tax Treatments; effective for periods beginning on or after 1 January 2019.

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 2023, 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.

Notes

Forming part of the consolidated financial statements *continued*

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 retranslated 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 retranslation 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, the proportion of revenue recognised in the year equates to the proportion of cost incurred to total anticipated cost, 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 the partnership 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 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

1 Accounting policies *continued*

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 and exchange gains. 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, net interest expense on defined benefit pension plan liabilities and discount on provisions. 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.

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

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

The 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 four to eight years.

Goodwill, customer relationships and trade names are discussed in 'Business combinations' on page 82. 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.

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.

Notes

Forming part of the consolidated financial statements *continued*

1 Accounting policies *continued*

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 these 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 less impairment losses.

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.

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

1 Accounting policies *continued*

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 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

Notes

Forming part of the consolidated financial statements *continued*

1 Accounting policies *continued*

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.

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. Both plans are closed to future accrual of benefits. The group's net obligations in respect of its defined benefit plans are calculated separately for each plan by estimating the benefits that former employees have earned in return for their service in 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 based on a spot rate approach. Under this approach the full yield curve which has been used to derive the discount rate used to measure the defined benefit obligation is applied to the expected cash flows from the pension schemes in each year. This gives an average rate of interest which is applied to the net defined benefit liability at the beginning of the annual period adjusted for contributions and benefit payments during the period.

The discount rate used to determine the defined benefit obligation is based on a yield curve which has been derived based on information regarding AA-rated corporate bonds at the balance sheet date. The group determines a single equivalent discount rate based on this yield curve being applied to sample pension scheme cash flows that broadly match the profile of the group's pension schemes. 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.

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 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 group profits, excluding the results of certain overseas subsidiaries ('adjusted group') 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 adjusted group for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the adjusted group 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 adjusted group profits and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

Notes

Forming part of the consolidated financial statements *continued*

1 Accounting policies *continued*

The allocation of group 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 group'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 adjusted group would be shown as 'Amounts due from members'. Profits available for discretionary allocation are classified as equity and included within '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 £772 million (2016: £716 million) for group and £716 million (2016: £655 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 £106 million (2016: £128 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. The impact from the use of different assumptions on the plans' liabilities are disclosed in note 20.

Former members' annuities

The partnership has used certain assumptions in assessing the provision for former members' annuities of £56 million (2016: £58 million) as set out in note 18. The financial assumptions used are consistent with those used for valuation of the retirement benefit liability. The mortality assumptions are based on those used for valuation of the retirement benefit liability, but with different loadings to reflect the expected longevity of the former members specifically. See note 18 for further details. 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 2017, the provision for such claims amounts to £56 million (2016: £29 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.

Intangible assets

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 cash generating units ('CGU') 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 2023 (see note 22). Under that facility, bank borrowings are drawn down from time to time according to forecast requirements; the group

Notes

Forming part of the consolidated financial statements *continued*

2 Accounting estimates and judgements *continued*

has discretion to draw down in instalments provided certain conditions are met at that time. In presenting this liability of £300 million 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 2017, the business continued to be managed through a matrix structure. The group's people and resources were organised by capability and the group's markets 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.

Revenue and asset information is presented below for the operating segments, being capabilities, with additional information being presented for markets; profit information is only provided in respect of the capabilities, reflecting the fact that costs were not fully allocated to markets during the year. Certain activities were reclassified between capabilities during the year and accordingly prior year figures have been restated where relevant.

Audit	Provision of statutory and regulatory attestation services, advice in compliance with changing reporting and regulatory requirements, and non-statutory assurance services.
Tax, Pensions and Legal ('TPL')	Provision of advisory and compliance services in relation to tax, pensions and legal services.
Deal Advisory ('DA')	Deal advice to help our clients buy, sell, fund, fix businesses or assets as well as advice on partnering with other organisations.
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.
Management 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.

3 Segmental reporting *continued*

Information by segment is as follows:

Revenue	NM 2017 £m	IMG 2017 £m	Total 2017 £m	NM 2016 £m	IMG 2016 £m	Total 2016 £m
Audit	**250**	**245**	**495**	238	213	451
Tax	**265**	**160**	**425**	255	155	410
Deal Advisory	**231**	**141**	**372**	233	153	386
Risk Consulting	**71**	**183**	**254**	65	208	273
Management Consulting	**52**	**233**	**285**	47	210	257
Net sales (as reported internally)	**869**	**962**	**1,831**	838	939	1,777
Recoverable expenses			**323**			298
Gross sales (as reported internally)			**2,154**			2,075
Entities not reported internally, elimination of intra-group trading and other financial adjustments			**18**			(7)
Total group revenue			**2,172**			2,068

Assets	NM 2017 £m	IMG 2017 £m	Total 2017 £m	NM 2016 £m	IMG 2016 £m	Total 2016 £m
Audit	**40**	**45**	**85**	33	35	68
Tax	**85**	**68**	**153**	86	51	137
Deal Advisory	**49**	**52**	**101**	31	41	72
Risk Consulting	**14**	**50**	**64**	16	39	55
Management Consulting	**12**	**63**	**75**	14	78	92
Segmental assets (as reported internally)	**200**	**278**	**478**	180	244	424
Assets of entities not reported internally			**74**			83
Assets not allocated to segments			**990**			981
Total group assets, excluding members' interests			**1,542**			1,488

Profit	Group 2017 Total £m	Group 2016 Total £m
Audit	**215**	193
Tax	**173**	159
Deal Advisory	**146**	160
Risk Consulting	**102**	96
Management Consulting	**60**	64
Segmental contribution (as reported internally)	**696**	672
Members' remuneration adjustments	**146**	156
Costs not allocated to segments	**(510)**	(462)
Net financial expense	**(7)**	(1)
Profit on disposal of associated undertaking	**-**	4
Share of loss of associated undertaking	**-**	(2)
(Loss)/profit before tax of entities not reported internally	**(24)**	7
Total group profit before taxation and members' profit shares	**301**	374

Notes

Forming part of the consolidated financial statements *continued*

3 Segmental reporting *continued*

Entities not reported internally are Queen Street Mutual ('QSM'), joint operations in India and the subsidiary KPMG Crimsonwing sub-group (from June 2016). Until this time, the KPMG Crimsonwing sub-group was treated as an associate (see note 9), hence the share of loss of associated undertaking arising in the year ended 30 September 2016. Financial information for these entities are provided to management periodically but it is not included for the purposes of UK internal reporting and the management of resource.

Members have a contractual right to receive 90% of adjusted group profits under the partnership agreement (see note 5). 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 costs are not allocated to the segments in the group's internal reporting.

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% (2016: 2%) of group revenue and 2% (2016: 2%) 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, reflecting revenue for each function compared with net sales data provided on page 89.

Revenue 2017	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	1	544	3	548
Other assurance work	-	17	1	18
	1	561	4	566
Tax	-	482	2	484
Deal Advisory	-	390	34	424
Risk Consulting	1	282	14	297
Management Consulting	-	314	87	401
	2	**2,029**	**141**	**2,172**
Operating profit 2017				
Audit and directly related services	**(12)**	**53**	**2**	**43**

Notes

Forming part of the consolidated financial statements *continued*

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	-	12	-	12
	4	493	3	500
Tax	-	462	5	467
Deal Advisory	-	414	29	443
Risk Consulting	1	304	29	334
Management Consulting	-	254	70	324
	5	1,927	136	2,068
Operating profit 2016				
Audit and directly related services	2	51	2	55

Revenue arising in KPMG Audit Plc continued to decline during the year ended 30 September 2017, 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 90, 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, other specific costs relating to that segment such as costs relating to professional service matters and the allocation of certain relevant overheads, such as property and IT costs. These latter costs have been allocated on a pro rata basis, based on headcount.

The total revenues are further analysed on the following basis:

	Group 2017 £m	Group 2016 £m
Audit and directly related services for audit clients	**548**	488
Non-audit services for audit clients	**221**	243
Non-audit services for non-audit clients	**1,403**	1,337
	2,172	2,068

Audit and directly related services reflects revenue of £107 million in respect of EU public interest entities and their subsidiaries and £441 million audit and related services provided to other entities.

4 Other operating income

Included in other operating income are the following items:

	Group 2017 £m	Group 2016 £m
Charges to other KPMG International Member Firms	**68**	67
Rental income	**1**	1
Profit on disposal of associated undertaking	**-**	4
Other items	**9**	9
	78	81

Charges to other KPMG International Member Firms reflect charges for staff and the provision of other services.

Notes

Forming part of the consolidated financial statements *continued*

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	
	2017 Number	2016 Number	**2017 Number**	2016 Number
Members	**590**	631	**590**	631
Staff	**13,969**	13,112	**-**	-
	14,559	13,743	**590**	631

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 capability were as follows:

	Group	
	2017 Number	2016 Number
Audit	**3,609**	3,506
Tax	**2,638**	2,515
Deal Advisory	**1,613**	1,574
Risk Consulting	**1,551**	1,483
Management Consulting	**1,776**	1,437
Central	**3,372**	3,228
	14,559	13,743

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	
	2017 £m	2016 £m
Salaries (including bonuses)	**881**	833
Social security costs	**92**	88
Cost of retirement benefits (note 20)	**37**	38
Staff costs per income statement	**1,010**	959
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 20)	**2**	4
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**(14)**	(6)
Total staff related costs	**998**	957

5 Members and staff *continued*

Members' profit shares

In accordance with the LLP Partnership Agreement, 90% of the group profits, excluding certain overseas subsidiaries ('adjusted group') 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 adjusted group for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the adjusted group 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 adjusted group profits being £281 million for the year ended 30 September 2017 (2016: £308 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 £519,500 (2016: £582,300).

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 as well as current year performance against their goals, and promote clarity and transparency amongst members regarding their own remuneration and that of other members. A member's remuneration generally comprises three elements as described below based on benchmark pay. Benchmark pay 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.

The remuneration model changed during the year and the profit allocated to members is now distributed as follows:

Basic profit share – each member will receive 60% of their benchmark pay;

One Firm Profit Share – each member will receive a set percentage of their benchmark pay (the same percentage applies to all members);

Discretionary Profit Share (DPS) – in total the same amount as for the One Firm Profit Share is allocated to members on the basis of their relative in-year performance against their balanced scorecard goals.

These elements account for 90% of the total profit allocated to members. The remaining 10% 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) 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 of the group include property and IT costs, together £99 million (2016: £110 million), and employee training costs of £34 million (2016: £24 million). All other general overhead expenses associated with the provision of professional services for the group are also classified within other operating expenses, including the costs of insurance, communications and marketing. Also included in other operating expenses for the group are impairment charges in respect of investments totalling £7 million (2016: £nil) (see note 12) and impairment provisions on trade receivables of £nil million (2016: £1 million reversal) (see note 14).

	Group	
	2017 £000	2016 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**259**	345
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
– Audit of financial statements of subsidiaries	**179**	163
– Audit related assurance services provided to the group	**27**	15
– Audit of certain group pension plans	**51**	52
	516	575

In 2017, audit related assurance services were provided in respect of group sustainability reporting, assurance services provided in India for tax reporting purposes and other assurance services provided in respect of proposals and awards (2016: group sustainability reporting and grant claim reporting assurance). These services are not related to the statutory audit of the group and therefore are considered as non-audit services.

Notes

Forming part of the consolidated financial statements *continued*

7 Financial income and expense

	Group	
	2017 £m	2016 £m
Net change in fair value of financial assets at fair value through profit or loss	**2**	6
Exchange gains	**9**	14
Financial income	**11**	20
Net interest on defined benefit pension plan liabilities (note 20)	**2**	4
Discount on provisions (note 18)	**1**	2
Interest expense on bank borrowings	**5**	6
Exchange losses	**10**	9
Financial expense	**18**	21

The total interest income on financial assets that were not classified as fair value through profit or loss was £nil in both years. The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £5 million (2016: £6 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	
	2017 £m	2016 £m
Current tax expense		
Current year	**11**	15
Overseas taxes	**1**	-
Share of overseas taxes of joint operation	**2**	2
Adjustments in respect of the prior year	**(1)**	-
Deferred tax (see note 19)	**(1)**	(4)
Total tax expense in income statement	**12**	13

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

	Group	
	2017 £m	2016 £m
Profit before taxation and members' profit shares	**301**	374
Less profit arising in partnership, on which tax is payable by the members personally	**(332)**	(342)
(Loss)/profit before taxation arising in group companies	**(31)**	32
Tax at 19.5% (2016: 20%) being the average rate of corporate taxes levied on the profits of group companies	**(6)**	6
Impact of tax exempt items	**17**	9
Recognition of deductible temporary differences	**(1)**	(4)
Overseas taxes	**1**	-
Share of overseas taxes of joint operation	**2**	2
Adjustments in respect of the prior year	**(1)**	-
Total tax expense in income statement	**12**	13

There was no tax charge/(credit) recognised in the statement of comprehensive income (2016: £nil).

8 Tax expense *continued*

Factors affecting the tax charge in future periods

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the corporate subsidiaries future current tax charge accordingly.

The deferred tax asset at 30 September 2017 has been calculated based on the rate of 19% being the average of the rates expected to be in force at the time the losses are anticipated to be utilised.

9 Acquisitions and disposals

Acquisitions and disposals

The details set out below provide the information required under IFRS 3 'Business Combinations' for those disposals that occurred during the year ended 30 September 2017 together with summary information in respect of acquisitions that occurred during the year ended 30 September 2016.

