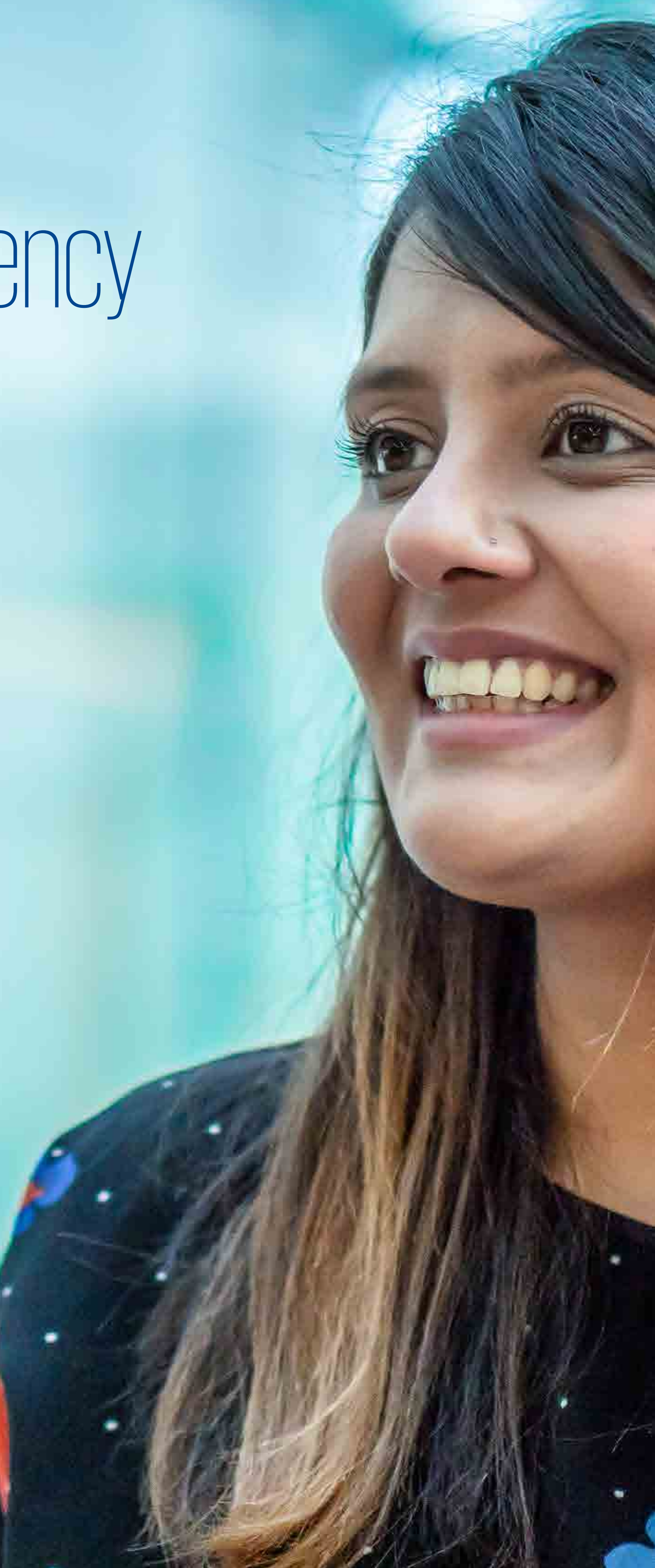
UK Transparency Report 2018

In respect of the year ended 30 September 2018



December 2018

kpmg.com/uk

2018 Highlights

Total revenue

£2.34bn up 8%

Net sales growth

Deal Advisory	Audit
14%	8%
Tax, Pensions & Legal services	**Consulting**
7%	5%

UK Employees

14,587*

* This number represents the average number of FTE employees for FY18. The spot count as at 1st October 2018, including our Partners, was 16,323.

(FY17: 13,969)

Female Partner promotions

30%

Percentage of internal partner promotions that were female during year ended 30 September 2018

Audit graduates

38%

Increase in the Audit graduate intake for 2018.

// We've significantly strengthened our governance to enhance and protect the quality of our audit practice."

Bill Michael, Chairman and Senior Partner

AQR results 2017/18

// The aim of our Audit Quality Transformation Programme is to ensure that the highest standards of consistency and rigour are applied across all of our audits."

Michelle Hinchliffe, Head of Audit

Social Mobility Employer

1st

KPMG ranked 1st in the Social Mobility Employer Index compiled by the Social Mobility Foundation, Social Mobility Commission and the City of London Corporation

UK locations

22 offices

(FY17: 22)

Our communities: people we've supported

20,855

(FY17: 17,344)

Hours spent volunteering during working hours

48,184

(FY17: 44,067)

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1 Opening statements

Bill Michael

Chairman and Senior Partner

Chairman's statement

Transparency about how we operate is more important than it's ever been. Public expectations of business are changing. And scrutiny of our profession is increasing.

As a profession, we have questions to answer. Questions about how we safeguard the quality of our audits, how we manage perceived or actual conflicts of interest, and how our governance adapts to accommodate changed expectations.

Our profession is facing up to unprecedented change. We have a number of challenges before us – around audit quality, conflict management, concentration and choice. Challenges that must be addressed to sustain trust in our profession.

The roots of our profession lie in a fundamental need for trust and confidence in the capital markets. Whilst there are other aspects of corporate regulation which can be improved, I am acutely aware of the responsibilities we bear in this industry. A decade on from the financial crisis, rebuilding trust and confidence in business remains a vital task. The recent erosion of trust in our profession is our problem to fix and I am determined we take the right course of action to fix it.

All stakeholders, including companies, investors, pension funds, regulators, government and taxpayers need to have confidence in what we do as a Firm and as a profession. We must take responsibility for earning and sustaining the trust of all our stakeholders, listening to their concerns, and working with them to address them.

That's why we're engaging, directly and transparently, with the Competition and Markets Authority as it examines the way our profession operates and Sir John Kingman's review into our regulator, the Financial Reporting Council ('FRC'). And we will approach the inquiry into the audit market by the Business, Energy and Industrial Strategy ('BEIS') Select Committee with this same spirit of openness.

We've taken decisive action too. In November, we were the first firm to commit to move ahead with a voluntary restriction on the provision of 'non-audit' services to UK FTSE 350 companies we audit. This means we will not provide any non-audit services to these companies, other than those required by law or regulation, or closely related to the audit. This is a decision which comes at a commercial cost, but we are committed to leading the way in re-establishing confidence in the value we deliver.

We also believe that the core concern raised with us about audit reports – that they present a binary opinion – is justified. We are working towards the adoption of graduated findings in the audit reports of FTSE350 companies we audit for 31 December 2019 year ends. And we are in the process of looking at the introduction of separate governance and performance management measures for the audit function; clear specialisation of auditors delivering audit for public interest entities; and individual and team incentives that are firstly and primarily focused on audit quality.

We have a duty to get it right – for our Firm, our profession and for wider society.

I am clear that multi-disciplinary firms are the best model for carrying out complex, multi-faceted, global audits. These audits require both specialist skills and significant technology of a scale and scope which only a multi-disciplinary firm can provide. This will continue to be the case as the business landscape grows in complexity and audits come under even more scrutiny.

We have launched a far-reaching programme to transform our approach to audit quality. The programme has a number of components.

In addition to the above, we have established a Board Committee focused exclusively on Audit Quality, and every Board and Executive Committee member must actively contribute to the delivery of our audit quality plan. Michelle Hinchliffe, our Head of Audit, will tell you more about the measures we're taking in her statement.

We've also made major appointments to support our audit quality initiatives. Our new Chief Risk Officer, Mary O'Connor, has been transforming our approach to risk management, from the way we risk manage our business, to how we evaluate our engagements and performance manage our work. Mary's message on page 21 outlines more about the important work she's leading.

> A decade on from the financial crisis, rebuilding trust and confidence in business remains a vital task. The recent erosion of trust in our profession is our problem to fix and I am determined we take the right course of action to fix it."

We're proud to be the trusted auditor of a number of the UK's largest companies. Some of these, because of their size or the nature of their work, are of systemic importance to the UK economy. We welcome the robust oversight of our Public Interest Committee on this work. Our Independent Non-Executives have laid out their insights on pages 10 and 54.

Looking ahead, I am clear that our profession is changing for the better. While I am certain that we will continue to face questions and challenges, I am committed to doing everything we can to deliver the highest quality work and lead the way as our profession moves forward.