Acquisition – year ended 30 September 2016

KPMG Crimsonwing

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 was treated as a stepped acquisition of the Crimsonwing sub-group and the group therefore recognised the disposal of its share in associate and an acquisition of a subsidiary simultaneously.

At that date, the fair value of the Crimsonwing sub-group was assessed by the group to be £20 million, of which the UK share of 85% of KPMG Investments Malta Limited was £17 million. As this was the fair value of the pre-existing interest, it was deemed to be the consideration in respect of the disposal and subsequent acquisition. Accordingly, the group recognised a £4 million profit on disposal of its £13 million investment in associate, reflected in the income statement in other operating income.

Goodwill of £14 million was recognised on acquisition of the subsidiary; being denominated in euro, the goodwill is subject to revaluation at each year-end (see note 11).

Disposals – year ended 30 September 2017

KPMG Crimsonwing

In June 2017, the group disposed of 10% interest in its subsidiary, KPMG Investments Malta Limited, to KPMG Advisory N.V. an entity within the KPMG International Member Firm in the Netherlands, under a pre-existing options contract. The disposal decreased the group's ownership from 85% to 75%. The carrying amount of KPMG Investments Malta Limited's net assets in the group's consolidated financial statements on the date of the disposal was £18 million.

As a transaction between owners, any gain or loss arising on disposal is recognised in equity under IFRS. The disposal of 10% interest in KPMG Investments Malta Limited had the following impact on the group's equity at the date of disposal:

	Group
	£m
Carrying amount of 10% interest disposed to non-controlling interest	**(2)**
Consideration received from non-controlling interest	**2**
Increase in equity attributable to owners of the group (retained earnings)	**-**

Notes

Forming part of the consolidated financial statements *continued*

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 KPMG Crimsonwing, together totalling to a net book value of £431 million (2016: £448 million). At 30 September 2017, the property, plant and equipment of KPMG Crimsonwing included computer and communications equipment (cost and net book value of £0.4 million) and office furniture, fittings and equipment (cost and net book value of £0.1 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 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
Additions	-	20	3	4	27
Disposals	-	-	(3)	(5)	(8)
Balance at 30 September 2017	**270**	**83**	**262**	**17**	**632**
Depreciation and impairment					
Balance at 1 October 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
Charge for the year	4	11	23	3	41
Disposals	-	-	(3)	(3)	(6)
Balance at 30 September 2017	**34**	**57**	**103**	**7**	**201**
Net book value					
At 1 October 2015	245	19	174	11	449
At 30 September 2016	240	17	179	11	447
At 30 September 2017	**236**	**26**	**159**	**10**	**431**

The leasehold land and buildings at 30 September 2017 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 £236 million (2016: £240 million).

Notes

Forming part of the consolidated financial statements *continued*

11 Intangible assets

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	Total £m
Cost				
Balance at 1 October 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
Additions	27	-	-	27
Balance at 30 September 2017	**118**	**34**	**45**	**197**
Amortisation and impairment				
Balance at 1 October 2015	54	13	-	67
Charge for the year	7	6	-	13
Balance at 30 September 2016	61	19	-	80
Charge for the year	14	6	5	25
Balance at 30 September 2017	**75**	**25**	**5**	**105**
Net book value				
At 1 October 2015	26	19	29	74
At 30 September 2016	30	15	45	90
At 30 September 2017	**43**	**9**	**40**	**92**

Internally generated software includes components of the SAP based ERP system, held by the partnership. Following a decision taken during the prior year to extend the use of this system, its useful life was extended by 4 years to the end of 2020. Consequently, the amortisation charge reduced from £7.5 million to £1.5 million in 2016 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	Goodwill £m
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	10
KPMG Boxwood Limited (formerly Boxwood Limited)	30 September 2015	4
HRSD practice of Towers Watson Limited	30 September 2015	1
KPMG Investments Malta Limited (KPMG Crimsonwing sub-group)	30 September 2016	14

Subsequent to acquisition, the goodwill arising on KPMG Investments Malta Limited, which is denominated in euros, is revalued to the year-end exchange rate at each year end, resulting in a cumulative exchange difference of £2 million.

During the year, goodwill in respect of KPMG Sourcing Limited (formerly Equaterra Europe Limited) and the HPR practice of High-Point Rendell Limited – together totalling £5 million – was fully impaired following annual impairment testing.

Notes

Forming part of the consolidated financial statements *continued*

11 Intangible assets *continued*

Goodwill has been allocated to the group's functions (now capabilities) which are considered to be its cash generating units ('CGU') for this purpose:

	Group	
	2017 £m	2016 £m
Deal Advisory	**4**	9
Management Consulting	**36**	36

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:

	2017	**2016**
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%	9.2 – 11.5%

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.

Where the calculated recoverable amount is greater than the carrying value, 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 2015	78	5	2	85
Additions	7	-	-	7
Balance at 30 September 2016	85	5	2	92
Additions	25	-	-	25
Balance at 30 September 2017	**110**	**5**	**2**	**117**
Amortisation and impairment				
Balance at 1 October 2015	54	1	-	55
Charge for the year	6	1	-	7
Balance at 30 September 2016	60	2	-	62
Charge for the year	10	3	2	15
Balance at 30 September 2017	**70**	**5**	**2**	**77**
Net book value				
At 1 October 2015	24	4	2	30
At 30 September 2016	25	3	2	30
At 30 September 2017	**40**	**-**	**-**	**40**

Notes

Forming part of the consolidated financial statements *continued*

12 Investments

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

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Shares in subsidiary undertakings	**-**	-	**13**	13
Other investments	**1**	8	**-**	-
	1	8	**13**	13

Group

During the year, the group's investment of £7 million in KCapital, a KPMG International entity, was fully impaired following assessment of the fair value of that entity's underlying investments. The impairment expense was recognised in the income statement within other operating expense.

The subsidiary undertakings of the group and partnership are set out in note 26.

13 Other non-current assets and liabilities

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Other prepayments	**-**	-	**52**	53
Amounts owed by other group undertakings	**-**	-	**34**	33
Deferred tax assets (see note 19)	**5**	4	**-**	-
Other non-current assets	**5**	4	**86**	86
Amounts owed to other UK group undertakings	**-**	-	**90**	90
Other non-current liabilities	**-**	-	**90**	90

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 2017, the prepayment was £56 million (2016: £57 million); £52 million (2016: £53 million) is non-current, whilst the remaining £4 million (2016: £4 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 expected 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 2017, a receivable balance of £34 million is classified as amounts owed by other group undertakings within other non-current assets with the discount unwinding through financial income (2016: £33 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.

Notes

Forming part of the consolidated financial statements *continued*

14 Trade and other receivables

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Trade receivables	**417**	366	**401**	341
Unbilled amounts for client work	**355**	350	**315**	314
Amounts due from other UK group undertakings	**-**	-	**54**	26
Other prepayments	**32**	34	**36**	38
Other receivables	**33**	26	**16**	10
Amounts due from other KPMG International Member Firms	**54**	62	**48**	55
	891	838	**870**	784

Trade and other receivables are due within 12 months.

Trade receivables are shown net of impairment losses amounting to £3 million (2016: £3 million) for the group and £3 million (2016: £3 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 2017 £m	**Impairment 2017 £m**	Gross 2016 £m	Impairment 2016 £m
Trade receivables				
Overdue 1-30 days	**52**	**-**	49	-
Overdue 31-180 days	**51**	**-**	42	-
More than 180 days	**6**	**3**	5	3
	109	**3**	96	3

Partnership

	Gross 2017 £m	**Impairment 2017 £m**	Gross 2016 £m	Impairment 2016 £m
Trade receivables				
Overdue 1-30 days	**49**	**-**	44	-
Overdue 31-180 days	**48**	**-**	42	-
More than 180 days	**5**	**3**	5	3
	102	**3**	91	3

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

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Balance at 1 October	**3**	4	**3**	4
Impairment reversal recognised in the income statement	**-**	(1)	**-**	(1)
Balance at 30 September	**3**	3	**3**	3

Notes

Forming part of the consolidated financial statements *continued*

15 Other financial assets

		Group		Partnership	
		2017 £m	2016 £m	**2017 £m**	2016 £m
Bonds	Fair value through profit or loss	**42**	41	-	-
Equities	Fair value through profit or loss	**14**	17	-	-
		56	58	-	-

16 Cash and cash equivalents

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Call deposits	**8**	-	**8**	-
Bank balances	**58**	42	**15**	8
	66	42	**23**	8

17 Trade and other payables

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Accruals	**245**	220	**111**	112
Amounts billed on account	**225**	228	**205**	199
Other taxes and social security	**73**	66	**48**	41
Other payables	**15**	16	**4**	5
Trade payables	**36**	36	**35**	31
Amounts due to other UK group undertakings	**-**	-	**157**	154
Amounts due to other KPMG International Member Firms	**12**	9	**11**	8
	606	575	**571**	550

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

18 Provisions

Group

	Annuities £m	**Property provisions £m**	**Other £m**	**Total £m**
Balance at 1 October 2016	58	6	29	93
Utilised during the year	(4)	-	(8)	(12)
Income statement:				
– Provisions made during the year	1	-	35	36
– Unwinding of discounted amounts	1	-	-	1
Balance at 30 September 2017	**56**	**6**	**56**	**118**
Non-current	53	5	56	114
Current	3	1	-	4

Notes

Forming part of the consolidated financial statements *continued*

18 Provisions *continued*

Partnership

	Annuities £m	Property provisions £m	Other £m	Total £m
Balance at 1 October 2016	58	6	6	70
Utilised during the year	(4)	-	(2)	(6)
Income statement:				
– Provisions made during the year	1	-	28	29
– Unwinding of discounted amounts	1	-	-	1
Balance at 30 September 2017	**56**	**6**	**32**	**94**
Non-current	53	5	32	90
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:

	2017 £m	2016 £m
Within 12 months of the year-end	**3**	3
Between 1-5 years	**12**	12
Between 5-15 years	**22**	22
In more than 15 years	**19**	21
	56	58

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:

	2017 %	2016 %
Discount rate	**2.50**	2.20
Inflation rate (retail price index)	**3.40**	3.25

The mortality tables used for the former members' annuities provision were updated in December 2015, in line with the results of a Medically Underwritten Mortality Study. The tables adopted as at 30 September 2017 and 30 September 2016 were the SAPS Series 2 tables with a loading of 143%/108% applied to the underlying mortality rates in respect of males/females. The assumed future improvements in mortality 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 an 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 (decrease)/increase	
Assumption	**Change in assumption**	**£m**	**%**
Discount rate	Increase by 0.25%	(2)	(3)
Inflation rate	Increase by 0.25%	3	5

Notes

Forming part of the consolidated financial statements *continued*

18 Provisions *continued*

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 (2016: £1 million) for the group and £1 million (2016: £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 cost (including related legal costs) to the partnership and group of settling these matters. 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 2016	4	(2)
Deferred tax credit	1	-
Balance at 30 September 2017	**5**	**(2)**

Deferred tax assets have been recognised at 30 September 2017, totalling £4.8 million in respect of temporary differences arising in the corporate entities (2016: £3.3 million) and £0.5 million in respect of tax losses of £2 million (2016: £0.6 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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Contributions to defined contribution schemes	**37**	38	-	-
Current service cost for defined benefit pension plans	-	-	-	-
Cost of retirement benefits	**37**	38	**-**	-

The net financing cost of £2 million (2016: £4 million) and remeasurement gains of £14 million (2016: £6 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.

Contributions of £1 million to the defined contribution pension plans were outstanding at the end of the financial year (2016: £nil).

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 a Trustee who is independent of the group. The Trustee of both pension plans is required by law to act in the best interests of the plans' participants and is 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.

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

The Trustee invests the assets of the plans with the aim of ensuring that all members' accrued benefits can be paid. The Trustee of the plans makes 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 Trustee takes proper written advice. The Trustee has 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 Trustee 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 16 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 2017. The results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2017. This valuation resulted in an actuarially assessed funding deficit of £4.2 million, including the value of the Asset-Backed Funding agreement (see page 105). The Trustee of the pre-2000 fund and the group agreed that this deficit will be addressed through investment returns.

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group in addition, except for the first £0.35 million of expenses and administrative costs (including levies paid to the Pension Protection fund and other bodies) payable from 1 October 2017, which will be met by the pre-2000 fund.

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 15 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 2017. The results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2017. This valuation resulted in an actuarially assessed funding surplus of £8.9 million. The Trustee of the TMcL plan and the group agreed for the deficit reduction contributions to cease after 30 September 2017 and for future expenses for the TMcL plan to be met by the plan from 1 October 2017.

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided on an IAS 19 'Employee Benefits' basis as at 30 September 2017 and 30 September 2016 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 is expected to make to the plans have a lower present value than the current deficit within the TMcL plan and the pre-2000 fund. As such, no adjustment has been made for the TMcL plan (2016: £1.5 million) or the pre-2000 fund (2016: £nil) at 30 September 2017.

Risks

The pension plans expose the group to several key risks, the most significant of which are detailed below:

– Default risk – over the year the pre-2000 fund and the TMcL plan have been in the process of transitioning to a fully credit-based investment strategy based on buying and holding credit instruments which are expected to deliver the income required in order to pay members' pensions, reducing the volatility of the financial position of the schemes. One of the key risks of this type of 'buy and hold' strategy is default risk – the risk that the credit instruments don't deliver the expected income due to default. This risk is managed by investing primarily in investment grade credit instruments which are expected to have a lower risk of default as well as investing in a well diversified portfolio of assets.

– Reinvestment risk – the 'buy and hold' strategy mentioned above generates excess asset income in the short term which would need to be reinvested in the future in order to continue meeting the expected benefits for members over the longer term. There is a risk that this income is reinvested at worse terms than assumed, which might mean that further contributions are required from the Firm in the future. The scenario where this may apply (narrowing credit spreads) is likely to be during a more buoyant economic environment which is likely to be beneficial for the Firm more generally.

– 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 Trustee of each plan review the mortality assumptions on a regular basis to minimise the risk of using an inappropriate assumption.

20 Retirement benefits *continued*

Other matters

The group expects to contribute approximately £4.5 million (which is made up entirely of payments from the Asset-Backed Funding ('ABF') arrangement – see below) to its defined benefit pension plans in the next financial year.

Effective from 29 September 2014, KPMG LLP entered into an ABF agreement with the pension plans 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. 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 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.

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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Quoted in an active market				
Debt instruments				
UK government fixed interest	**106**	99	**485**	468
UK government index-linked	**54**	50	**270**	196
Investment funds				
Corporate bonds	**-**	-	**-**	-
Diversified credit	**89**	87	**385**	364
Cash and cash equivalents				
Cash	**4**	10	**12**	37
Not quoted in an active market				
Derivatives				
Equity contracts	**-**	-	**-**	(1)
Credit contracts	**(105)**	(90)	**(519)**	(398)
Investment funds				
Fund of hedge funds	**-**	-	**-**	-
Global macro fund	**-**	-	**-**	1
Distressed debt fund	**4**	5	**15**	20
Fair value of plan assets	**152**	161	**648**	687
Present value of funded defined benefit obligations	**(161)**	(170)	**(745)**	(804)
Net deficit	**(9)**	(9)	**(97)**	(117)
Additional liability due to minimum funding requirements	**-**	(2)	**-**	-
Net liability in the statement of financial position	**(9)**	(11)	**(97)**	(117)

The plans' assets do not include any of the group's own transferable financial instruments, property occupied by, or other assets used by the group.

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

A key component of the Trustees' investment strategy for the TMcL plan and the pre-2000 fund is liability-driven investments ('LDI'). The values of these investments increase and decrease with movements in the liabilities of each arrangement.

These LDI portfolios are made up of physical holdings of government bonds as well as sale and repurchase agreements ('gilt repos') of government bonds in order to achieve the objectives of the LDI portfolio in a capital efficient way. The negative values shown for the 'credit contracts' in the table on page 105 represent the cash obligation for repurchase of the government bonds under the gilt repo arrangements within the LDI portfolio and the values included under the 'debt instruments' heading in the table on page 105 include the value of government bonds which have been 'sold' as part of the sale and repurchase agreements within the LDI portfolio.

This LDI portfolio (together with the wider ABF arrangement described on page 105) meant that at 30 September 2017 approximately 95% of the interest-rate risks and inflation risks of the TMcL plan and the pre-2000 fund were hedged on the triennial funding valuation basis.

Movements in present value of obligations

Movements in the present value of the funded defined benefit obligations for the plans were as follows:

	TMcL plan		Pre-2000 fund	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Benefit obligation at 1 October	**(170)**	(141)	**(804)**	(641)
Current service cost	**-**	-	**-**	-
Interest on obligations	**(3)**	(4)	**(15)**	(20)
Remeasurement gain arising from changes in demographic assumptions	**1**	1	**5**	5
Remeasurement gain/(loss) arising from changes in financial assumptions	**5**	(33)	**33**	(173)
Remeasurement (loss)/gain arising from experience on the plan's liabilities	**(1)**	-	**7**	3
Benefits paid	**7**	7	**29**	22
Benefit obligation at 30 September	**(161)**	(170)	**(745)**	(804)
Of which: amounts owing to active members	**-**	-	**-**	-
Of which: amounts owing to deferred members	**(78)**	(110)	**(514)**	(600)
Of which: amounts owing to pensioner members	**(83)**	(60)	**(231)**	(204)

During the reporting period there have been no plan amendments, curtailments or settlements for either the TMcL or pre-2000 plan.

Movements in fair value of assets

Movements in the fair value of the plans' assets were as follows:

	TMcL plan		Pre-2000 fund	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Fair value of plan assets at 1 October	**161**	126	**687**	515
Interest income	**3**	4	**13**	16
Return on plan assets, excluding interest income	**(6)**	36	**(32)**	169
Contributions by employer	**1**	2	**9**	9
Benefits paid	**(7)**	(7)	**(29)**	(22)
Fair value of plan assets at 30 September	**152**	161	**648**	687

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

Components of pension expense in the income statement

The amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follows:

	2017 £m	2016 £m
Personnel costs:		
– Current service cost	-	-
Finance income and expense:		
– Net interest expense on net defined benefit obligations	**2**	4
Total expense recognised in the income statement	**2**	4

Remeasurements recognised in statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income in respect of the defined benefit pension plans are as follows:

	TMcL plan		Pre-2000 fund	
	2017 £m	2016 £m	2017 £m	2016 £m
Remeasurement gain arising from changes in demographic assumptions	**1**	1	**5**	5
Remeasurement gain/(loss) arising from changes in financial assumptions	**5**	(33)	**33**	(173)
Remeasurement (loss)/gain arising from experience on the plan's liabilities	**(1)**	-	**7**	3
Return on plan assets, excluding interest income	**(6)**	36	**(32)**	169
Change in additional liability due to minimum funding requirement	**2**	(2)	**-**	-
Total remeasurements recognised in statement of comprehensive income	**1**	2	**13**	4

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

	2017 %	2016 %
Discount rate to calculate defined benefit obligation	**2.50**	2.20
Discount rate to calculate pension expense	**2.25**	1.90
Increase of pensions in payment (RPI linked)	**3.20**	3.10
Increase for deferred pensioners (CPI; TMcL plan only)	**2.40**	2.25

Notes

Forming part of the consolidated financial statements *continued*

20 Retirement benefits *continued*

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 2017 were the SAPS Series 2 Light tables with CMI 2016 projections using a long term trend rate of 1.25% p.a. and a smoothing parameter of 7.5 for both males and females (2016: SAPS Series 2 Light tables with CMI 2015 projections, 1.25% p.a. long term trend rates for both males and females).

These tables lead to life expectancies as follows:

	2017 Years	2016 Years
Retiring today, age 60		
Males	**27.9**	28.2
Females	**28.9**	29.3
Retiring at age 60, currently aged 45		
Males	**29.0**	29.5
Females	**30.1**	30.8

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 (decrease)/increase		
Assumption	**Change in assumption**	**TMcL plan £m**	**Pre-2000 fund £m**	**Total £m**
Discount rate	Increase by 0.25%	(6)	(29)	(35)
Increase of pensions in payment (RPI linked)	Increase by 0.25%	1	7	8
Increase for deferred pensioners (CPI; TMcL plan only)	Increase by 0.25%	1	-	1
Life expectancy	Increase by 1 year	3	19	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 2015	62
Capital introduced by members	7
Repayments of capital	(9)
Balance at 30 September 2016	60
Capital introduced by members	7
Repayments of capital	(8)
Balance at 30 September 2017	**59**

Notes

Forming part of the consolidated financial statements *continued*

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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Amounts due from members	**43**	45	**43**	45
Amounts due to members	**(170)**	(169)	**(170)**	(169)
	(127)	(124)	**(127)**	(124)

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 2017 and 2016, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1. The table on page 110 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 on page 110; the partnership has no financial instruments carried at fair value at either 30 September 2017 or 30 September 2016.

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.

Notes

Forming part of the consolidated financial statements *continued*

22 Financial instruments *continued*

		Group		Partnership	
	Note	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Loans and receivables					
Trade receivables	14	**417**	366	**401**	341
Unbilled amounts for client work	14	**355**	350	**315**	314
Cash and cash equivalents	16	**66**	42	**23**	8
Amounts due from members	21c	**43**	45	**43**	45
Non-current loans and receivables	13	**-**	-	**34**	33
Other receivables	14	**33**	26	**16**	10
Amounts due from other UK group undertakings	14	**-**	-	**54**	26
Amounts due from other KPMG International Member Firms	14	**54**	62	**48**	55
Total loans and receivables		**968**	891	**934**	832
Financial assets designated as at fair value through profit or loss					
Bonds	15	**42**	41	**-**	-
Equities	15	**14**	17	**-**	-
Other investments	12	**1**	8	**-**	-
Total financial assets at fair value through profit or loss		**57**	66	**-**	-
Total financial assets		**1,025**	957	**934**	832
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	21c	**170**	169	**170**	169
Bank borrowings	22d	**479**	431	**416**	361
Members' capital	21b	**59**	60	**59**	60
Other payables	17	**15**	16	**4**	5
Trade payables	17	**36**	36	**35**	31
Amounts due to other UK group undertakings	17	**-**	-	**157**	154
Amounts due to other KPMG International Member Firms	17	**12**	9	**11**	8
Other non-current liabilities	13	**-**	-	**90**	90
Total non-derivative financial liabilities measured at amortised cost		**771**	721	**942**	878
Total financial liabilities		**771**	721	**942**	878
Total net financial instruments		**254**	236	**(8)**	(46)

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 2017 or at 30 September 2016.

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	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Fixed rate instruments					
Bonds	15	**42**	41	**-**	-
Variable rate instruments					
Bank borrowings	22d	**(479)**	(431)	**(416)**	(361)
Cash and cash equivalents	16	**66**	42	**23**	8
		(413)	(389)	**(393)**	(353)

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 (2016: £4 million) and increased or decreased partnership profit by £4 million (2016: £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 2017 the group had receivable and payable balances, denominated in non-functional currencies as follows:

	Group		Partnership	
Receivables	**2017 £m**	2016 £m	**2017 £m**	2016 £m
US dollar	**17**	21	**16**	19
Euro	**15**	17	**11**	11

	Group		Partnership	
Payables	**2017 £m**	2016 £m	**2017 £m**	2016 £m
US dollar	**4**	3	**4**	3
Euro	**4**	4	**4**	4

Notes

Forming part of the consolidated financial statements *continued*

22 Financial instruments *continued*

The net bank balances and cash deposits in non-functional currencies were as follows:

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
US dollar	**3**	11	**3**	11
Euro	**9**	5	**8**	5

A 5% movement in the US dollar or euro closing exchange rates would have increased or decreased group profit by £1 million and £1 million (2016: £2 million and £1 million) and partnership profit by £1 million and £1 million (2016: £1 million and £1 million), respectively.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	**2017**	2016
Euro	**1.1507**	1.2868	**1.1418**	1.1625
US dollar	**1.2663**	1.4252	**1.3416**	1.3006

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 £14 million (2016: £17 million) and other investments of £1 million (2016: £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 110.

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.

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 (2016: £560 million) were available to the group at 30 September 2017. Actual amounts drawn were £479 million (2016: £431 million) by the group and £416 million (2016: £361 million) by the partnership. Of the facilities available as at 30 September 2017, £10 million (2016: £10 million) expires in one year or less, and the revolving credit facility of £550 million (2016: £550 million) is due to expire in January 2023 (see note 27); in both cases, £300 million of the draw down has been classified as non-current at 30 September 2017 (see note 2)

Borrowing facilities

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Non-current borrowings	**300**	250	**300**	250
Short term borrowings	**179**	181	**116**	111
	479	431	**416**	361

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 2017 and 2016. 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 110. 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 £300 million (2016: £250 million) which have a maturity of 1-5 years.

23 Operating leases

Total commitments under non-cancellable operating leases are as follows:

Non-cancellable operating lease rentals

	Group		Partnership	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Within one year	**42**	43	**41**	43
Between 1-5 years	**121**	120	**119**	118
More than five years	**160**	176	**160**	176
	323	339	**320**	337

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. 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.

Group and partnership

	2017 £m	2016 £m
Amounts receivable from sub-let properties:		
– within 1 year	**-**	1
– within 2-5 years	**1**	-
Operating lease cost for the year in 'Other operating expenses'	**30**	31
Operating lease income for the year in 'Other operating income'	**1**	1

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 £2 million (2016: £3 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

25 Related parties

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 49 and 50) 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 £18 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 £3.1 million, of which his normal remuneration for the period represents £1.0 million (2016: highest paid £1.8 million) and the balance an additional amount paid under the firm's partner retirement provisions.

There were no balances due to or from key management at 30 September 2017 or 2016 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 adjusted group 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 adjusted group 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 the group are as follows:

	2017 £m	2016 £m
Amounts due from key management	**1**	1
Amounts due to key management	**(14)**	(15)
	(13)	(14)

Total members' capital invested by key management in the partnership amounted to £2 million at 30 September 2017 (2016: £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**
2017				
UK group undertakings – services provided	**50**	**26**	**36**	**-**
KPMG UK Limited – provision of staff	**1,045**	**-**	**-**	**139**
2016				
UK group undertakings – services provided	37	25	14	-
KPMG UK Limited – provision of staff	947	-	-	142

26 Group undertakings

All of the group and partnership's investments in subsidiaries and joint arrangements at 30 September 2017 are listed in the table below and on page 116.