Bill Michael
Chairman and Senior Partner

Michelle Hinchliffe

Head of Audit

Head of Audit's statement

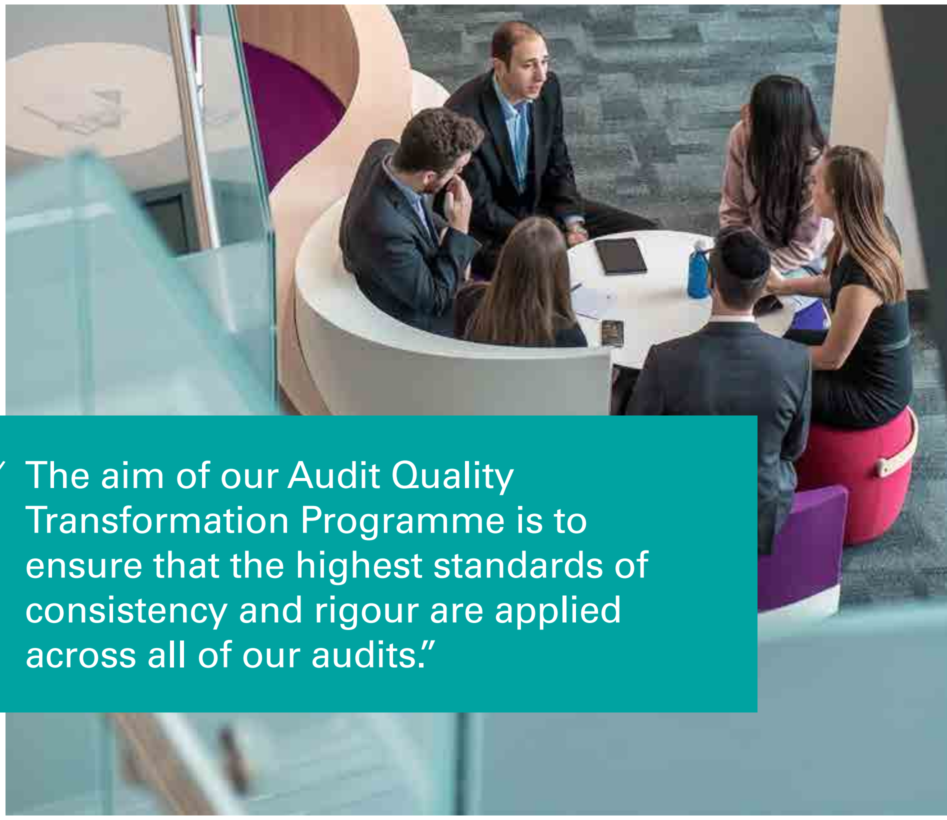
KPMG continues to be trusted to audit many of the world's largest and most important organisations. While this year has been a very challenging period, we have had some successes. It is, however, clear that we have work to do to demonstrate why investors and audit committees continue to place their faith in us.

The debate over the future of our profession is important and necessary. It demonstrates that what we do matters. Audit is important. It underpins trust in capital markets. For the market to operate efficiently, trust in the quality of audit is essential. So, the impact of our work goes far beyond the companies we audit. And I know that this is what motivates all of us at KPMG to redouble our efforts.

We have won and retained the audits of world-leading organisations, both in the FTSE and beyond. I am incredibly proud of each and every one of the more than 4,000 dedicated individuals in KPMG's audit practice, and our continued success is testament to their fierce commitment to audit quality. They do a tough and vitally important job, under great scrutiny, with enormous integrity.

We have a great deal to be proud of this year but we know there are things that we must do better. For instance, we are disappointed that the FRC found our overall audit quality score decreased by four percentage points and that the steps we took in previous years have not resulted in the necessary improvements to audit quality at the pace we had hoped. This is why, after taking up my role in October 2017, I began a programme to transform our approach to audit, with the full support of our Executive Committee and Board. We are confident that, through this work, our scores will improve.

The aim of our Audit Quality Transformation Programme is to ensure that the highest standards of consistency and rigour are applied across all of our audits. Central to our approach is ensuring that we demonstrate an enhanced level of professional scepticism and challenge of company management; greater consistency of decision-making and transparency with increased central monitoring of audits at the planning, delivery and completion stages. To help achieve this we are providing additional coaching, support and training for our audit teams.



In addition, our Chairman Bill Michael introduced our new Audit Quality Committee of the Board. This has introduced new, improved governance at the highest level of the organisation to ensure that the public interest and expectations of regulators are fully embedded in our processes and reinforcing the position of audit quality on the Board agenda. We have also made changes to the reporting lines and goals for all audit Partners and employees, reinforcing the focus on audit quality as the overarching determinant of performance.

We have rolled out a substantial programme of additional face-to-face training for employees focusing on audit quality with everyone attending sessions on resilience, professional scepticism, challenge of management, using our new technology and consistent application of audit processes. This is a fundamental change to the way we train our auditors and demonstrates a significant investment in our audit process, learning and personal development. We will expand the programme to cover new areas in 2019.

We have welcomed 619 graduates to the audit practice this year, representing a 38% increase on the class of 2017. We now have 190 apprentices working in our audit practice, up from 149 in 2017. We have significantly increased the recruitment of experienced auditors and have done so in new and innovative ways. Our Return to Audit programme allows experienced auditors who have left the profession to return in a flexible manner that suits their commitments outside work. Working flexibly, either through shortened days or with one or two days per week spent working at home, they also have the summer school holidays built in as annual leave.

> The aim of our Audit Quality Transformation Programme is to ensure that the highest standards of consistency and rigour are applied across all of our audits."

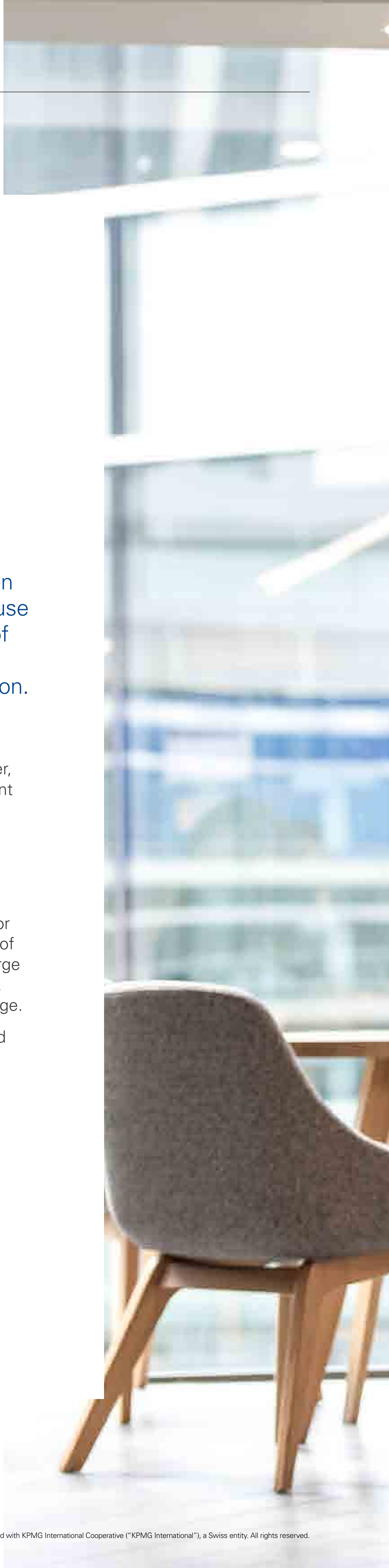
We have developed a pioneering initiative with the autism charity Auticon to bring in talented people on the autistic spectrum, particularly to work in our data science teams. We are also investing in the technological capabilities of our people through the launch of our brand new Masters in Audit Data Science which sees 13 of our auditors begin studying towards this new qualification, with more following in 2019.

As I look forward, I am determined that we capitalise on the unprecedented interest in audit to drive a greater understanding of what audit does, and its impact. There is a huge amount to do but I believe KPMG is being proactive in many areas. We have spent time listening to investors and other stakeholders and understanding their needs to determine what actions KPMG should take in response. Our outreach work with investors this year is described in more detail on page 23 of this Report.

As Bill set out in his statement, the results of this engagement are already evident in the market. We've committed to voluntarily restricting the provision of non-audit services to the FTSE350 companies we audit. We're working towards the adoption of graduated findings for the same group of companies. And we are introducing separate governance and performance management measures for the audit function.

We believe these changes are positive and demonstrate our commitment to ensuring that the Audit profession remains resilient and delivers the right results for investors and society. However we are not complacent. It is of course up to investors and the public to decide what they would like the audit – and indeed auditors – of the future to look like. But I am excited by the prospect of leading KPMG's continued contribution to creating the audit of the future by participating in the debate and showing the huge potential we have to do more and go further. And through that, the enormous value that we can and do bring to society.

Michelle Hinchliffe
Head of Audit



Opening statement from the Independent Non-Executives

This transparency report covers a period when issues and concerns about the audit market have received great attention amongst policy makers and in the media. In part this is because of some significant corporate shocks including the collapse of Carillion. In part there are longer standing issues about audit quality and purpose, independence, competition and regulation.

The Report of the Independent Non-Executives (INEs) on page 54 discusses these and other matters the INEs have concerned themselves with over the year, and what they have done about them.

The issues being raised by policy makers and in the media are important ones. They will not be solved overnight, or by one firm. However, we would note that KPMG has made some important announcements and taken some significant actions. These include:

- a programme to improve audit quality costing £24 million annually in the UK[1];
- its intention to work with the profession and its stakeholders towards the adoption by all FTSE350 companies of 'graduated findings' within audit reports;
- a voluntary restriction on the provision of non-audit services to audited companies in the FTSE 350; and
- the introduction of improved governance, incentives and performance management for the audit function.

As INEs we have encouraged these changes. We feel that, taken together, they could represent a very significant response to the challenges being made. Given these actions and announcements have been made unilaterally, this is particularly true.

However, many issues remain outstanding for the profession and for KPMG. Some are beyond the ability of one firm to address. Some will emerge from investigations of historic cases. And doubtless new issues will emerge.

But these four announcements could be a watershed. Their success will depend in part on KPMG's will and skill in implementation. But they will also depend on the degree to which they are welcomed, encouraged and promoted by stakeholders.

David Pitt-Watson

1 The UK firm also contributes to much larger amounts spent globally to enhance KPMG's audit methodology and technology

2 Quality

Audit Quality Indicators

We are committed to achieving the highest levels of quality in our work and 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

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 and the agreed Audit Quality Indicators are summarised in this section of the Report. We seek to learn from all matters identified in these quality reviews by undertaking root-cause analysis of issues and preparing action plans to drive continuous improvement.

During the year-ended 30 September 2018, we conducted approximately 300 interviews with team members and Engagement Quality Control reviewers across over 80 engagements. This included all engagements subject to external review and those engagements reviewed internally that were rated as 'Performance Improvement Necessary' or 'Unsatisfactory'. This year we have also extended the population of engagements to include those where a prior year adjustment was recorded in the company's financial statements.

We have increased the number of individuals trained to perform root-cause analysis and our root-cause analysis team are independent of the engagement team and the review process. The root cause analysis process helps identify the underlying factors that hinder the consistent delivery of high quality audits. This results in focused actions and targeted investments, and are designed to address behavioural and structural matters in addition to areas such as technical knowledge and work allocation.

We collect and analyse engagement level information 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:

- Quality Performance Review ('QPR');
- Risk Compliance Programme ('RCP') and;
- Global Compliance Review ('GCR').

> During the year-ended 30 September 2018, we conducted approximately 300 interviews with a wide range of team members and Engagement Quality Control reviewers across more than 80 engagements."

Knowledge sharing sessions with other KPMG Member Firms have enabled lessons learned to be shared across the KPMG network and contribute to global quality initiatives. In our 2019 financial year, we expect to perform root-cause analysis in some specific areas alongside other network Member Firms to further this collaboration and align efforts to enhance audit quality.

Our QPR programme assesses engagement level quality for each of our functions including Audit. All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' ('PIN') and 'Unsatisfactory'. In Audit, 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.

Achieving a 'Satisfactory' standard represents a very high bar. A 'PIN' grading has been attributed where the auditor's report is either supported by the work evidenced on file but our independent reviewer required some explanation to reach this conclusion, 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 or where specific requirements of our audit methodology were not fully embedded. Many of the engagements rated as 'PIN' in this cycle represent audits that are consistent with UK auditing standards but not fully compliant with all of our own internal requirements. 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 more significant area, or where there are potential deficiencies in the related financial statements.

We have assessed each engagement rated 'Unsatisfactory' and are satisfied that the opinions issued in respect of audits rated 'Unsatisfactory' were appropriate and the related financial statements were not materially misstated. We believe that the standards to which we are 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.

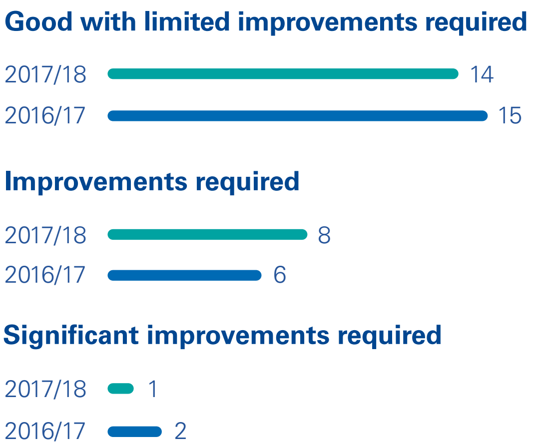
Due to the mix of engagements reviewed in any one period and the changes in our underlying quality requirements and expectations, year on year comparisons should be viewed with significant caution. In our prior year report we noted that, due to the changes we were making, it was possible that results in the current year would not show significant improvements as our new requirements become embedded in business as usual.

In 2018, 53% of engagements reviewed were graded as 'Satisfactory' (2017: 51%), 20% of engagements were graded as 'PIN' (2017: 28%) and 27% of engagements were graded as 'Unsatisfactory' (2017: 21%). The results of reviews undertaken for audits of 31 December 2017 year ends and beyond reflect the initial impact of our Audit Quality Transformation Programme and we are confident that improvements will be evident in the results of our 2019 QPR programme.

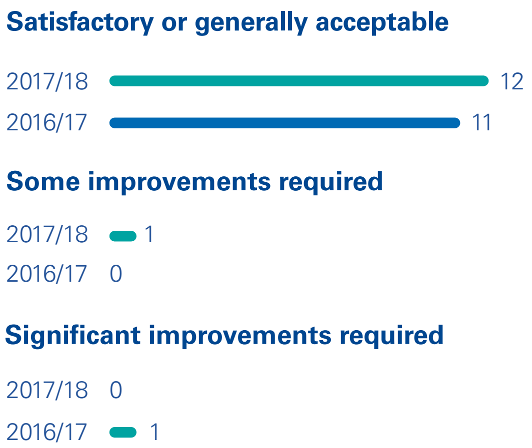
Where appropriate, engagement files are remediated to ensure the audit evidence obtained is adequately documented. Engagement teams are required to undertake specific incremental or remedial training or review specific support materials. In addition, engagement leaders receiving a 'PIN' or 'Unsatisfactory' grading are considered for either full follow-on reviews of other engagements or reviews focused on the specific areas of findings. The ratings from the annual QPR programme are taken account of in the performance assessment and remuneration of all engagement leaders and managers. The quality scorecard used to assess the performance of audit Partners takes into account the results from internal and external quality reviews in addition to other quality features.

The 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' (2017: 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.

AQR results



QAD review results



The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the Firm's RCP), independence and financial processes. It is undertaken by representatives of KPMG International who are independent of the UK Firm. The UK Firm was last subject to GCR inspection in October 2018 where a small number of opportunities for improvement were identified including areas which were generally identified by the UK Firm's own compliance and quality control processes. The next inspection is due in 2021.

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').

We are disappointed with the results of our 2017/18 AQR inspection and our overall trend in results. We cannot and will not be satisfied with these results and, as a Firm, we are implementing actions to put this right. We recognise the fundamental importance of quality in restoring trust in audit and acknowledge the role of the AQR in this process. Further details of our audit quality initiatives are detailed in the section below on the Audit Quality Transformation Programme.

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 2017-18 report was that the Firm had improved on the results in the previous year. The QAD also concluded that the actions proposed and already taken by the Firm should address any findings raised during their review.

We are also subject to review by the US Public Company Accounting Oversight Board ('PCAOB') and an inspection was performed during 2018. As at the date of this Transparency Report a final report from the PCAOB has not been issued. We will include details of this report in the 2019 Transparency Report. The most recent published report from the PCAOB is in respect of the inspection undertaken in 2015. 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. 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[2] and sanctions

During the year, the following FRC investigations into the work of the Firm have been announced in relation to our audits of the financial statements of:

- Carillion plc for the years ended 31 December 2014, 2015 and 2016, and additional audit work carried out during 2017; and
- Conviviality plc for the 52 weeks ended 30 April 2017.

2 Where the FRC or other regulatory body has exercised discretion not to publicise a particular inquiry or investigation, the details of such matter are not disclosed in this report.

The FRC investigations into two additional matters also remain ongoing:

- 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); and
- 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 (announced 4 May 2017).

On 19 September 2018, the FRC announced a Formal Complaint against KPMG Audit Plc and the relevant engagement Partner following their admitted misconduct in relation to reports to the FCA on compliance by The Bank of New York Mellon (International) Limited and The Bank of New York Mellon London Branch with the FCA's Client Assets Sourcebook for the year ended 31 December 2011.

On 22 November 2018, the FRC announced a Formal Complaint against KPMG LLP and the relevant engagement Partner relating to a restructuring engagement between January and April 2011 for companies trading under the name "Silentnight".

The FRC's formal complaints in relation to KPMG Audit Plc's audits of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2008 and 2009 were the subject of hearings by the FRC Disciplinary Tribunal in December 2017 and October 2018. Publication of the Tribunal's decision is expected shortly.

We have been working with the FRC to resolve a number of open matters and announcements have been made in the past year concerning the following matters which are subject to sanctions:

- following a settlement with the FRC in relation to the audit of the financial statements of Quindell plc for the period ended 31 December 2013, KPMG and the engagement Partner each received a reprimand and fines of £3.1 million and £84,000 respectively; and KPMG paid £146,000 towards the FRC's costs; and
- following a settlement with the FRC in relation to the audits of the financial statements of Ted Baker Plc and No Ordinary Designer Label Limited for the financial years ended 26 January 2013 and 25 January 2014, KPMG received a severe reprimand and a fine of £2.1 million and the engagement Partner received a reprimand and a fine of £46,800; and KPMG paid the FRC's costs of £112,000.

In addition, 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 did not, at the time, hold an appropriate practising certificate.

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 ('ES'). Very occasionally our compliance processes identify breaches of the ES 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 auditor of the entity concerned and we report our conclusions to those charged with governance. Our Ethics Committee agreed a standard framework for sanctions to be applied in respect of the most common breaches arising and considered specific financial sanctions to be applied to the individuals concerned if they were outside of the agreed standard framework. Every six months we submit a report of such breaches arising in the period to the FRC. In the year ended 30 September 2018 we identified 42 breaches of the FRC Ethical Standard all of which have been reported to the FRC.

Further details of changes during the year to our policies in respect of independence are detailed in the Report of the Ethics Committee's activities on page 50.

Audit Quality Transformation Programme

We recognise that the actions we have taken in previous years have not resulted in the necessary step change in improvement to audit quality at the pace which we had envisaged. We cannot, and will not, be satisfied with this and are committed to delivering the change required.

After taking office in July 2017, our Chairman Bill Michael recognised that previous actions were not delivering change sufficiently quickly or consistently, and with Michelle Hinchliffe, Head of Audit commenced a programme to transform our audit approach to ensure that all of our audits are delivered to the same standards as those which achieve the highest grade from the AQR. We have the full support of the entire UK Firm and KPMG International as we undertake this work which will result in a more structured and standardised approach to our audits and greater oversight and direction of our audit teams. This is a change in philosophy from the past when our teams had greater flexibility and autonomy in the application of Auditing Standards and KPMG methodology and the documentation of the work undertaken.

Each of the changes below reflect our root-cause assessment findings. These indicated a need for a greater level of oversight and direction of engagement teams and greater use of mandated audit approaches for specific matters; to drive consistency of high quality audit execution.