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[5]	Holding company	UK registered Auditor	100
KPMG Audit Holdings Limited	England[5]	Holding company	UK registered Auditor	100[3]
KPMG Audit Plc	England[5]	Statutory audits and related services	UK registered Auditor	100[3]
KPMG United Kingdom Plc	England[5]	Advisory services	None	100[3]
KPMG UK Limited[1]	England[5]	Employment company	None	100[3]
KPMG IT Advisory Limited	England[5]	Advisory services	None	100
KPMG Business Intelligence Limited	England[5]	Advisory services	None	100[3]
KPMG Sourcing Limited	England[5]	Advisory services	None	100[3]
KPMG CIO Advisory Limited	England[5]	Advisory services	None	100[3]
KPMG Overseas Services Limited	England[5]	Advisory services	UK registered auditor	100[3]
Makinson Cowell Limited	England[5]	Advisory services	None	100[3]
Makinson Cowell US Limited	England[5]	Advisory services	None	100[3]
KPMG Pension Trust Company Limited	England[5]	Trust company	None	100
KPMG Pension Funding (GP) Limited	Scotland[6]	General Partner of SLP	None	100
KPMG Nunwood Investment Limited	England[5]	Holding company	None	100[3]
KPMG Nunwood Holdings Limited	England[5]	Holding company	None	100[3]
KPMG Nunwood Consulting Limited	England[5]	Advisory services	None	100[3]
Knowledge Systems (Nunwood) Limited	England[5]	Internal IT support services	None	100[3]
Nunwood Services Limited	England[5]	Dormant	None	100[3]
Nunwood Inc.	United States of America[7]	Dormant	None	100[3]
Market Analysis (Nunwood) Limited	England[5]	Dormant	None	100[3]
KPMG Boxwood Limited	England[5]	Advisory services	None	100[3]
Queen Street Mutual Company PCC Limited	Guernsey[8]	Insurance	Guernsey Insurer	0[2]
K Nominees Limited	England[5]	Dormant	None	100[3]
KPMG CW Properties Limited	England[5]	Dormant	None	100
Daymer International Limited	England[5]	Advisory services	None	100[3]
KPMG Investments Malta Limited	Malta[9]	Holding company	None	75[3]
Crimsonwing Plc	Malta[10]	Holding company	None	75[3]
KPMG Crimsonwing Limited	England[5]	Advisory services	None	75[3]
KPMG Crimsonwing (Malta) Limited	Malta[10]	Advisory services	None	75[3]
KPMG Crimsonwing BV	Netherlands[11]	Advisory services	None	75[3]
Flareware Systems Limited	England[5]	Dormant	None	100[3]
KPMG International Services Limited	England[5]	Dormant	None	0[4]
KPMG International Limited	England[12]	Dormant	None	0[4]

Notes

Forming part of the consolidated financial statements *continued*

26 Group undertakings *continued*

	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
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.
4 These are private entities limited by a £1 guarantee without share capital.
5 Registered office address: 15 Canada Square, Canary Wharf, London, E14 5GL
6 Registered office address: Citypoint, 65 Haymarket Terrace, Edinburgh, E112 5HD
7 Registered office address: National Registered Agents Inc, 875 Avenue of the Americas, New York, NY10001
8 Registered office address: Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT
9 Registered office address: Portico Building, Marina Street, Pieta
10 Registered office address: Lignum House, Aldo Moro Road, Marsa, MRS9065
11 Registered office address: Seinstraat 32, 1223DA Hilversum
12 Registered office address: c/o Hackwood Secretaries Limited, One Silk Street, London, EC2Y 8HQ

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.

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 2023.

Appendices

04

Appendix 1

1 Structure and governance

1.1 UK Firm structure and governance

1.1.1 Legal structure

KPMG LLP ('the Firm') 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 are used interchangeably).

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

A list of the key entities owned by KPMG LLP (together '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 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 2017, there was an average of 591 Partners in KPMG LLP (2016: 631 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, Ethics and Public Interest committees including their background and meeting attendance are set out on pages 47 to 51 of this report.

The Firm's governance structures, management team and 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 Members present) at least once annually. The current Senior Partner, Bill Michael, was appointed in July 2017 following a competitive election campaign and confidential vote of the Members (administered by the Electoral Reform Society).

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 cultural, 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 five years, in order to maintain relevant skills and breadth of experience on the Board.

As at 30 September 2017, the Board comprised nine members: the Chairman, two Executive Members, a Vice Chair, and five Non-Executives who are all Partners in the Firm, as set out on pages 47 to 50.

The Board met formally 17 times in the year to 30 September 2017. 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 2017, in addition to the Managing Partner, included the Chief Financial Officer, the Head of Quality & Risk Management, Interim Head of People, Head of International Markets and Government, Head of National Markets, Head of Audit, Head of Solutions, Head of Brexit and General Counsel. In the year to 30 September 2017, ExCo met formally 14 times and at other times as requested by the Managing Partner.

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 2017, the Audit & Risk Committee consisted of three Board Members: two 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. One Independent Non-Executive attends meetings of the Committee.

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 eight times in the year ended 30 September 2017.

Two of these meetings during the year were held jointly 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 53.

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. In addition, during the year ended 30 September 2017, the Committee was enlarged to form the Extended Nomination Committee for the purpose of designing and executing the process for shortlisting candidates and electing a new Senior Partner.

During the year ended 30 September 2017, the Nomination & Remuneration Committee met 12 times.

As at 30 September 2017, the Nomination & Remuneration Committee consisted of three Members, who were Non-Executives, and one co-opted Member. One Independent Non-Executive attends meetings of the Committee. 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 54.

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 2017, the Ethics Committee convened seven times. As at 30 September 2017, the Committee consisted of seven Members, being four Partners at large and three Members of the Board (including the Head of Quality & Risk Management). One Independent Non-Executive attends meetings of the Committee.

A report on the activities of the Committee in the year is provided on pages 55 and 56.

1.1.3.7 The Public Interest Committee

The Public Interest Committee ('PIC') consists of Independent Non-Executives ('INEs') and (in a non-voting capacity) the Head of Quality & Risk Management (who is also the Ethics Partner) and the Head of Audit. We consider the INEs, not being otherwise connected with KPMG UK, to be independent. INE 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 financial and corporate matters, and governance and investor needs. As at 30 September 2017, the PIC consisted of three voting Members and two non-voting Members.

The key responsibilities of the PIC are to provide comment and recommendations relevant to the public interest purposes of the Audit Firm Governance Code in the context of KPMG UK's business. Within the governance of KPMG UK, it is important for the PIC and the INEs to remain in a position of independence from the leadership decision making of the Firm and outside its chain of command. As such, although they may vote on recommendations as a PIC, they do not carry votes on the Board or on its other committees. This is beneficial in terms of allowing them to question and challenge KPMG UK at the Board level and at the Board Committee level without being required to assume collegiate responsibility for the decisions taken by the Board on behalf of the Members of KPMG UK. From this position, the INEs are also able to represent the activities of KPMG UK to external stakeholders, including our regulators, in a more objective and dispassionate way in furtherance of their public interest role under the Audit Firm Governance Code.

The PIC periodically 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 meets with the Ethics Committee and Audit & Risk Committee to review the ethical health of the Firm, and receive the Annual Report on Whistle-blowing from the Independent Ombudsman. In addition, each INE attends at least one Committee of the Board in order to have greater visibility into the operations of KPMG UK, and to share perspectives gained with fellow members of the PIC.

During the year to 30 September 2017, the Committee met formally six times.

The Members of the Public Interest Committee are appointed by the Senior Partner on the recommendation of the Nominations & Remuneration 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.

With effect from 1 January 2017, the annual remuneration of each Independent Non-Executive is £100,000 (having previously been £75,000 on an annualised basis from 1 October 2016 to 31 December 2016). The Chair of the PIC receives an additional amount of £25,000 in respect of chairmanship duties.

A report from the chair of the Public Interest Committee on the activities of the Committee in the year is provided on pages 65 and 66.

1.1.3.8 Communication with the Members

During the year, the 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 webinars. 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 to discuss a range of topics including the results for the year and the forthcoming business plan.

1.1.3.9 Key performance indicators for the governance system

The Audit Firm Governance Code requires Firms to report on the performance of the governance system, and report on performance against these in their transparency reports.

The Board has considered the following key performance indicators:

- The Board should meet at least ten times each year with a minimum attendance target of 80% over a 12-month rolling period.

  The Board met 17 times during the year with average attendance of 85%.

- The gender diversity of the Board should reflect that of the partnership.

  At 30 September 2017 the Board composition included 40% female members, which compares to 18% female partners in the partnership.

- As part of the Firm's culture assessment, the Firm should hold an annual People Survey or Pulse Survey, with the Board acting upon the findings.

  As detailed on page 63, a Global People Survey was performed in 2016. The Board discussed the findings which provided data on engagement and other key metrics about partners' and employees' relationships with the Firm and has taken action where appropriate. A subsequent survey took place in autumn 2017 which will enable the Board to identify and consider the initial impact of changes implemented in response to the 2016 Survey and where further action is necessary.

- There should be at least three UK INEs, and the Public Interest Committee should meet at least four times each year. On an annual basis, the Board must satisfy itself that the INEs remain independent from the Firm.

  There are three UK INEs in the Public Interest Committee and there were six meetings during the year. As a result of the resignation of a Non-Executive on 15 December 2016 the number of Non-Executives fell from three to two until 23 March 2017 when the appointment of an additional Non-Executive was finalised. The Board has considered and determined that the INEs remain independent from the Firm.

- The Audit Quality Council should meet at least six times each year to oversee the focus on audit quality.

  The Audit Quality Council met seven times during the year and considered matters relating to maintaining and improving audit quality. Further detail on the factors considered are detailed in Appendix 2.

- The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the Audit Firm Governance Code, or explains otherwise.

  The Board has considered the disclosures within the Transparency Report and consider the Report to be fair, balanced and understandable and in compliance with the Audit Firm Governance Code.

- The Board should satisfy itself, on at least an annual basis, that a formal programme of investor dialogue is occurring.

  The Board has assessed that an appropriate level of investor dialogue is in place. In addition to regular discussions with individual investors, we have continued our programme of regular roundtable meetings, issued publications and surveys to encourage wider discussion and debate and brought audit committee members together via our Audit Committee Institute. In addition to this, at both a global and UK level, we have regular two-way communication with regulators to discuss reviews of the Firm and our audits as well as changes in regulation and the audit arena. Further detail on our stakeholder interactions is summarised in our Audit Quality Indicators at page 63, and the dialogue our INEs have had this year with key stakeholders is summarised in the report from the Chair of the Public Interest Committee on pages 65 and 66.

1.1.3.10 UK Corporate Governance Code

Under the Audit Firm Governance Code, the Firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.

KPMG UK has adopted governance processes that comply with the following provisions of the UK Corporate Governance Code, above and beyond the requirements of the Audit Firm Governance Code:

A1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

The Board met 17 times in the year and the Firm's constitutional documents set out matters reserved for its decision. Details of the Board's operations are set out in the Governance section on pages 47 to 52, and page 119.

B.2.2 The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

The Nomination Committee's role and activities are set out in the Governance section on page 54, and page 120.

B.2.3 Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

Non-executive members of the Board are appointed for terms of either two or three years, subject to an aggregate maximum of five years.

B.3.1 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises.

The Nomination Committee prepared a job description for the role of Senior Partner and Chairman in advance of the Senior Partner election this year.

B.4.1 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.

New members of the Board complete an induction programme upon appointment to the Board.

B.6.2 Evaluation of the board […] should be externally facilitated at least every three years.

External facilitators are appointed every three years to evaluate the Board's effectiveness. The next such evaluation will be completed in FY18.

B.6.3 The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

The Non-Executive Members of the Board comprising the Remuneration Committee evaluate the Chairman's performance. From 1 October 2017, the INE who attends the committee chairs the discussion while the Senior Non-Executive member of the Board gathers feedback and data, and makes recommendations for consideration by the Committee.

C.3.1 The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

Although KPMG UK's Audit & Risk Committee is comprised of KPMG Partners who are Non-Executive Board members, an INE attends the Committee in the spirit of this provision of the UK Corporate Governance Code.

C.3.6 The audit committee should monitor and review the effectiveness of the internal audit activities.

The Audit & Risk Committee's role includes the monitoring and review of the plan and activities of the internal audit function.

C.3.7 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.

The Audit & Risk Committee has primary responsibility for recommending the appointment, reappointment and removal of the external auditors.

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.

KPMG is the registered trademark of KPMG International and is the name by which the Member Firms are commonly known. The rights of Member Firms to use the KPMG name and marks are contained within agreements with KPMG International. Member Firms are generally locally owned and managed. Each Member Firm is responsible for its own obligations and liabilities. KPMG International and other Member Firms are not responsible for a Member Firm's obligations or liabilities. Member Firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network Member Firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the following link.[1]

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR2.7 billion during the year ending 30 September 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2017.[2]

Responsibilities and obligations of Member Firms

Under agreements with KPMG International, Member Firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools.

Each Member Firm takes responsibility for its management and the quality of its work. Member Firms 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 of professional 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.

1 https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/eu-and-eea-audit-entities-list-30-09-2017.pdf

2 The financial information set forth represents combined information of the separate KPMG Member Firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

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 2017 is available in the International Annual Review.[3]

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 2017 is available in the International Annual Review referenced above.

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.[4]

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.[3]

Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- Assess the effectiveness of a Member Firm's quality and risk management efforts to identify and mitigate significant risks to the Member Firm and network, and actively monitor alignment with global quality and risk management strategies and priorities
- Share leading best practices in quality and risk management
- Report to Global Head of Quality, Risk and Regulatory.

3 https://home.kpmg.com/xx/en/home/campaigns/2017/12/international-annual-review.html#introduction

4 https://home.kpmg.com/xx/en/home/campaigns/2017/12/2017-transparency-report.html

Appendix 2

2 System of quality control

KPMG International has policies of quality control based on the International Standard on Quality Control 1 ('ISQC1') issued by the International Auditing and Assurance Standards Board ('IAASB') and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to assist 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.