- Enhanced mandated audit programmes, standard work papers and case studies of what teams need to achieve to demonstrate consistent execution under our Audit Quality Transformation Programme.

Michelle Hinchliffe
Head of Audit

We initiated our Audit Quality Transformation Programme to ensure the highest standards of consistency and rigour are applied across all of our audits. Central to our new approach is:

- Greater support and challenge to engagement teams;
- Increased central monitoring of audits at the planning, delivery and completion stages; and
- The introduction of a new requirement for all senior promotion candidates to spend time working within the Audit Centre of Excellence as part of their progression to partner."

- The development and release of standardised work programmes to support our teams in performing a quality audit in a consistent manner. These have been supported by a programme of targeted communications from our UK Head of Audit Quality and other subject matter experts.
- To communicate key messages to our teams on a timely basis we developed and released a series of topic based podcasts to deliver 'how to' and 'watch out' messages.
- To help embed these and other quality initiatives discussed below in our audits, we launched the KPMG Audit University.

- Greater support and challenge to engagement teams through an expansion of our Second Line of Defence team, introduced in response to past root-cause findings, and recognising the complexity of designing, delivering and evidencing a high quality audit
  - We have put more resource into our Second Line of Defence team. This is a group made up of senior auditors that perform in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. They support teams throughout the audit cycle from planning to completion providing a mix of help when teams identify emerging issues and a greater level of monitoring activity to identify issues before they impact audit quality.
- Accelerated implementation of our existing technology-based audit tools expanding their application and supporting teams with their use in the field
  - Technology is an enabler for 'smarter' working and an opportunity to release time for our audit teams to focus on areas of risk and judgement. As a result, we have continued to increase the use of technology on our audits and have mandated the use of tools in certain areas. These include process data mining, transaction data analytics, sophisticated risk assessment technology and predictive analytics tools for complex judgements such as impairment testing.
  - Deployment support has been increased to enhance the ability of our audit teams to implement these tools successfully.
- Increased central monitoring of audits at the planning, delivery and completion stages to ensure that teams are fully adopting expected best practices and that emerging issues are identified and addressed early in the audit cycle
  - We have expanded our Audit Centre of Excellence (ACE) to support and coach teams in complex or emerging areas. ACE comprises audit, accounting and technology professionals in areas such as financial reporting and auditing to developments in technology and international regulatory standards.
  - During the year we introduced the requirement for Partner candidates to have spent time in ACE to emphasise the importance to audit quality and to promote and enable knowledge sharing and best practice across audit teams.
  - Other changes include mandated planning deadlines to accelerate audit execution and an experienced Partner risk panel challenge process for higher risk entities.

We are changing our core processes relating to recruitment and people development alongside our client acceptance processes to ensure we only perform engagements where we have the right capacity to deliver them to the highest standards.

Quality has also been reinforced as the benchmark for performance assessments, remuneration and promotions. Additionally, Bill Michael and the other members of our Executive Committee and Board each have specific objectives relating to delivery of improvements in audit quality.

In addition to the above, we are also focusing not just on Audit but also on wider risk management and governance processes and how we evaluate our performance. One such development is the creation of the Audit Quality Committee with a role of overseeing all matters relevant to audit quality on behalf of the Board, including dialogue with key regulatory bodies, inspection results and relevant audit brand and regulatory risks.

The Audit Quality Committee assists the Board in meeting its responsibilities to review, monitor and challenge the Audit function as to how it discharges its obligations to shareholders, entities subject to audit, regulators and other stakeholders and how it monitors audit quality and compliance with global KPMG policies. It holds the UK Audit Leadership Team to account for the monitoring and oversight of the root-cause analysis process and implementation and execution of a comprehensive quality improvement plan. The Audit Quality Committee monitors and oversees controls and processes in place in respect of audit quality, including risk management, and specifically in respect of audits that are subject to the FRC's annual AQR inspection and is empowered to make policy recommendations to the Board on all matters relevant to audit quality.

To ensure the Firm is fully aligned and compliant with KPMG International's requirements with regards to audit quality, the Committee liaises with the Global Audit Quality Committee. The Report of the Chair of the Audit Quality Committee is included on page 46.

We are also delighted to have Mary O'Connor joining us as our new Chief Risk Officer to oversee how we re-define risk management.

Mary O'Connor

Chief Risk Officer

Audit and multi-disciplinary professional services firms are facing unprecedented challenges. The expectations of audit committees, investors, regulators and the public are increasing. Effective risk management is the bedrock for becoming the most trusted and trustworthy professional services firm. But earning trust is hard, and whilst we are putting in the work to succeed, we must do more and be better if we are to win their trust.

My aspiration is that we should have the most effective quality and risk management framework. It is only through this that we will ensure the best outcomes for our clients and deliver our growth strategy whilst protecting the Firm's brand.

We are making a significant investment in a new risk management framework, which will help us to better identify and manage risks and increase our oversight and governance of key risks and risk areas at all levels of the organisation. We are engaging proactively and positively with the FRC and other stakeholders (such as investor groups) to ensure that we build their expectations into our improvement programme.

Above all, we are taking clear steps to put audit quality at the top of our agenda. During the year, we have already taken a number of positive steps, initiating a multi-year, comprehensive Audit Quality Transformation Programme to improve AQR scores and deliver better audit outcomes. Every member of our Executive Committee, and every member of the audit area had a specific objective in relation to audit quality. They were measured against that objective, and, in the event that they did not achieve a requisite level of quality, the situation was rectified and the individual was marked down in relation to performance. Our Audit Quality Transformation Programme is overseen by a dedicated Audit Quality Committee which reports directly to the Board. The Committee has overseen the audit quality improvement work-streams, with a direct focus on increasing our challenge of management, enhancing the transparency and consistency of our decision-making and delivering robust audit opinions which meet the current and future needs of shareholders, Audit Committees, regulators and other stakeholders.

We are committed to persevering with these and other measures until we have fully achieved our trust goals.

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 2018 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, mandatory training and accreditation for all Partners and managers providing services on US GAAP and/or US GAAS/PCAOB audits, and industry-specific training. This year we introduced the KPMG Audit University. This is a three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures. KPMG Audit University will be an annual part of the training programme.

The average number of hours of this training undertaken by Partners and qualified staff for the year ended 30 September 2018 was 65 hours (2017: 58 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).

People Survey

We recognise the importance of listening to feedback from our people about how they are feeling about KPMG and their working environment. The results from the People Survey conducted during autumn 2018 for our UK Audit function for the following questions are shown below (results from the previous People Survey performed in 2017 included in brackets):

KPMG's commitment to quality is apparent in what we do on a day-to-day basis

78%

2017: 73% favourable response

I have access to the tools and resources I need to do my job effectively

77%

2017: 73% favourable response

I am satisfied with the training available to improve my knowledge and skills

75%

2017: 68% favourable response

Stakeholder interactions

Investor engagement

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 investor needs and determine the actions we should take in response. Our INEs review our strategy and themes of investor engagement in addition to their role in meeting directly with investor representative groups.

Engaging with investors is vital to ensuring our work remains relevant. They are the primary readers of our audit opinion and listening to what they have to say and acting on that information is something we have always taken very seriously.

This year, the widening of the debate over the future of audit has presented an opportunity to take this engagement to an even deeper level. Through our investor outreach programme, over the course of 2018 we have met more than 50 individuals from institutional investors that in aggregate manage over £10 trillion of assets globally. Those conversations have been overwhelmingly positive though they involved covering some difficult issues. At the core has been a consensus that audit is vital to continued confidence in our capital markets.

From our conversations it is clear that the annual report is seen as a key document of record. Audited financial statements were universally acknowledged to be an important anchor against which to assess management's forward looking assertions about the business.

Investors scrutinise long-form audit reports and see value where auditors provide colour and an independent view on management's key judgements over and above that required by Auditing Standards. We believe that the core concern over audit reports – presenting a binary opinion at a moment in time – is justified. This is why our recommendation to the CMA is that our 'graduated findings' which provide greater transparency of our views on the judgements taken by management in preparing financial statements become a market-wide practice.

The independence of auditors is of primary importance to investors, as it is to us. Our conversations indicate that trust by investors in our independence is high and few saw a need for radical change in the marketplace. But we recognise that perception is key, which is why we were the first firm to take the decision to move ahead with a voluntary restriction on the provision of 'non-audit' services to UK FTSE350 listed audit entities, other than those services closely related to the audit.

The insight and challenge provided by investors over the course of this year has been invaluable. We are committed to continuing this dialogue over the course of the next year, and beyond.

Political engagement

As a leading professional services firm, policy makers and politicians are important stakeholders for us and we believe the knowledge and insights we obtain through our work can provide valuable insight for policymaking. Whilst we are willing and active participants in public policy debates through a number of engagement activities and relationships in the UK and beyond, we seek to maintain a position of political neutrality. We are committed to ensuring that political engagement is based on principles of integrity, legitimacy, accountability and oversight, consistency and transparency.

Further details of our approach to political engagement can be found on our website[3].

Audit Committee Institute

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 by providing impartial guidance and resources to help members carry out their role more effectively and to help facilitate the skills and knowledge required. The ACI provides audit committee members with thought leadership and tools in the form of technical updates and topical deep-dives which are publicly available on

3 https://home.kpmg.com/uk/en/home/misc/regulatory-information.html

our internet site[4] and include broad induction guidance in addition to themes such as strategic reporting, disruptive technology and financial reporting considerations in respect of Brexit.

The ACI now sits under the umbrella of the KPMG Board Leadership Centre where we have enhanced our guidance for non-executives on Risk, Remuneration & Nomination committees.