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 primarily 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 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 QIP 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. Key initiatives commenced during the year as a result of the QIP include: the commencement of our Second Line of Defence team providing real time coaching and support to key engagement teams by a team of technically excellent auditors via in-flight quality reviews with any themes arising being fed back to the business through regular bulletins, workshops and training; and an Audit Quality Transformation Programme which is designed to drive more consistency in the work of our teams on similar audit issues such as standardising our approach to performing and evidencing our work to remove ambiguity and freeing our teams to perform and evidence their work more effectively. In October 2017 we had our annual Audit Conference which launched our Quality Transformation Programme which takes our QIP to the next level and specifically targets culture (including the passion we have for our work) and the support offered to our client-facing teams and drives a consistent and simplified approach on our audits.

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 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, the Business Unit Heads of Audit and the Heads of the Second Line of Defence team, US Accounting & Reporting and Learning & Development for Audit. The Audit Quality Council met seven times during the year ended 30 September 2017, 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; themes from the Second Line of Defence reviews; root cause analysis of audit quality findings (both internal and external) and how they link to the action plan; training plans; and standardisation and simplification via the Quality Transformation Programme.

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 updated during the year 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.

All our personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining the Firm, and annually thereafter; and complete training on the applicable Code of Conduct upon joining the Firm and on a biennial basis thereafter. KPMG personnel are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations and professional standards.

We operate a whistle-blowing hotline (renamed the 'Speak-Up hotline' during the year) 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 2017, 20 matters which required investigation were reported to the UK hotline (2016: 18 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 2017 report concluded that the whistle-blowing hotline is a useful tool (although continued effort should be made to ensure that there were no barriers to reporting by Partners and employees) 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 & 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.

Technology and innovation are changing the way we execute our audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality. During 2017 we commenced roll out of KPMG Clara – our smart audit platform which builds on our existing eAudit platform to offer teams new ways of interacting, accessing audit methodology and tools and also providing access to collaboration solutions. It puts technology and D&A right at the heart of our approach, enabling teams to leverage data and bring advanced capabilities and knowledge together in one environment. KPMG Clara will integrate all of our advanced capabilities and knowledge, and empower our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

The Clara client collaboration tool will facilitate secure collaboration between our clients and audit teams wherever they are in the world and will drive effective and timely communication, allowing us to share information and manage projects in real time, in a single location.

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 the revised Ethical Standard 2016 issued by the FRC.

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 & 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 2.4.4). 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 of ethical standards (see pages 55 and 56).

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 were made to our policies and procedures with respect to personal independence to reflect the additional requirements introduced in the revised Ethical Standard.

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 2017, 463 (2016: 296) of our people were subject to these audits (this included approximately 20% (2016: 20%) 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 issued by the FRC in June 2016 including the changes made to our internal policies and this was reinforced by further training during 2017.

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 Firm rotation

One of the most significant changes introduced by the new EU requirements, is that EU Public Interest Entities, as now determined by the UK regulators, will be required to rotate their firm of auditors. This is known as Mandatory Firm Rotation ('MFR'). MFR rules in the UK require that all EU PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. There are transitional provisions in place on implementation of the MFR rules. We have processes in place to track and manage audit firm rotation.

2.3.2.8 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.

2.3.2.9 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise if the total fees from an entity which we audit represent a large proportion of the total fees of the Member Firm expressing the audit opinion.

In particular, these policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular Member Firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- A Senior Partner from another KPMG Member Firm would be appointed as the engagement quality control reviewer.

No entity to whom we provide audit services accounted for more than 10% of the total fees received by the Firm in either of the last two years.

2.3.2.10 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.

We have risk management resource who are responsible for reviewing an identified potential conflict and working with the affected Member Firms to resolve the conflict the outcome of which must be documented. 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.

2.3.2.11 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 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 and to deliver a high quality audit. 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 3,000 new people in the year ended 30 September 2017 (2016: over 3,600).

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 Inclusion and diversity

We strive to be an employer of choice by creating an environment where our people can fulfil their potential and feel proud and motivated to give their best.

We work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives. Our established Inclusion and Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

2.4.4 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. A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers.

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 2017, individuals receive risk metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance. The 2017 results indicate generally a good level of quality and risk compliance across our whole Firm and are consistent with those arising in 2016 – in particular 91% of our engagement leaders were awarded green metrics, 6% amber and 3% 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 & 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.

2.4.5 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. Reward decisions are based on consideration of both individual and Firm performance.

2.4.6 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 2017, KPMG LLP recruited 14 new Partners from the external market (2016: 17) and promoted 47 from within the Firm (2016: 50).

2.4.7 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 competencies 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.

KGS Audit ('KGS') is KPMG UK's Audit off-shoring capability and comprises more than 500 employees located in Delhi and Bangalore, India. KGS employees are available for the Firm's audit teams to utilise as an extension of the UK audit team. Where it has been determined by the professional judgement of the individual UK audit teams that KGS has the appropriate skills and experience audit procedures will be allocated to KGS on the same basis as to UK-based team members and is subject to the same review process and oversight. One of the primary benefits of utilising KGS is that UK-based team members have more time to interact with clients and to focus on key judgements and significant audit risks. The training and recruitment process at KGS is based on the UK model and the same high standards are maintained at KGS as in the UK. All KGS employees have completed training in applying our KAM methodology and UK GAAP accounting and reporting and where appropriate KGS employees receive industry specific training. The Firm's system of quality control, as described in this report, applies to all of our personnel whether based in the UK or at one of our off-shore locations.

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, we run Audit Readiness Workshops for all audit partners and staff which focus 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.

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. Our policies include mandatory consultation requirements on certain matters such as client integrity.

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;
- 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. During 2017, as part of our continued focus on enhancing audit quality, we have reduced the period during which teams are required to complete audit documentation from 45 days to 15 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 2016 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 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 2.4.7 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, as well as key audit matters to be communicated.

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. The existing requirement to include a key audit matters section in the auditor's report for entities that are required, or choose voluntarily, to report on how they have applied the UK Corporate Governance Code has now been extended to include PIEs and listed entities and we are also required to provide a long form report for all listed entities.

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 89% 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 2017. 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 corporate governance, business models, alternative performance measures, crisis management and audit committee reporting as well as the accounting and reporting implications of Brexit to consider when preparing financial statements 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 & Risk Management the Firm has a Director in charge of Information Protection and a dedicated National IT Security Officer both whom have the necessary authority, skills and experience to lead the UK's information protection function.

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.

The Governance Oversight Committee ('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. The IGOC is chaired by the Head of Quality & Risk Management and has representatives from ExCo, business functions, IT Services, and other Quality & Risk Management professionals.

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 revised 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 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 2017 Quality Performance Review results

	Number of engagements reviewed (2016)	% of engagement leaders reviewed (2016)
Audit	**113 (99)**	33% (29%)
Tax	**149 (180)**	24% (36%)
Advisory	**265 (229)**	35% (33%)

Audit

KPMG International continues to refine and strengthen the Audit QPR Programme in light of latest developments. In the UK we have applied this strengthening to establish a consistent process that is no less challenging than that conducted by any of our external regulators.

All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' ('PIN') and 'Unsatisfactory'. A 'Satisfactory' grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to comply fully with our internal policies, applicable auditing standards and legal and regulatory requirements in all bar inconsequential areas and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate. To support our quality improvement aspirations we have tightened this threshold in the current year such that achieving this standard represents a very high bar and a higher hurdle than in prior years.

A 'PIN' grading has been attributed this year where the auditor's report is either supported by the work evidenced on file but this work needed some clarification, or where the evidence on file needed to be supplemented by information obtained as part of the audit but not sufficiently referenced in the work documented on file. In prior periods certain engagements rated as 'PIN' in this cycle due to the lack of clarity of the file would have been rated 'Satisfactory'. This change has been introduced to ensure the complete focus of engagement teams on the requirement for the audit file to 'stand alone', without the benefit of information held separately to the audit files. A 'PIN' rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

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, or where there are significant deficiencies in the related financial statements. As part of our continuous improvement actions we are progressively introducing mandatory policies, audit approaches for specific areas and the use of specific work papers. The increase in the number of 'Unsatisfactory' rated engagements reflects the fact that various engagements that might have been performed in substantial compliance with applicable auditing standards were not fully executed in line with these new mandated requirements. As a result of this change in emphasis and approach, a number of engagements rated as 'Unsatisfactory' in this cycle would not have been so rated in prior periods. This change was introduced to ensure that engagement teams fully recognise the need to comply with the detail of new internal requirements. Having considered each engagement and any additional information provided by the engagement team as part of the review process, we are satisfied that none of the opinions delivered under audits rated 'Unsatisfactory' were inappropriate. We are also satisfied that none of the related financial statements were materially misstated. We believe that the standards to which we are now holding engagement teams through this process is in many areas stricter than that applied by our audit regulators as we now assess 'how' evidence was obtained in addition to 'what' evidence was obtained.

In 2017, 51% of engagements reviewed were graded as 'Satisfactory' (2016: 70%), 28% of engagements were graded as 'PIN' (2016: 20%) and 21% of engagements were graded as 'Unsatisfactory' (2016: 10%). Due to the changed assessment process, year on year comparisons should be viewed with significant caution. As we continue our policy of increased specification in how audits are delivered at the detailed level it is possible that results in the current year will show similar levels of less than satisfactory outcomes as these new requirements become embedded in business as usual.

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) and the actions contained within the Audit Quality Improvement Plan (see page 125).

In terms of remedial actions, where appropriate, engagement files are remediated to ensure the audit evidence obtained is adequately documented. In addition engagement teams may be required to undertake specific training or review specific relevant support materials. All engagement leaders receiving a 'PIN' grading are considered for either a full follow-on review of another engagement or reviews focused on the specific areas of findings. The ratings from the annual QPR Programme are included in the annual quality and risk metrics issued for all engagement leaders and managers for all functions (as described in Appendix 2.4.4). Additional actions may be taken if specific circumstances make this appropriate.

To further enhance the quality, rigor and consistency of the QPR Programme, the Global Audit Quality Monitoring Programme ('GAQMP') was launched by KPMG International in 2016.

The GAQMP is comprised of a team of partners, directors and senior managers experienced in performing QPR Programme reviews of listed and related entity ('LRE') audit engagements. The team also includes partners and professionals with experience in auditing general information technology controls and application controls.

Each of the GAQMP reviewers attends the Global QPR training delivered for their respective Member Firm. The GAQMP team is responsible for performing selected QP reviews of LRE audit engagements as determined by Global Quality & Risk Management.

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 2017, 83% of Tax engagements were graded as 'Satisfactory', 11% graded as 'Performance Improvement Necessary' and 6% of engagements were graded as 'Unsatisfactory'. This compares with comparative ratings for the 2016 programme of 91% graded as 'Satisfactory', 7% graded as 'Performance Improvement Necessary' and 2% of engagements graded as 'Unsatisfactory'.

In 2017, 80% of Advisory engagements were graded as 'Satisfactory', 15% were graded 'Performance Improvement Necessary' and 5% of engagements were graded as 'Unsatisfactory'. This compares with scores for the 2016 programme of 77% graded as 'Satisfactory', 21% as 'Performance Improvement Necessary' and 2% 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 Root-cause analysis

We seek to learn from matters raised in both external and internal 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.

Our approach to root-cause analysis is based around the 'five whys' approach. We conducted more than 200 interviews with team members across more than 50 engagements subject to internal or external quality review. This included all engagements with a finding identified in external reviews and internally as 'Performance Improvement Necessary' or 'Unsatisfactory'. These interviews were 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.

Our root-cause analysis covers a wide range of team members and the EQC reviewer for all externally and internally reviewed engagements not achieving a 'Satisfactory' rating. This gives us greater insight into high quality audits and allows 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.

2.7.1.3 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' rating 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' rating also indicates that the Firm is substantially compliant with KPMG policies and procedures and, 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' (2016: '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.

2.7.1.4 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.

2.7.1.5 Internal Audit

Our Internal Audit function is led by a partner from the Firm's Risk Consulting practice and provides assurance that our governance and internal control processes are operating effectively with reference to the risks set out in the Enterprise Risk Map.

The internal audit plan was approved at the start of the year and was updated during the year to ensure that it remained appropriate and reflected changes to business and emerging risks. The plan is devised by understanding the risk profile of the Firm (whether strategic, operational, or change risks), considering the other forms of management and independent assurance and, therefore, agreeing what internal audit work is required.

In reviewing and approving the internal audit plan, the Audit & Risk Committee ensured a balance between coverage of the highest priority risks and maintaining appropriate coverage of the core business processes. The internal audit plan in place for 2017, included areas of focus such as cyber and data security, recognising the importance of these areas in the current environment.

2.7.2 External monitoring

2.7.2.1 Audit Quality Review ('AQR')

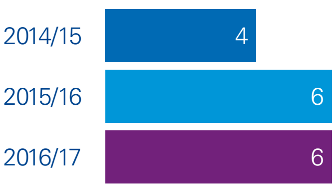
In the UK, the Audit Quality Review team of the FRC has been carrying out independent inspections for a number of years. They performed their 2016-17 inspection of the Firm and their public report on the inspection was released in June 2017. The report and our response, included within Appendix B of the report, are available on the FRC website.[5] The Firm's audit registration was renewed during 2017.

In its latest report, the AQR concluded that it was encouraged by the scope and objectives of our Audit Quality Improvement Plan and that the Firm was demonstrating good practice in areas such as the design and direction of the component auditors' work over significant risks; instructions to and reports back from specialists; evaluation of IT control weaknesses and resulting additional detailed testing required; and IT controls work related to the valuation of financial instruments. It also identified certain areas where improvements are required to those policies and procedures which are set out below.

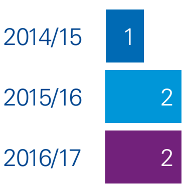
AQR results

Good with limited improvements required

Improvements required



Significant improvements required



The AQR's key messages were that KPMG should:

- Improve the extent of challenge of management in relation to areas of judgement, in particular impairment reviews, loan loss provisions and other valuations;
- Reassess the Firm's approach to the audit of revenue and the related training;
- Strengthen the Firm's audit approach for corporate entities in relation to defined benefit pension scheme assets and membership data; and
- Improve the accuracy or precision of the description of audit procedures performed in auditors' reports.

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 identified some items where significant improvements were required.

5 FRC website: https://www.frc.org.uk/getattachment/84251a1d-be78-4590-b284-ea47d6c8cc75/KPMG-LLP-Audit-Quality-Inspection-16-17.pdfAQR results

2.7.2.2 FRC Thematic Reviews

The AQR team 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 2017, the FRC published the following reports which set out the principal findings of thematic reviews:

- Firms' Audit Quality Control Procedures and Other Audit Quality Initiatives – we welcome the positive findings identified by the FRC in their review including the establishment of committees specifically tasked with overseeing, maintaining and continuously improving audit quality and the introduction of central technical support teams being involved with audits on a real time basis. We note the FRC's message that there are opportunities for firm's to continue to develop the quality control procedures in place to achieve further improvements in audit quality. During the year, we have continued to develop and expand our Quality Improvement Plan which includes: our Second Line of Defence team providing real time coaching and support to key engagement teams by a team of technically excellent auditors via in-flight quality reviews with any themes arising being fed back to the business through regular bulletins, workshops and training; and an Audit Quality Transformation Programme which is designed to drive more consistency in the work of our teams on similar audit issues such as standardising our approach to performing and evidencing our work to remove ambiguity and freeing our teams to perform and evidence their work more effectively.
- The Use of Data Analytics in the Audit of Financial Statements – we are pleased that the FRC has observed evidence of good practice which contributes to the effective use of data analytics on audits and that the UK firms are at the forefront of the global firms' development and usage of data analytics. We note the FRC's recommendations for firms to ensure there is clear communication with audit committees regarding the extent of data analytics usage and their role in obtaining audit evidence and that a focused roll out of tools supported by a central team can increase the level of effective uptake as audit staff build up experience and confidence in their use. At KPMG, the use of data analytics is increasingly becoming part of our audit approach and we have introduced clear guidance for teams with regards to evidencing the use of data analytics, have provided training for audit staff on the effective use of data analytics and have increased the use of our central team of specialists to help teams identify how to enhance the use of such tools and embed them on audit engagements. During the year, we also introduced a mandatory accreditation policy for data analytics tools.

Three further thematic inspections are scheduled for 2017–18, covering Auditors' responsibilities relating to other information, Audit firm governance and culture and Materiality. We will set out the findings from these reviews 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 2016-17 report was that the Firm had sustained the improvements made in previous years. 11 of the 12 files reviewed were either satisfactory or generally acceptable with one file assessed as requiring significant improvement. The QAD also concluded that the actions proposed and already taken by the Firm should address any findings raised during their review.

2.7.2.4 Other

We are also required to be registered with the Jersey, Guernsey and Isle of Man 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 the Jersey, Guernsey and Isle of Man Financial Services Commissions were successful during 2017.

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. 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;
- 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

In certain situations, it is at the FRC's discretion under both the Accountancy Scheme and Audit Enforcement Procedures, and subject to certain considerations, as to whether to publicise the commencement of an investigation, and subsequent actions and decisions. In relation to matters, where the FRC or other regulatory bodies, are undertaking an inquiry or investigation on a non-public basis the details of such matters are also not disclosed in this report.

On 19 September 2017 the FRC announced the closure of the investigation into the conduct of KPMG's audit of HBOS Plc for the year ended 31 December 2007.

During the year, the FRC announced an investigation into the conduct of KPMG Audit Plc, in relation to the audit of the financial statements of Rolls-Royce Group Plc for the year ended 31 December 2010 and Rolls-Royce Holdings Plc for the years ended 31 December 2011 to 31 December 2013.

In September 2016, the FRC completed its investigation 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.

The FRC investigations into a number of matters remain ongoing:

- 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 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 (announced June 2016);
- 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).

In addition, on 10 October 2016 the Firm agreed to pay a regulatory penalty of £2,350 decided by the 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 an individual 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.

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 2017 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 and those entities defined as a public interest entity under the EU Directive 2014/56/EU.

Entity name

A & J Mucklow Group Plc	Allocate Holdco Limited	Auto Trader Group Plc
Abbey Life Assurance Company Limited	Alpha Bank London Limited	Autolink Concessionaires (M6) Plc
Aberdeen City Council	Alpha FMC Midco Limited	Avacta Group Plc
Aberdeen Japan Investment Trust Plc	Alpha Schools (Highland) Project Plc	Avanti Communications Group Plc
Aberdeen New Dawn Investment Trust Plc	Alu Midco Limited	B.A.T. International Finance Plc
Aberdeen New India Investment Trust Plc	Amati VCT Plc	BAE Systems Plc
Aberdeen New Thai Investment Trust Plc	Ambac Assurance UK Limited	Balfour Beatty Finance No 2 Limited
Aberdeen Roads (Finance) Plc	Amlin Insurance SE	Balfour Beatty Plc
Aberdeen Smaller Companies Income Trust Plc	AMT Mortgage Insurance Limited	Bank Leumi (Uk) Plc
Accesso Technology Group Plc	AmTrust Europe Limited	Bank of Ceylon (UK) Limited
Achilles Subholdings Limited	Animalcare Group Plc	Bank of England
Adaptimmune Therapeutics Plc	Annes Gate Property Plc	Bank of Valletta Plc
Aetna Insurance Company Limited	ANZ Bank (Europe) Limited	Barchester Propco Two Topco Limited
AEW UK REIT Plc	AO World Plc	Baring Emerging Europe Plc
Affinity Sutton Capital Markets Plc	Arbuthnot Banking Group Plc	Baronsmead Second Venture Trust Plc
AG BARR Plc	Arbuthnot Latham & Company Limited	Baronsmead Venture Trust Plc
Ageas Insurance Limited	Ariana Resources Plc	Bart Spices Holdings Limited
AGF Insurance Limited	Arlington Securities Limited	Bazalgette Finance Plc
Aggreko Plc	Arrow Global Finance Plc	Bazalgette Ventures Limited
Aioi Nissay Dowa Insurance Company of Europe Limited	Arrow Global Group Plc	BDC Midco 71 Limited
Air Berlin Plc	Artemis Alpha Trust Plc	Beazley Plc
Al Rayan Bank Plc	Artemis VCT Plc	Bellway Plc
Alba 2005 - 1 Plc	Ascential Plc	Benchmark Holdings Plc
Alba 2006 - 1 Plc	Ashmore Group Plc	Beverley Building Society
Alba 2006 - 2 Plc	Aspen European Holdings Limited	BFC Bank Limited
Alba 2007 - 1 Plc	Aspen Insurance UK Limited	BHL (UK) Holdings Limited
Alcumus Midco Limited	Aspin Group Holdings Limited	BHP Billiton Plc
Aldermore Bank Plc	Aspire Defence Finance Plc	Bionical Limited
Aldermore Group Plc	AstraZeneca Plc	Blancco Technology Group Plc
Allianz Insurance plc	Auburn Securities 4 plc	BLME Holdings Plc
Allied Minds Plc	Auburn Securities 5 plc	Bloomsbury Publishing Plc
	Auburn Securities 9 plc	Blue Finco Limited

Entity name

- Blur Group Plc
- BNY Mellon Investment Management (Europe) Limited
- Booker Group Plc
- Boxhill Technologies Plc
- BPHA Finance Plc
- Braemar Shipping Services Plc
- British American Tobacco Plc
- British Arab Commercial Bank plc
- British Reserve Insurance Company Limited
- Bromford Acquisitions Limited
- BTG Plc
- Budget Insurance Company Limited
- BUPA Finance Plc
- Bupa Insurance Limited
- Business Mortgage Finance No 3 Plc
- Business Mortgage Finance No 4 Plc
- Business Mortgage Finance No 5 Plc
- Business Mortgage Finance No 6 Plc
- Business Mortgage Finance No 7 Plc
- By Chelmer Plc
- C4X Discovery Holdings Plc
- Caledonia Investments Plc
- Caledonian Trust Plc
- Cambria Automobiles Plc
- Cambridge & Counties Bank Limited
- Cambridge Building Society
- Canaveral Bidco Limited
- Capita Plc
- Capital Hospitals (Issuer) Plc
- Carclo Plc
- Card Factory Plc
- Cardiff Property Plc
- Cardtronics Europe Limited
- Cardtronics Plc
- Care UK Health & Social Care Finance Limited
- Care UK Health & Social Care Plc
- Carewatch Bidco Limited
- Carillion Plc
- Case Topco Limited
- Catalina London Limited
- Catalyst Healthcare (Manchester) Financing PLC
- Catalyst Healthcare (Romford) Financing Plc
- Catalyst Higher Education (Sheffield) PLC
- CC 2 (2011) Limited
- Central Nottinghamshire Hospitals Plc
- Ceres Power Holdings Plc
- Chambertin Finance Limited
- Charcoal Newco 1A Limited
- Charles Stanley Group Plc
- Chromalloy UK Holdings Limited
- Cineworld Group Plc
- Circle Anglia Social Housing Plc
- Clarke Energy Operations Limited
- Clarke Energy Topco Limited
- Clifford Thames (Topco) Limited
- Cloud Midco Limited
- Cobaco Holdings Limited
- Cognita Financing Plc
- Cohort Plc
- Compass Group Plc
- Computacenter Plc
- Connect M77/GSO Plc
- Consort Healthcare (Birmingham) Funding Plc
- Consort Healthcare (Blackburn) Funding Plc
- Consort Healthcare (Mid Yorkshire) Funding Plc
- Consort Healthcare (Salford) Plc
- Consort Healthcare (Tameside) Plc
- Consort Medical Plc
- Conviviality Plc
- Corbin & King Restaurant Group Limited
- Costain Group Plc
- Crawshaw Group Plc
- Credit Suisse (UK) Limited
- Credit Suisse International
- Crisps Midco 2 Limited
- Cross London Trains Finance Company Limited
- CuFe Investments Limited
- Daejan Holdings Plc
- Daniel Thwaites Plc
- Darrowby No 3 Plc
- Darrowby No 4 Plc
- Dart Group Plc
- DAS Legal Expenses Insurance Company Limited
- DB UK Bank Limited
- De La Rue Plc
- De Montfort University
- Derby Healthcare Plc
- Devro Plc
- DFS Furniture Plc
- Dialight Plc
- Diamond Bank (UK) Plc
- Diamond Bidco Limited
- Diurnal Group Plc
- Domestic & General Insurance Plc
- DS UK Midco 1 Limited
- DTZ Worldwide Limited
- Dudley Building Society
- Duke Midco Limited
- Dukinfield II Plc
- Dukinfield Plc
- Dunedin Enterprise Investment Trust Plc
- Dunedin Income Growth Investment Trust Plc
- Dunedin Smaller Companies Investment Trust Plc
- DX (Group) Plc
- Earl Shilton Building Society
- Eckoh Plc
- Ecology Building Society

Entity name

Edinburgh Dragon Trust Plc	Falan UK 2 Limited	Goodwin Plc
Edinburgh Worldwide Investment Trust Plc	Family Assurance Friendly Society	Go-Sykes Limited
EDU UK Topco Limited	fastjet Plc	Grafenia Plc
Electric Word Plc	Fidelis Underwriting Limited	Grainger Plc
Electronic Data Processing Plc	Fidessa Group Plc	Green Tree Finances Limited
Elegant Hotels Group Plc	FIH Group Plc	Greenway Infrastructure Capital Plc
Elektron Technology Plc	Filtronic Plc	Greggs Plc
Ellenbrook Developments Plc	Findel Plc	Guaranty Trust Bank (UK) Limited
Elli Finance (UK) Plc	Finsbury Food Group Plc	Gwynt Y Mor Ofto Plc
EMH Treasury Plc	Fircroft Engineering Services Holdings Limited	Habib Bank Zurich Plc
EMIS Group Plc	First Flexible (No. 7) PLC	Haco Limited
Endell Properties Limited	First Flexible NO. 6 PLC	Halcyon Midco Limited
Ensco Plc	First Flexible No.5 Plc	Halfords Group Plc
Epihiro Plc	Focusrite Plc	Halliburton Global Holdings Limited
Epwin Group Plc	Foresight 3 VCT Plc	Hampshire Trust Plc
Equitix Capital Eurobond 2 Limited	Foresight 4 VCT Plc	Hargreaves Services Plc
Equitix Capital Eurobond 3 Limited	Foresight Solar & Infrastructure VCT Plc	Harpenden Building Society
Equitix Capital Eurobond 4 Limited	Foresight Solar (UK Holdco) Limited	Harrington Brooks Group Limited
Equitix Capital Eurobond Limited	Foresight VCT Plc	Hastings Group Holdings Plc
Equitix MA 1 Capital Eurobond Limited	Forest Holidays Group Limited	Hastoe Capital Plc
ERM Emilion Limited	Forester Life Limited	Havelock Europa Plc
Escape Hunt Plc	French Connection Group Plc	Herefordshire Capital Plc
Essentra Plc	FTI UK Holdings Limited	Hill & Smith Holdings Plc
Esure Group Plc	Fulcrum Utility Services Limited	Hollywood Bowl Group Plc
Esure Insurance Limited	Furness Building Society	Holmesdale Building Society
Eurohome UK Mortgages 2007-1 Plc	Futura Medical Plc	Holstock Limited
Eurohome UK Mortgages 2007-2 Plc	Gate Ventures Plc	Holyrood Student Accommodation Plc
European Investments (GFP) Limited	Gattaca Plc	Home Group Limited
European Investments (Moron) 2 Limited	Gear4Music (Holdings) Plc	HSB Engineering Insurance Limited
European Investments (Olivenza) 2 Limited	GESB Plc	Hydrasun Group Finance Limited
Everyman Media Group Plc	GGE UK 2 Limited	Hydrodec Group Plc
Experian Finance Plc	GLE Midco Limited	ICBC (London) Plc
F&C Asset Management Plc	GLH Hotels Limited	ICBC Standard Bank Plc
F&C Finance Plc	Global Graphics SE	ICICI Bank UK Plc
F&C Managed Portfolio Trust PLC (Growth & Income)	Global Resources Investment Trust Plc	IG Design Group Plc
FAIRFX Group Plc	Goals Soccer Centres Plc	IHC Merwede UK Limited
	Gocompare.com Group Plc	Imagination Technologies Group Plc