> 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 and as such the work of the ACI is more relevant than ever."

Some 50 events were held during 2018 which were attended by 350 individual audit committee members. These events addressed various current issues facing audit committees, including the 2018 UK Governance Code, Blockchain considerations and GDPR as well as providing opportunities to interact with peers and investors. In addition to this, we provide our members with results and findings of surveys into areas such as auditor quality and global audit committee challenges and priorities. Our dialogue with audit committees is supplemented with updates detailing changes to rules and regulations as well as best practice guidance. Today the ACI in the UK has more than 2,000 members across both the private and public sectors and membership of our FTSE100 Audit Committee Chairs' group includes representatives from 86% of the FTSE100. 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 and as such the work of the ACI is more relevant than ever.

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 Head of Audit and Head of Audit Quality participate in global meetings to ensure alignment across the network.

In the UK, we have regular meetings with the FRC in the execution of its Audit Firm Monitoring Approach which includes relevant FRC management meeting, inter alia, with the Senior Partner, the Head of Audit Quality, and the Ethics Partner.

In addition the Heads of Audit and Audit Quality 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.

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

Technology-based audit tools

At the heart of our approach to technology in the audit process is KPMG Clara. KPMG Clara is our platform of tools and technologies which brings our 'tech' to the fingertips of all of our audit teams and is key from the start to the end of the audit – driving audit quality throughout from the risk assessment to process testing to transactions to judgements such as valuations or the future. Our new audit KPMG Clara Workflow which will replace our current audit tool, is currently being developed for launch in 2020.

The following are examples of tools we have introduced in recent years in order to integrate technology into the audit process:

Our process mining tool instantly enables millions of transaction flows to be shown on a single screen. The traditional approach looks at how a system should, rather than does, run. For example, on one audit where the entity had one single standard process our audit team was able to show the transactions had actually taken 8,000 different variations. With this information the audit team was able to identify the process was far from standard, lacked efficiency and was creating significant financial risks as controls and processes were being by-passed and repeated.

KPMG Clara transaction analytic interrogates 100% of transactions in a system. This year our UK audit teams have interrogated over 200 billion rows of data, across over 19,500 company codes, running over 130,000 process interrogations, across data in 65 countries.

Predictive & Valuation analytics provides the audit team with the ability to analyse projections, sensitise assumptions and assess scenarios, as well as use inputs from external market data. This provides greater capability to challenge management on key judgements.

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 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 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.

During the year, we commenced a review of our risk management, quality and control arrangements to assess the effectiveness of the present arrangements not only on an 'as is' basis but also in the context of the changing nature of the portfolio of services we undertake. The review is designed to take account of the changing expectations of external stakeholders such as regulatory bodies that may oversee the firm and its business and other relevant stakeholders. Our work is focused on five elements, namely:

- Effective governance
- Robust decision-making
- Empowered culture
- Strong stakeholder engagement
- Work class risk management

Delivering the above includes ensuring total clarity of responsibilities and accountability at all levels of the organisation with more formal delineation between first, second and third lines of defence, utilising a broader and timely suite of management information and performance metrics.

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 Appendix 2 of this Report 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 Head of Audit Quality) 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 and 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 team and the ICAEW's QAD in response to their quality findings. Further detail on our Audit Quality Transformation Plan is detailed in the Audit Quality Indicators section of this Report.

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 was chaired by the Head of Audit Quality and comprised the UK Head of Audit, the UK Chief Operating Officer for Audit (from July 2018), 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 Audit Performance Group Leaders, Leader of the AQR review team, the Audit lead from the Office of the General Counsel and the Head of the Second Line of Defence team, US Accounting & Reporting, Audit Technology & Innovation, People for Audit and Learning & Development for Audit.

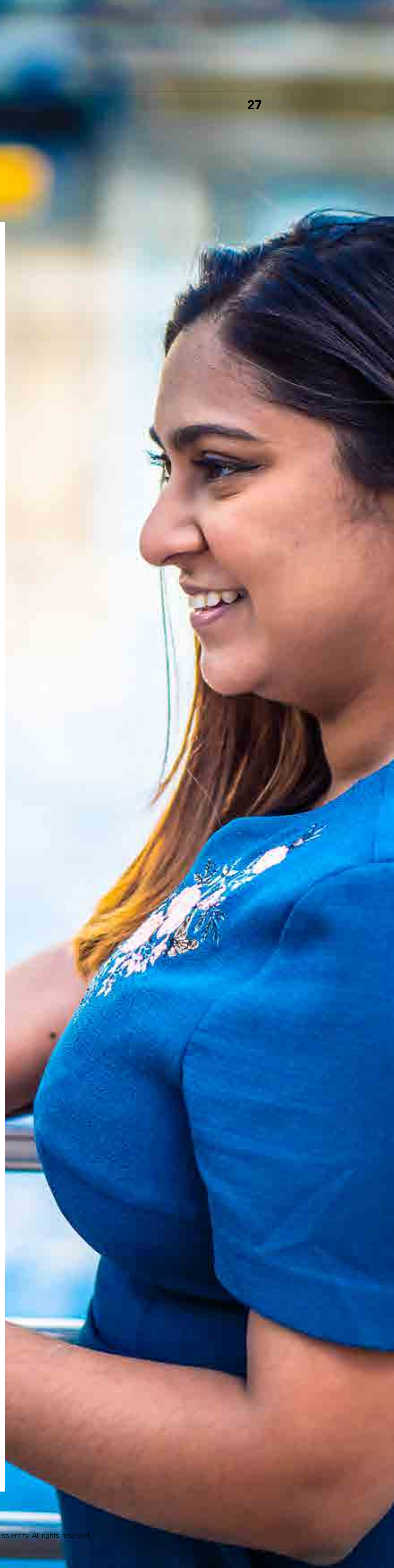
The Audit Quality Council met 11 times during the year ended 30 September 2018, and considered the detailed findings (and related actions) from external regulatory reviews, the internal QPR programme and other quality control programmes, as well as papers on a range of issues focused on audit quality 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 Audit Quality Transformation Programme.

As detailed in the Audit Quality Indicators section of this Report, during the year we also introduced the Audit Quality Committee to oversee on behalf of the Board all relevant matters pertaining to audit quality – including dialogue with key regulatory bodies, inspection results, and relevant audit brand and regulatory risks. The Audit Quality Committee also interacts with the Global Audit Quality Council which was created during the year and further details of this Committee is included in the information on global committees in Appendix 1 of this Report. 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. 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 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, are described in more detail in Appendix 2 of this Report. The policies and practices set out 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.



3 Structure and Governance

Structure and governance

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 (the Members are referred to as "Partners" within the Firm and the two terms are used interchangeably in this report).

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 in the 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[5]

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

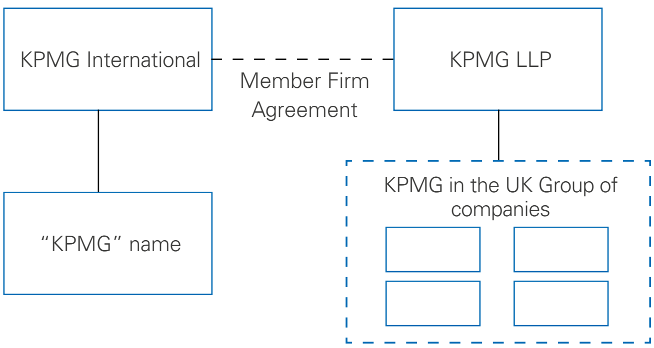
As described in Appendix 1, all KPMG International Member Firms (including KPMG LLP) belong to one of three regions – Asia Pacific ('ASPAC'), the Americas or Europe, Middle East and Africa ('EMA'). KPMG LLP belongs to the EMA region.

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 2018, there was an average of 603 Partners in KPMG LLP (2017: 590 Partners).

Legal structure



The core of our legal structure is KPMG LLP, owned by our Partners and connected to the global KPMG network by a membership agreement with KPMG International Cooperative.

5 https://report.kpmg.co.uk/

Governance structure

Consistent with our commitment to build trust, we apply high standards of governance and adopt a legal structure reflective of the nature and extent of our activities.

The Firm's governance structures, management team and Members are subject to formal, rigorous and on-going performance evaluation.

Senior Partner

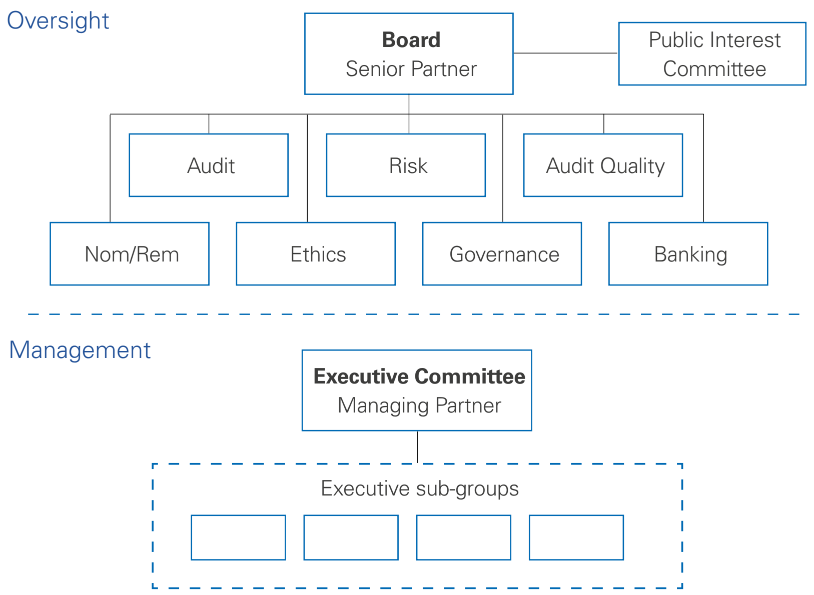
The Firm is led by an elected Chairman and Senior Partner, Bill Michael, who was appointed in July 2017 following a competitive election campaign and confidential vote of all Partners (administered by the Electoral Reform Society).