Entity name

Impax Asset Management Group Plc	Kemble Water Eurobond Plc	Midland Heart Capital Plc
Impellam Group Plc	Kenrick No.2 Plc	Milan Midco Limited
IndigoVision Group Plc	Kestrel Acquisitions Limited	Millennium & Copthorne Hotels Plc
InfraRed Infrastructure Yield Holdings Limited	Kodak Alaris Holdings Limited	Mitsui Sumitomo Insurance Company (Europe) Limited
Infrastructure Investments (No 8) Limited	KX Reinsurance Company Limited	Molins Plc
Inspired Education (South Lanarkshire) Plc	LAB Investments Plc	Moneysupermarket.com Group Plc
Intelligent Energy Holdings Plc	Lendlease Europe Finance PLC	Moody's Group (Holdings) Unlimited
International Car Wash Group Financing Plc	LGS Investments Plc	Moody's Group UK Limited
International Finance Facility for Immunisation	Liberty Global Plc	Moorgate Funding 2014-1 Plc
International Schools Partnership Limited	Lighthouse Group Plc	Morecambe Leisure 2 Limited
Invesco Asia Trust Plc	Limecay Limited	Morgan Advanced Materials Plc
IP Group Plc	L-J Finco Limited	Motors Insurance Company Limited
Ipreo UK Holdings Limited	Lock Midco 1 Limited	Murgitroyd Group Plc
Ipswich Building Society	Logistics UK 2015 Plc	Myriad Capital Plc
Irida Plc	Lonmin Plc	N Brown Group Plc
ITG Realisations Limited	Low & Bonar Plc	NAHL Group Plc
ITV Plc	LSP Holding (UK) Limited	Nasstar Plc
Ivy Midco Limited	LSP Investco Limited	National Casualty Company Of America Limited
James Cropper Plc	Luceco Plc	National Counties Building Society
James Fisher & Sons Plc	M&C Saatchi Plc	Navigators International Insurance Limited
JB Drinks Limited	Macfarlane Group Plc	NCC Group Plc
JD Sports Fashion Plc	Manchester Airport Group Funding Plc	Nemus II (Arden) Plc
JD Williams & Company Limited	Mandata (Holdings) Limited	Neptune Midco 1 Limited
JD Williams Group Limited	Mapil Midco 1 Limited	Newbury Building Society
Jewel UK TopCo Limited	Markel International Insurance Company Limited	NewDay Funding 2015-1 Plc
Jimmy Choo Plc	Market Harborough Building Society	NewDay Funding 2015-2 Plc
John Lewis Plc	Marsden Building Society	NewDay Funding Loan Note Issuer Limited
Johnson Matthey Plc	Masthaven Bank Limited	NewDay Partnership Funding 2014-1 Plc
Jones Lang LaSalle Capital Investments Limited	Matalan Finance Plc	NewDay Partnership Funding 2015-1 Plc
Just Group Plc	McKay Securities Plc	NewDay Partnership Loan Note Issuer Limited
Just Retirement Limited	MEL Midco Limited	NewDay Secondary Funding Limited
Kalibrate Technologies Plc	Melton Mowbray Building Society	NewHospitals (St Helens and Knowsley) Finance Plc
Karma Communications Debtco Limited	Mercantile Indemnity Company Limited	Newincco 1359 Limited
Katanalotika Plc	Mercury Midco 1 Limited	NFT Distribution Holdings Limited
Kaz Minerals Plc	Merlin Entertainments Plc	Nimbus Acquisitions Midco Limited
Keller Group Plc	Methodist Insurance Plc	
	Metis Bidco Limited	

Entity name

North Atlantic Smaller Companies Investment Trust Plc
North of England Protecting and Indemnity Association Limited
Northern 2 VCT Plc
Northern 3 VCT Plc
Northern Investors Company Plc
Northern Trust Global Services Limited
Northern Venture Trust Plc
Northgate Public Services Limited
NOY EFW UK Limited
NOY EFW UK TWO Limited
NOY Welland EFW UK Limited
Nufarm UK Limited
Oak No 1 Plc
Octagon Healthcare Funding Plc
Old Mutual Plc
Old Mutual Wealth Life & Pensions Limited
Old Mutual Wealth Life Assurance Limited
Olive Debtco Limited
OM HoldCo Limited
Omnicom Europe Limited
On the Beach Group Plc
OneSavings Bank Plc
Orbit Capital Plc
OX Reinsurance Company Limited
Oxford Biodynamics Plc
Oxford Instruments Plc
PA Group Holdings Limited
Pace Bidco Limited
Pace Topco Limited
Pacific Assets Trust Plc
Paddy Power Betfair Plc
Panmure Gordon & Co Plc
Paragon Bank Plc
Paragon Mortgages (No. 23) Plc
Paragon Mortgages (No. 24) Plc
Paragon Mortgages (No.10) Plc
Paragon Mortgages (No.11) Plc
Paragon Mortgages (No.12) Plc
Paragon Mortgages (No.13) Plc
Paragon Mortgages (No.14) Plc
Paragon Mortgages (No.15) Plc
Paragon Mortgages (No.18) Plc
Paragon Mortgages (No.19) Plc
Paragon Mortgages (No.20) Plc
Paragon Mortgages (No.21) Plc
Paragon Mortgages (No.22) Plc
Paragon Mortgages (No.7) Plc
Paragon Mortgages (No.8) Plc
Paragon Mortgages (No.9) Plc
Paragon Personal and Auto Finance (No.3) Plc
Paragon Secured Finance (No. 1) Plc
Parity Group Plc
Partnership Life Assurance Company Limited
Peabody Capital No 2 Plc
Peabody Capital Plc
Pedigree Livestock Insurance Limited
Pendragon Plc
Penrith Building Society
Pension Insurance Corporation Plc
Personal Assurance 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 Finance Plc
Places for People Homes Limited
Places for People Treasury plc
Plastics Capital Plc
Poplar Harca Capital Plc
Power Topco Limited
Premier Asset Management Group Plc
Premier Foods Finance Plc
Premier Foods Plc
Prestmade Limited
Proactics Holdings Plc
Progility Plc
Project Ires Bidco Limited
Prudential Pensions 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
R Raphael & Sons Plc
R&Q Beta Company Limited
Ramco Acquisition Limited
Rathbone Brothers Plc
Rathbone Investment Management Limited
Red Box Recorders Group Limited
Red Midco Limited
Redcentric Plc
Redde Plc
Redhall Group Plc
Redstoneconnect Plc
Renew Holdings Plc
Rentokil Initial Plc
Rentokil Insurance Limited
Repono Holdco 2 Limited
Revolution Bars Group Plc
Rightmove Plc
River Thames Insurance Company Limited
Riverside Finance Plc
RM Plc

Entity name
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
Roberts Jackson Group Limited
Rochester Financing No.1 PLC
Rochester Financing No.2 PLC
Rock Rail Moorgate (Holdings) Limited
Rockhopper Exploration Plc
Rolls-Royce Holdings Plc
Rolls-Royce Plc
Rose Petroleum Plc
Rothschilds Continuation Finance Plc
Royal & Sun Alliance Insurance Plc
Royal & Sun Alliance Reinsurance Limited
Royal Mail Plc
RSA Insurance Group Plc
RTL Midco Limited
Samsung Fire & Marine Insurance Company of Europe Limited
Sanctuary Capital Plc
Sandwell Commercial Finance No. 1 Plc
Sandwell Commercial Finance No. 2 Plc
Satellite Financing Plc
Science Group Plc
SciSys Plc
Scotiabank Europe Plc
Scottish Amicable Finance Plc
Scottish Building Society
Scottish Hydro-Electric Power Distribution Plc
Scottish Mortgage Investment Trust Plc
SDL Plc
Secure Trust Bank Plc
Sequel Holdco 1 Limited
Serco Group Plc
Severfield Plc
Shawbrook Bank Limited
Shawbrook Group Plc
Sheffield City Trust
Shield Therapeutics Plc
Shimtech Industries Midco Limited
Signet UK Finance Plc
Simon Bidco Limited
Simon Midco Limited
Skipton Building Society
Slate No.1 Plc
Slate No.2 Plc
Small World Financial Services Group Limited
Smith & Nephew Plc
Sonali Bank (UK) Limited
Sophos Group Plc
Southern Electric Power Distribution Plc
Sovereign Health Care
Sovereign Housing Capital Plc
Spectris Plc
Spectrum Brands (UK) Holdings Limited
Speedy Hire Plc
SSE Plc
SSP Group Plc
Stafford Railway Building Society
Standard Chartered Bank
Standard Chartered Plc
Starling Bank Limited
Starstone Finance Limited
State Grid Europe Development (2014) Plc
Stewart Title Limited
Stock Spirits Group Plc
Stonegate Pub Company Financing Plc
Strategic Equity Capital Plc
Sumitomo Corporation Capital Europe Plc
Sumitomo Mitsui Banking Corporation Europe Limited
Sun Insurance Office Limited
Sunderland Marine Insurance Company Limited
Superior Energy Services (UK) Limited
Surgical Innovations Group Plc
Sutton & East Surrey Water Plc
Synectics Plc
Tangguh Hiri Operating Limited
Tangguh Sago Operating Limited
Ted Baker Plc
Telecom Plus Plc
Tesco Underwriting Limited
TGH Finance Limited
TGH Investments Limited
Thames Water (Kemble) Finance Plc
Thames Water Utilities Finance Limited
The 600 Group Plc
The Alumasc Group Plc
The Bank Of New York Mellon (International) Limited
The Berkeley Group Holdings Plc
The Coventry And Rugby Hospital Company PLC
The Edinburgh Investment Trust Plc
The Excelsior Insurance Company Limited
The Local Shopping REIT Plc
The Loughborough Building Society
The Mansfield Building Society
The Marine Insurance Company Limited
The North American Income Trust Plc
The Paragon Group of Companies Plc

Entity name		
The Prudential Assurance Company Limited	United Utilities Water Limited	Xeros Technology Group Plc
The Rechabite Friendly Society Limited	Unity Trust Bank plc	Yu Group Plc
The Scottish American Investment Company Plc	University of Liverpool	Zegona Communications Plc
The Vitec Group Plc	U-POL Finco Limited	Zelda Acquisitions Limited
The Walsall Hospital Company PLC	Utiligroup Acquisitions Limited	Zenith Bank (UK) Limited
The World Marine & General Insurance Plc	Vancouver Midco 1 Limited	
Thomas Midco Limited	Varnish Midco Limited	
Thrones 2013-1 Plc	Verdant Leisure Holdings Limited	
Thrones 2014-1 Plc	Vernon Building Society	
Thrones 2015-1 Plc	Vesuvius Plc	
TIG Finco Plc	Victoria Investments Finco Limited	
Tipton & Coseley Building Society	Victrex Plc	
Tissue Regenix Group Plc	Volga Gas Plc	
TK Components Group Limited	Volvere Plc	
Torque Group International Fortune Limited	Voyage Care Bondco Plc	
Towd Point Mortgage Funding 2016 - Auburn 10 Plc	Voyage Care Midco Limited	
Towd Point Mortgage Funding 2016 Granite1 Plc	W R Berkley Insurance (Europe), Plc	
TR Property Investment Trust Plc	WANdisco Plc	
Tracsis Plc	Watchstone Group Plc	
Trafalgar Insurance Plc	Wayne Fueling Systems UK Holdco Limited	
Transform Schools (North Lanarkshire) Funding Plc	Weatherford Eurasia Limited	
Trascare Interco Limited	Weatherford UK Limited	
Travelers Casualty and Surety Company of Europe Limited	Wescot Acquisitions Limited	
Travelers Insurance Company Limited	Wessex Water Services Finance Plc	
Travis Perkins Plc	West Bromwich Building Society	
Trifast Plc	West Yorkshire Insurance Company Limited	
TT Electronics Plc	Westfield Contributory Health Scheme Limited	
Turkish Bank (UK) Limited	Wheatley Group Capital Plc	
UK WIG II Limited	Whittan Midco Limited	
Unilever Plc	WIG Holdings II Limited	
United Utilities Group Plc	Williams Grand Prix Holdings Plc	
United Utilities Plc	Wincanton Plc	
United Utilities Water Finance Plc	Worldpay Finance Plc	
	Worldpay Group Plc	
	Wynnstay Group Plc	

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 47 and 48 and in 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 57 to 59 and in Appendix 2. The statement by the Board on the effectiveness of internal controls is included on page 64.
5	A statement of when the last monitoring of the performance by the transparency reporting auditor of statutory audit functions within the meaning of paragraph 13 of Schedule 10 to the Act (as amended by regulation 23 of the Statutory Auditors and Third Country Auditors Regulations 2007 (S.I. 2007/3494)) took place.	A description of the external monitoring process is set out in Appendix 2 and the statement at 2.7.2.1.
6	A list of public interest entities in respect of which an audit report has been made by the transparency reporting auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	A list of relevant public interest entities is set out in Appendix 3.
7	A description of the transparency reporting auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	A description of our independence procedures is set out in Appendix 2 at section 2.3.2 and the confirmation in relation to the review of independence practices by the Board is included on page 64.
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 126 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.