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 regularly meets with the Non-Executive members (without the Executive Committee members present).

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'. The Senior Partner leads the Board, which provides leadership to the organisation, approves 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 in the UK business including compliance with laws, other regulations relevant to our business and global KPMG's policies.

Governance structure



Our governance complies with the Audit Firm Governance Code. The Board, chaired by the Senior Partner and supported by a number of committees, provides oversight of the Executive Committee (chaired by the Managing Partner). In addition, the Public Interest Committee (chaired by an Independent Non-Executive) provides independent challenge to help the Firm fulfil its public interest purposes.

Our triennial Board evaluation has recommended a rationalisation of committees for implementation during FY19.

As at 30 September 2018, the Board comprised fifteen members: the Chairman, the Deputy Chair, three Executive members, four Vice Chairs, and six Non-Executives who are all Partners in the Firm. Details of the members of the Board during the year are set out on pages 38 and 39.

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

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.

The Board met formally 11 times in the year to 30 September 2018. In addition, the Board held a number of ad-hoc calls and meetings to discuss other matters arising during the year.

An in-depth effectiveness review of the Board is performed every three years, led by independent consultants and this was undertaken in 2018. The review resulted in recommended modifications to the Firm's governance framework that fall subject to relevant Board and Members approvals after year end. These recommendations included a rationalisation of the Board's composition and committee arrangements, a clarification of leadership responsibilities and relationships, continual improvements in transparency and accountability and ensures robust oversight mechanisms, taking account of the Audit Firm Governance Code.

At the start of the year, the Board had the following sub-committees: Audit & Risk Committee, Nomination Committee, Remuneration Committee, Banking Committee, Ethics Committee and Governance Committee. During the course of the year, a Reputation Committee was established; its responsibilities were subsequently assumed by a newly established Risk Committee which also assumed the enterprise risk related responsibilities of the Audit & Risk Committee (which has been renamed, the Audit Committee). In addition, an Audit Quality Committee was established during the year.

The Executive Committee

Management of the day-to-day activities of the Firm is undertaken by the Executive Committee ('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 in the UK.

The ExCo is chaired by the Managing Partner, Philip Davidson who is appointed by the Senior Partner, and its members are all KPMG Partners. The members of ExCo are appointed by the Senior Partner and Managing Partner and, as at 30 September 2018, in addition to the Managing Partner, included the Chief Financial Officer, the Head of Quality & Risk Management, Head of People, Head of Markets & International, Head of National Markets, Head of Financial Services, Head of Corporates, Head of Audit, Head of Deal Advisory, Head of Consulting, Head of Digital & Solutions, Head of Tax and General Counsel. In the year to 30 September 2018, ExCo met formally 13 times and at other times as requested by the Managing Partner.

At the start of the year the members of ExCo comprised ten Partners. Aidan Brennan was a member of ExCo during the period in which he was Head of Digital Transformation. On leaving this role Aidan stood down as a member of ExCo, following which Lisa Heneghan joined ExCo as Head of Digital & Solutions. In addition, Karen Briggs was a member of ExCo as Head of Brexit for the period of time that it was an ExCo role.

The Public Interest Committee

In addition, and in accordance with the Audit Firm Governance Code, the Firm has a Public Interest Committee ('PIC'), consisting of 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 in the 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 2018, 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 in the UK's business. Within the governance of KPMG in the UK, it is important for 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 in the 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 in the UK. From this position, the INEs are also able to represent the activities of KPMG in the 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.

During the year to 30 September 2018, the Committee met formally four times.

Members of the PIC attended Board committees during the year, including the Audit, Risk, Ethics and Audit Quality Committees in order to have greater visibility into the operations of KPMG in the UK, and to share perspectives gained with fellow Members of the PIC.

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 unless otherwise approved by the Board.

KPMG has considered the UK Audit Firm Governance Code and the FRC's Ethical Standard in drawing up criteria for appointment of the Members of the PIC. These criteria recognise the need for INEs 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 INEs on the Firm's independence of its audit clients. Our INEs 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 2018, the annual remuneration of each Independent Non-Executive is £100,000. The Chair of the PIC receives an additional amount of £25,000 in respect of chairmanship duties.

A report from the Independent Non-Executives on the activities of the Public Interest Committee in the year is provided on page 54.

At the start of the year there were three members of the Public Interest Committee: David Pitt-Watson (Chair), Lord Evans of Weardale and Lindsay Tomlinson. Lindsay Tomlinson resigned with effect from 28 February 2018 and Oonagh Harpur was appointed with effect from 30 April 2018.

The Audit Committee

The key responsibilities of the Audit Committee (formerly named the Audit & Risk Committee) are set out in its terms of reference. In summary, the Audit Committee is required to monitor the integrity of KPMG in the UK's financial reporting system, internal controls, 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 2018, the Audit Committee consisted of three Board Members: two of whom were Elected Non-Executive Members and one a Vice-Chair. One of the Non-Executive Members was appointed as Committee Chair, an appointment ratified by the Board. One INE attends meetings of the Committee.

The Members of the Audit 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 Committee met six times in the year ended 30 September 2018.

A report on the activities of the Committee in the year is provided on page 44.

The Audit Quality Committee

The Audit Quality Committee was established in March 2018 and the purpose of the Committee is to oversee, on behalf of the Board, all relevant matters pertaining to audit quality including dialogue with key regulatory bodies, inspection results, and relevant audit brand and regulatory risks. The Committee meets monthly to discharge its responsibilities.

As at 30 September 2018, the Audit Quality Committee consisted of four Non-Executive members of the Board (including two Audit Partners) and one co-opted member (an Audit Partner). One INE attends meetings of the Committee. The UK Head of Audit, Head of Audit Quality and Global Head of Audit are standing invitees. The Audit Quality Committee met formally seven times during the year.

The Governance Committee

The Governance Committee was established in January 2018 to assist the Board in its ongoing oversight of the quality of governance in the Firm.

As at 30 September 2018, the Governance Committee consisted of five members: General Counsel, Deputy Chair, two Non-Executive Members of the Board and the Board Secretary. The Governance Committee met formally two times during the year in order to discharge its responsibilities.

The Nomination & Remuneration Committee

The key responsibilities of the Nomination & Remuneration Committee are to provide oversight of the processes for the appointment of Leadership positions and INEs; 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; and to review the recommendations of the Senior Partner and Managing Partner in relation to the performance of and profit distribution to ExCo.

During the year ended 30 September 2018, the Nomination & Remuneration Committee met nine times.

As at 30 September 2018, the Nomination & Remuneration Committee consisted of three Members, who were Non-Executives, and one co-opted Member. One INE attends meetings of the Committee. The Senior Partner, Managing Partner, Chief Financial Officer, 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 48.

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' or employees' underlying ethical behaviour; and other ethical issues facing the Firm.

During the year ended 30 September 2018, the Ethics Committee convened five times. As at 30 September 2018, the Committee consisted of seven Members, being four members who were Non-Executives, one Executive Member of the Board (the Ethics Partner) and three co-opted Members. One INE attends meetings of the Committee.

A report on the activities of the Committee in the year is provided on page 50.

The Banking Committee

The Banking Committee assists the Board in dealing with all banking and treasury matters. The Banking Committee meets on a quarterly basis and is responsible for general banking and treasury operations of the partnership and its subsidiaries. This includes reviewing and approving proposed transactions or changes in circumstances.

As at 30 September 2018, the Banking Committee consisted of five members: Managing Partner, General Counsel, Chief Financial Officer, Head of Finance and Chair of the Audit Committee. The Banking Committee met formally four times during the year in order to discharge its responsibilities.

The Risk Committee

The Risk Committee was established on 14 June 2018 (following a Board decision to restructure the Audit and Risk Committee into two separate committees – one for Audit and one for Risk – and to transfer the remit of the Reputation Committee, into that of the Risk Committee).

The Committee assists the Board in its oversight of current risk exposures and determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the Firm's risk management framework.

As at 30 September 2018, the Risk Committee consisted of three Non-Executive members of the Board (including the Chair of the Audit Committee). One INE attends meetings of the Committee. The Head of Quality and Risk Management, Head of Internal Audit, General Counsel, Head of Corporate Affairs and Chair of the Ethics Committee are standing invitees. The Risk Committee met twice formally during the period.

Communication with Partners as Members of KPMG LLP

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 e-mail is used or, exceptionally, conference calls or roundtable meetings convened. In addition, all Members are invited to two Partner Conferences annually to discuss a range of topics including the Firm's results and business planning.

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:

Requirement	Response
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 11 times during the year with average attendance of 82%.
The gender diversity of the Board should be composed of a minimum one third women.	At 30 September 2018 the Board composition included 40% female members.
There should be a diverse range of skills represented in the composition of the Board (by reference to each triennial evaluation of Board effectiveness).	There is a diverse range of skills represented on the Board, however, the triennial evaluation conducted in 2018 recommended reducing the size of the Board, but providing mechanisms in the appointment of Nominated Board Members that will maintain appropriate diversity of skills in a proposed revised composition of the Board.
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 22, a Global People Survey was performed in 2017. 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. In addition to this, two Pulse Surveys were performed during 2018 and a subsequent People Survey took place in autumn 2018 which will enable the Board to identify and consider the initial impact of changes implemented in response to the 2017 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 four meetings during the year. As a result of the resignation of an INE on 28 February 2018, the number of INEs fell from three to two until 30 April 2018 when an additional INE was appointed. The Board has considered and determined that the INEs remain independent from the Firm.
The Audit Quality Committee should meet at least six times each year to oversee the focus on audit quality.	The Audit Quality Committee 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 the report by the Committee on page 46.
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 terms of reference for all Board Committees are reviewed annually as a minimum.	The terms of reference were reviewed during the year.
There is an annual self-assessment of Board and Committees' effectiveness (unless external review is undertaken)	This year, there was an external review including the Board and Committees' effectiveness conducted by an independent consultant.
Board comprises a minimum of two practising audit partners.	The Board does include two practising audit partners in Paul Korolkiewicz and Tony Cates.
External Board evaluation conducted tri-annually.	Such a review took place this year.
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 as summarised in our Audit Quality Indicators at page 23.

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 in the 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:

Requirement	Response
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 11 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 page 31.
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 34, and page 48.
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 Chairman and Senior Partner in advance of the Senior Partner election process in 2017.
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. Such an evaluation took place this year.
B.6.2 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. 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.	The Audit Committee is comprised of three KPMG Partners who are Non-Executive Board Members and an INE attended 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 Committee's role includes the monitoring and review of the plan and activities of the internal audit function.
C.3.6 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.	The Audit Committee has primary responsibility for recommending the appointment, reappointment and removal of the external auditors.

Executive Committee Members as at 30 September 2018

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 has been a Partner for 3 years and joined the ExCo as General Counsel on 1 December 2015.

Lisa Heneghan
Head of Digital & Solutions

Lisa has been a Partner for 7 years and joined the ExCo on 25 June 2018.

Michelle Hinchliffe
Head of Audit

Michelle has been a Partner for 22 years and joined the ExCo on 1 October 2017.

Jon Holt
Head of Financial Services

Jon has been a Partner for 12 years and joined the ExCo on 1 October 2017.

David Matthews*
Head of Quality & Risk Management

David has been a Partner for 22 years. He joined the ExCo and the Board on 30 July 2012.

Iain Moffatt
Head of National Markets

Iain has been a Partner for 21 years and joined the ExCo on 30 July 2012.

Scott Parker
Head of International and Market Development

Scott has been a Partner for 14 years and joined the ExCo on 1 November 2017.

Anna Purchas
Head of People

Anna has been a Partner for 4 years and joined the ExCo on 30 May 2017.

David Rowlands
Head of Consulting

David has been a Partner for 9 years and joined the ExCo on 1 October 2017.

Sanjay Thakkar
Head of Deal Advisory

Sanjay has been a Partner for 13 years[6] and joined the ExCo on 1 October 2017.

Dan Thomas
Head of Corporates

Dan has been a Partner for 10 years and joined the ExCo on 1 October 2017.

Michelle Quest
Head of Tax

Michelle has been a Partner for 15 years and joined the ExCo on 1 October 2017.

Sarah Willows*
Chief Financial Officer

Sarah has been a Partner for 18 years and joined the ExCo on 28 September 2016.

Senior partner

Bill Michael attends meetings of ExCo in his capacity as Senior Partner.

Changes after the year-end

Mary O'Connor joined the ExCo as Chief Risk Officer with effect from 27 November 2018 and David Matthews stood down from the ExCo.

Chairman, Vice-Chair and Non-Executive Members of the Board as at 30 September 2018

As at 30 September 2018 the Board comprised the Chairman, the Deputy Chair, the three members of the Executive Committee (as identified by an asterisk above), four Vice-Chairs and six Non-Executives.

Bill Michael
Chairman

Bill has been a Partner for 18 years and joined the UK Board as Chair and Senior Partner on 1 July 2017.

Melanie Richards
Deputy Chair

Melanie has been a Partner for 16 years and joined the UK Board on 14 September 2012. From 1 October 2014 until 30 September 2017, Melanie held the position of Vice Chair of the Firm and sat on the Board in that capacity. With effect from 1 October 2017, she has held the position of Deputy Chair and continues to sit on the Board in that capacity. She is also Chair of the Risk Committee, having previously been Chair of the Reputation Committee and is a member of the Governance Committee.

Sue Bonney
Non-Executive member

Sue has been a Partner for 23 years and joined the Board on 14 October 2017. She chairs the Nomination & Remuneration Committee and is a member of the Risk Committee.

Maggie Brereton
Non-Executive member

Maggie has been a Partner for 8 years and joined the Board on 1 December 2015. Maggie chairs the Audit Committee (formerly the Audit & Risk Committee), is a member of the recently constituted Risk Committee and is a member of the Banking Committee.

[6] Subject to a two year break on secondment from 2009-2011.

* Indicates also a Board member

Bernard Brown
Vice-Chair member

Bernard has been a Partner for 12 years and joined the Board on 14 October 2017. Bernard is a member of the Ethics Committee.

Tony Cates
Vice-Chair member

Tony has been a Partner for 20 years and joined the Board on 14 October 2017. Tony is a member of both the Audit and Audit Quality Committees.

Christine Hewson
Non-Executive member

Christine has been a Partner for 12 years and joined the Board on 14 October 2017. Christine chairs the Ethics Committee and is a member of the Risk Committee.

Paul Korolkiewicz
Senior Non-Executive member

Paul has been a Partner for 17 years and joined the Board on 14 October 2017. He chaired the Audit Quality Committee up until the end of October 2018 and is a member of the Audit, Audit Quality and Governance Committees.

Ronnie McCombe
Non-Executive member

Ronnie has been a Partner for 23 years and joined the Board on 14 October 2017. Ronnie is a member of the Ethics Committee.

Jane McCormick
Vice-Chair member

Jane has been a Partner for 22 years and joined the Board on 14 October 2017.

Mark Raddan
Non-Executive member

Mark has been a Partner for 8 years and joined the Board on 14 October 2017. Mark is a member of the Nomination & Remuneration and Governance Committees.

James Stewart
Vice-Chair member

James has been a Partner for 7 years and joined the Board on 14 October 2017. James is a member of the Audit Quality Committee which he has chaired from November 2018. He is also a member of the Nomination & Remuneration Committee.

Changes after the year-end

The following changes have occurred subsequent to year-end:

— Following the recommendation of the triennial independent Board effectiveness review, the position of chair of the Audit Quality Committee has passed to a Board member (James Stewart) who is not a Partner in the Audit function which is overseen by that committee.

— Mary O'Connor replaced David Matthews on the Board with effect from 27 November 2018.

— Following the recommendation of the triennial independent Board effectiveness review, it has been proposed that the size of the Board be reduced such that the number of Vice-Chair Members is limited to three and that the number of Elected Non-Executive Members is limited to five; accordingly, transition arrangements are planned to implement this change with effect from 1 January 2019.

Members of the Public Interest Committee as at 30 September 2018

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 £200 billion of investments. He is an Executive Fellow at Cambridge University 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. He is also a non-executive director of Ark Data Centres Limited and is Chairman of Kent Search and Rescue.

Oonagh Harpur
Independent Non-Executive

Oonagh Harpur joined the Public Interest Committee on 30 April 2018. Previously Partnership Secretary and Director, Corporate Responsibility at Linklaters law firm, she has been a NED at the Government Legal Department and a member of the Advisory Panel on Sustainability at Walgreen Boots Alliance. She is a co-author of "Governing Culture: Risk & Opportunity. A Guide to Board Leadership in Purpose, Values and Culture", published by the FRC Culture Coalition, City Values Forum and Tomorrow's Company.

Meeting attendance for the year ended 30 September 2018
(Meetings eligible to attend in brackets)

	Board	ExCo	Audit Committee	Nomination & Remuneration Committee	Ethics Committee	Public Interest Committee	Banking Committee	Risk Committee	Governance	Audit Quality
Bill Michael	10 (11)	9 (13)	-	-	-	-	-	-	-	-
Jeremy Barton	-	12 (13)	-	-	-	-	3 (4)	-	2 (2)	-
Aidan Brennan	-	6 (7)	-	-	-	-	-	-	-	-
Karen Briggs	-	2 (3)	-	-	-	-	-	-	-	-
Philip Davidson	10 (11)	12 (13)	-	-	-	-	1 (4)	-	-	-
David Matthews	10 (11)	13 (13)	-	-	4 (5)	3 (3)	-	3 (4)	-	-
Iain Moffatt	-	11 (13)	-	-	-	-	-	-	-	-
Anna Purchas	-	13 (13)	-	-	-	-	-	-	-	-
Sarah Willows	8 (11)	12 (13)	-	-	-	-	4 (4)	-	-	-
Lisa Heneghan	-	6 (6)	-	-	-	-	-	-	-	-
Dan Thomas	-	12 (13)	-	-	-	-	-	-	-	-
Michelle Hinchliffe	-	12 (13)	-	-	-	3 (3)	-	-	-	-
Michelle Quest	-	11 (13)	-	-	-	-	-	-	-	-
Sanjay Thakkar	-	11 (13)	-	-	-	-	-	-	-	-
Jonathan Holt	-	13 (13)	-	-	-	-	-	-	-	-
David Rowlands	-	13 (13)	-	-	-	-	-	-	-	-
Scott Parker	-	10 (12)	-	-	-	-	-	-	-	-
Melanie Richards	11 (11)	-	1 (1)	-	-	-	-	6 (6)	2 (2)	-
James Stewart	10 (11)	-	-	7 (8)	-	-	-	-	-	7 (7)
Jane McCormick	7 (11)	-	-	-	0 (3)	-	-	-	-	-
Bernard Brown	11 (11)	-	-	-	5 (5)	-	-	-	-	-
Maggie Brereton	6 (11)	-	6 (6)	-	-	-	3 (3)	1 (3)	-	-
Sue Bonney	11 (11)	-	-	9 (9)	-	-	-	6 (6)	-	-
Tony Cates	9 (11)	-	4 (6)	-	-	-	-	-	-	6 (7)
Christine Hewson	10 (11)	-	-	-	5 (5)	-	-	-	-	5 (7)
Ronnie McCombe	11 (11)	-	-	-	5 (5)	-	-	-	-	-
Paul Korolkiewicz	11 (11)	-	5 (6)	-	-	-	-	-	2 (2)	7 (7)
Mark Raddan	9 (11)	-	-	9 (9)	-	-	-	-	2 (2)	-
Jenny Stewart	-	-	-	7 (7)	-	-	-	-	-	-