In July 2016, a revised Audit Firm Governance Code was issued by the FRC and is effective for our financial period ended 30 September 2017. The revised Audit Firm Governance Code consists of 20 principles and 38 provisions. These principles and provisions are organised into six areas and we have set out in the table below where you can find how we comply with these principles and provisions.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
A – Leadership	A.1: Owner accountability principle – the management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision. A.1.1: The firm should establish a Board or equivalent governance structure, with matters specifically reserved for its 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 operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of audit, is undertaken and the Code's purpose achieved in the UK. 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, 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 members of a firm's governance structures and management 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 47 and 48 and Appendix 1. A.1.3: Biographical details of those Members of our governance bodies are set out on pages 49 and 50 and details of attendance at each of the committees are included at page 51. Further details are provided in Appendix 1. A.1.4: The appointment process for Executive and Non-Executive roles is set out on page 47 and Appendix 1. Management team Members' performance evaluation follows the process described on page 54.
	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[6] and are summarised in this report.

6 Executive Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/pdf/2016/02/the-executive-committee-tor-feb-16.pdf

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
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 and meets auditing and ethical standards. B.1.1: The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values. B.1.2: Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports. B.1.3: The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.	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: We have included information on KPIs regarding the performance of the Firm's governance system in section 1.1.3.9. B.1.3: Our Code of Conduct (which incorporates the relevant key principles of the Code) is available on our internet site[7] and is summarised in Appendix 2.1. Compliance with our Code of Conduct is overseen by both the Board and the PIC.
	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).

7 Code of Conduct: https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2017/07/uk-code-of-conduct-july-2017.pdf

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
C – Independent Non-Executives	C.1: Involvement of independent non-executives principle – a firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code. C.1.1: Independent non-executives should number at least three and be in 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. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two. C.1.2: The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). 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.1.3: The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as: Promoting audit quality; Helping the firm secure its reputation more broadly, including in its non-audit businesses; and reducing the risk of firm failure. C1.4: Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.	C.1.1: See page 47 and Appendix 1 section 1.1.3.7 for details of our Public Interest Committee membership. The Report from the Chair of the Public Interest Committee on page 65 and Appendix 1.1.3.7 of this report set out the involvement of the Public Interest Committee. As a result of the resignation of a Non-Executive on 15 December 2016 the number of Non-Executives fell from three to two until 23 March 2017 when the appointment of an additional Non-Executive was finalised. C.1.2: The summary terms of reference for the Public Interest Committee, and other details, are available on our internet site[8] and are summarised in this report. Further details of the Non-Executives, including remuneration, are provided in this Report at page 47 and Appendix 1.1.3.7. C1.3: The Report from the Chair of the Public Interest Committee on page 65 and Appendix 1.1.3.7 of this report set out the involvement of the Public Interest Committee. C1.4: The Head of Quality & Risk Management is designated as the Ethics Partner and attends the meetings of the Public Interest Committee.

8 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.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. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained from a role on an audit committee, in a company's finance function, as an investor or at an audit firm. 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.
	C.3: Rights and responsibilities 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: Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation. C.3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for: promoting audit quality; helping the firm secure its reputation more broadly, including in its non-audit businesses; and reducing the risk of firm failure. C.3.4: The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role. C.3.5: 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.3.6: 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. C3.2: Per the terms of reference, the members of the Public Interest Committee shall be appointed for a term of up to three years, with the option for this to be renewed for an additional period of up to three years, up to a maximum term of five years (or as otherwise determined by the Board). No current member of the Public Interest Committee has served for more than five years. C3.3: The Report from the Chair of the Public Interest Committee on page 65 and Appendix 1.1.3.7 of this report set out the involvement of the Public Interest Committee. C.3.4: Our Firm has appropriate indemnity insurance in place for our Non-Executives. C.3.5 and C.3.6: The summary terms of reference for the Public Interest Committee, and other details, are available on our internet site[9] and are summarised in this report. Further details of the Non-Executives are provided in this Report at page 50 and Appendix 1 section 1.1.3.7.

9 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
D – Operations	D.1: Compliance principle – a firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations. 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.
	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 firm and reassure stakeholders. D.2.1: The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm. 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: The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. This should reference specifically the sustainability of the audit practice within the UK.	D.2.1 and D.2.2: Details of the internal controls review are set out in the Activities of the Audit & Risk Committee Report on page 53 and in the confirmation by the Board included on page 64. The Public Interest Committee is involved in this review. D.2.3: As indicated in the confirmation by the Board included on page 64, the Board has considered and performed a robust assessment of the principal risks facing the firm. A summary of these risks has been included on pages 58 and 59.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations (continued)	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, including remuneration and incentive structures, to ensure that the public interest is protected.	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 as indicated in the Report of the Public Interest Committee on page 65.
	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. The independent non-executives should be satisfied that there is an effective whistle-blowing process in place. 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 and assessed by the Public Interest, Audit & Risk and Ethics committees.
E – Reporting	E.1: Internal reporting principle – the management 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: Governance reporting principle – a firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance. E.2.1: The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B1.2, C.2.1, D.1.3, D.2.2, E2.2 and E3.1. E2.2: In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	E.2.1: All disclosures are included in this Report and will be available on our internet site www.kpmg.co.uk E2.2: This disclosure is included in section 1.1.3.10.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
E – Reporting (continued)	E.3: Transparency principle – a firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects. E3.1: The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated. E3.2: The transparency report should be fair, balanced and understandable in its entirety.	E3.1: As indicated in the confirmation by the Board included on page 64, the Board has considered and performed a robust assessment of the principal risks facing the Firm. A summary of these risks has been included on pages 58 and 59. E3.2: The Board has considered the disclosures within the Transparency Report and consider the report to be fair, balanced and understandable and in compliance with the Audit Firm Governance Code.
	E.4: 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.4.1: 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 audit committee should publish a description of its work and how it has discharged its duties.	E.4 and E.4.1: A report on the activities of the Audit & Risk Committee covering the requirements in this area is set out on page 53. Information on the Audit & Risk Committee, including its terms of reference, is on our internet site[10] and is summarised in this Report in Appendix 1 section 1.1.3.4.
	E.5: 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, and should be clear and concise. E.5.1: 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, preferably in accordance with the extended audit report standards. E.5.2: The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.	E.5: KPMG LLP publishes audited financial statements prepared in accordance with IFRS, which are included within this Report. E.5.1 and E.5.2: These disclosures are all included in, or referenced from, pages 69 and 70, and page 74, of this Report.

10 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 63, 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 65 and 66. Contact details for dialogue about matters covered by the Audit Firm Governance Code is provided on our internet site.[11]
	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 63.
	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 63.

11 https://home.kpmg.com/uk/en/home/about/leadership-governance.html

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

Appendix 6

Independent limited assurance report to the members of KPMG LLP on selected environmental performance and community investment data

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 data (hereafter 'Selected Information') contained in the KPMG Annual Report for the year ended 30 September 2017 ('the Report').

This report is made solely to the members of KPMG, as a body, in accordance with the terms of 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 an independent 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 2016, consists of:

- Direct emissions – gas and firm-owned vehicle fleet (in tonnes of CO2) Scope 1;
- Indirect emissions – purchased electricity (in tonnes of CO2) Scope 2;
- Other emissions from travel, water (in tonnes of CO2) and waste (in tonnes) Scope 3;
- Total paper usage (in sheets);
- Total water consumption (in litres); and
- Total waste (recycled and non-recycled in tonnes).

The carbon footprint data is reported in accordance with the criteria set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), jointly issued by the World Business Council for Sustainable Development and the World Resources Institute (the 'GHG Protocol'). The CO2 figures are calculated using the Defra/DECC guidelines 'Greenhouse Gas Conversion Factors for Company Reporting', issued on 1 June 2016.

The Selected Information subject to our limited assurance engagement in respect of the Community Investment data for the year ended 30 September 2017, consists of:

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

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

Responsibilities of KPMG and Grant Thornton

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

Assurance standards used and work performed

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

Our limited assurance procedures included:

- Review and assessment of the systems processes and controls to aggregate, validate and report the data;
- Discussions with key personnel responsible for the relevant process and governance thereof;
- Review of information provided by third parties;
- 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 Standard on Quality Control 1, 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
15 November 2017

Appendix 7 - Our leadership and governance

Executive Committee members as at 7 December 2017

Bill Michael
Chairman and
Senior Partner

Sarah Willows
Chief Financial Officer
and Head of Operations

Jeremy Barton
General Counsel

Iain Moffatt
Head of National
Markets

Michelle Hinchliffe
Head of Audit

Aidan Brennan
Head of Digital
Transformation

Jonathan Holt
Head of Financial
Services

Karen Briggs
Head of Brexit

Philip Davidson
Managing Partner
(Committee Chair)

David Matthews
Head of Quality &
Risk Management

Anna Purchas
Head of People

David Rowlands
Head of Consulting

Sanjay Thakkar
Head of Deal Advisory

Michelle Quest
Head of Tax, Pensions
and Legal Services

Dan Thomas
Head of Corporates

Scott Parker
Head of International

UK Board members as at 7 December 2017

Bill Michael
Chairman and
Senior Partner

Philip Davidson
Managing Partner

Sarah Willows
Chief Financial Officer

David Matthews
Head of Quality &
Risk Management

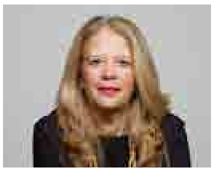
Maggie Brereton
Non-Executive
Member

Paul Korolkiewicz
Non-Executive
Member

Christine Hewson
Non-Executive
Member

Mark Raddan
Non-Executive
Member

Sue Bonney
Non-Executive
Member



Melanie Richards
Deputy Chair

Tony Cates
Vice-Chair

Jane McCormick
Vice-Chair

James Stewart
Vice-Chair

Bernard Brown
Vice-Chair

Members of the Public Interest Committee as at 7 December 2017

David Pitt-Watson
Independent
Non-Executive

**Lord Evans of
Weardale**
Independent
Non-Executive

Lindsay Tomlinson
Independent
Non-Executive

Appendix 8

Local Auditors (Transparency) Instrument 2015

Local Auditors (Transparency) Instrument 2015 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014)

The organisations below are those which a) constitutes a 'major local audit' for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627); and b) for which KPMG LLP or KPMG Audit Plc signed an audit report on its annual financial statements during year ended 30 September 2017.

Entity name

Barnsley Metropolitan Borough Council	Hackney Pension Fund	London Borough of Waltham Forest
Berkshire Pension Fund	Hammersmith and Fulham Pension Fund	NHS Sheffield CCG
Blackpool Council	Hounslow London Borough Council	Northamptonshire County Council
Bolton Metropolitan Borough Council	Hounslow Pension Fund	Northamptonshire Pension Fund
Brent London Borough Council	Islington London Borough Council	North Yorkshire County Council
Brent Pension Fund	Islington Pension Fund	North Yorkshire Pension Fund
Bury Metropolitan Borough Council	Knowsley Metropolitan Borough Council	Northumbria Healthcare NHS Foundation Trust
Camden Pension Fund	Lambeth Pension Fund	Nottingham City Council
Chief Constable for West Yorkshire Police	Leeds City Council	Nottinghamshire County Council
City of Wakefield Metropolitan District Council	Leicester City Council	Nottinghamshire Pension Fund
Derbyshire County Council	Leicestershire County Council	Nottingham University Hospitals NHS Trust
Derbyshire Pension Fund	Leicestershire Pension Fund	Police and Crime Commissioner for West Yorkshire
Doncaster Metropolitan Borough Council	Lincolnshire County Council	Rotherham Metropolitan Borough Council
Dorset County Council	Lincolnshire Pension Fund	Sandwell and West Birmingham Hospitals NHS Trust
Dorset Pension Fund	London Borough of Barking and Dagenham	South Yorkshire Pensions Authority
Ealing Pension Fund	London Borough of Camden Council	Stoke on Trent City Council
East Kent Hospitals University NHS Foundation Trust	London Borough of Ealing	Tower Hamlets Pension Fund
East Riding Of Yorkshire Council	London Borough of Hackney	University Hospitals Coventry and Warwickshire NHS Trust
East Riding Pension Fund	London Borough of Harrow	University Hospitals of Leicester NHS Trust
East Sussex County Council	London Borough of Hammersmith and Fulham	Waltham Forest Pension Fund
East Sussex Pension Fund	London Borough of Lambeth	Wiltshire Council
Frimley Health NHS Foundation Trust	London Borough of Redbridge	
Guys and St Thomas NHS Foundation Trust	London Borough of Tower Hamlets	

The total audit fees for Local Audits signed during the year ended September 2017 is £16m.

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