	Board	ExCo	Audit Committee	Nomination & Remuneration Committee	Ethics Committee	Public Interest Committee	Banking Committee	Risk Committee	Governance	Audit Quality
Andrew Morgan	-	-	-	-	5 (5)	-	-	-	-	-
Mike Froom	-	-	-	-	3 (3)	-	-	-	-	-
Oonagh Harpur#	2	-	-	-	1	1 (1)	-	-	-	-
Stephen Oxley	-	-	2 (2)	-	-	-	-	-	-	7 (7)
Nicola Quayle	-	-	2 (2)	-	-	-	1 (1)			
David Pitt-Watson#	9	-	-	7	-	4 (4)	-	2	-	6
Jonathan Evans#	5	-	6	-	-	4 (4)	-	-	-	-
Rachel Hopcroft*	-	-	-	-	-	-	-	4 (4)	-	-
Lindsay Tomlinson#	2	-	-	-	1	2 (2)	-	-	-	-
Paul Long*	-	-	-	-	-	-	3 (3)	-	-	-
Claire Warnes	-	-	-	-	4 (5)	-	-	-	-	-
Lynne Stuart*	-	-	-	-	-	-	-	-	2 (2)	-

* Indicates non-Partner

\# Number of eligible meetings is not included for committees other than the Public Interest Committee as attendance by INEs is on an 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 2018, the Board comprised fifteen members, three of whom were Executive Members, a Deputy Chair, four Vice-Chairs, and six Non-Executives who are all Partners in the Firm. The external Independent Non-Executives also attend meetings of the Board, as do two representatives from the international KPMG network. In order to discharge its responsibilities, the Board met formally 11 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 clients and other 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; 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 Senior Partner and the ExCo 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**: commissioning a comprehensive review of the Firm's Enterprise-Wide Risk Management Framework ('EWRMF') and processes and reviewing its recommendations; approving modifications to the EWRMF, including with respect to risk governance and risk management operations as well as promoting an enhanced risk management culture; 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; reviewing and approving strategic and material decisions with respect to the firm's response to regulatory investigations and allegations;
- **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**: 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 monitoring with the Ethics Committee the cultural health of the Firm;
- **Governance**: commissioning and considering the recommendations of an triennial independent Board effectiveness review conducted by independent consultants; 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 Senior Partner and the Vice-Chairs, 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 2017 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 and Senior Partner

Report on the Audit Committee's activities during the year

As at 30 September 2018, the Audit Committee (formerly the Audit & Risk Committee) consisted of three members of the Board: two Non-Executives and one Vice-Chair. One Independent Non-Executive attends meetings of the Committee.

The Chief Financial Officer and Head of Operations, Head of Internal Audit, Head of Quality & Risk, General Counsel and representatives of our external auditors are invited to join the meetings, with other attendees invited dependent upon agenda items; the Audit 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 Committee met six times during the year; its activities included the following:

- **Risk Management**: Provided input to a comprehensive review of the Enterprise-Wide Risk Management Framework ('EWRMF');
- **Key risks**: Reviewed key business risks and mitigations, and undertook deep dives into risk areas identified by the EWRMF process prior to consideration by the UK Board, including in relation to GDPR and in relation to cyber risk;
- **Policies**: Considered the risk management policies in place, including compliance reviews;
- **Claims & investigations**: Considered the current status of all professional claims and regulatory investigations, including the exposure to uninsured cost and the status of the more significant matters with the General Counsel;
- **Tax risks**: Considered the tax risks facing the Firm;
- **Financial reporting risks**: Considered financial reporting risks and identified and considered key areas of risk including:
  - the judgements applied in determining the timing of revenue recognition and the recoverability of related unbilled amounts for client work and client receivables;
  - the judgements applied in either provisioning for, or disclosing, exposure to cost (including related legal expenses) arising from professional claims and regulatory matters;
  - the risk that the carrying value of intangible assets exceeds its fair value;
  - the assumptions selected for valuation of the defined benefit pension plans, under IAS 19; and

– the judgements applied in recognition of the profit on disposal of property, plant and equipment at 15 Canada Square, arising as a result of the sale and leaseback transaction entered into during the year.

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

- **IFRS**: Considered significant forthcoming changes to IFRS noting that all three standards have now been endorsed and KPMG in the UK would be adopting IFRS 15 (revenue recognition) and IFRS 9 (financial instruments) in the year ending 30 September 2019 and IFRS 16 (leases) in the year ending 30 September 2020.
- **Client contracts**: Reviewed improvements to the support for both the approval of significant client contracts through the 'Deal Board' process as well as the controls being applied to the accounting treatment of such contracts;
- **Internal controls**: 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;
- **Internal Audit**: 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;
- **External auditor**: 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;
- **Accounting policies**: 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; and
- **Transparency Report**: Reviewed the narrative content of the Transparency Report to assess consistency with the reporting requirements, prior to approval by the UK Board.

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 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 Committee. During the year, fees of £101,220 (2017: £80,370) were paid to Grant Thornton UK LLP in respect of non-audit services.

Maggie Brereton
Chair of the Audit Committee

Report on the Audit Quality Committee's activities during the year

The purpose of the Audit Quality Committee is to oversee, on behalf of the Board, all relevant matters pertaining to audit quality including dialogue with key regulatory bodies, inspection results, and relevant audit brand and regulatory risks. The Committee meets monthly to discharge its responsibilities.

As at 30 September 2018, the Audit Quality Committee consisted of four Non-Executive members of the Board (including two audit Partners), one Independent Non-Executive and one co-opted member (also an Audit Partner). The UK Head of Audit, UK Head of Audit Quality and Global Head of Audit are standing invitees. The Audit Quality Committee met formally seven times during the year. Representatives from the FRC joined one meeting.

The Committee's activities during the year included focusing on:

- Audit Quality Improvement Plan: the assessment and monitoring of the Audit Quality Improvement Plan (as described on pages 19-20 of this report);
- Investment in audit quality: the assessment and monitoring of investment in audit quality, in particular through technology investments and the development of our people;
- Capacity building: the assessment and monitoring of the building by the audit practice of capacity to deliver and monitor quality audit work; and
- Audit Quality Reviews: the assessment and monitoring of interactions with the FRC's Audit Quality Review team."

Paul Korolkiewicz
Chair of the Audit Quality Committee

Report on the Risk Committee's activities during the year

The Risk Committee was established on 14 June 2018 (following a Board decision to restructure the Audit and Risk Committee and replace it with two separate committees – one for Audit and one for Risk – and to dissolve the Reputation Committee, whose remit would be included in that of the Risk Committee). The Committee assists the Board in its oversight of current risk exposures and determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the Firm's risk management framework.

As at 30 September 2018, the Risk Committee consisted of three Non-Executive members of the Board (including the Chair of the Audit Committee) and one Independent Non-Executive (non-voting). The Head of Quality and Risk Management, Chief Risk Officer, Head of Internal Audit, General Counsel, Head of Corporate Affairs and Chair of the Ethics Committee were standing invitees. The Risk Committee met twice formally during the period.

The Committee's activities since its inception have focused on reviewing and overseeing the enhancement of the Firm's Enterprise Wide Risk Management Framework. The Committee has also undertaken deep-dive reviews of particular risk areas.

The Committee has also undertaken deep-dive reviews of particular risk areas, including:

— Reputation risk: reviewing reports from the Head of Corporate Affairs on reputational incidents and considering the reputation risk horizon with input from external consultants;

— Crisis management: reviewing the Firm's crisis management plans and making recommendations for Board approval;

— Information protection: reviewing key controls in the Firm for information protection and considering actions by way of implementation of the Board's approved Information Protection Strategy.

Melanie Richards
Chair of the Risk Committee

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

The Nomination & Remuneration Committee assists the Board in ensuring that the Board and Executive Committee retain an appropriate structure, size and balance of skills to support the strategic objectives and values of the Firm.

The Committee oversees senior remuneration arrangements and arrangements for senior appointments (including election processes) and succession planning. It also assists the Board by reviewing and making recommendations in respect of the remuneration policies and framework for all staff.

In order to discharge its responsibilities, the Nomination & Remuneration Committee met formally nine times during the year. As at 30 September 2018, the Nomination & Remuneration Committee consisted of three members who were 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, Head of People 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:

- **Performance and remuneration of the Senior Partne**r: At the end of 2018, the Committee determined the remuneration of the Senior Partner in accordance with the framework of the Firm's Partner pay model. This was carried out by reference to the Senior Partner's performance against the balanced scorecard and KPIs approved by the Committee at the beginning of the year.
- **Performance and remuneration of the Executive Committee**: At the end of 2018, the Committee approved the remuneration of the Executive Committee based on discussion with the Senior Partner and Managing Partner on their assessment of performance against objectives of individual members and their recommendations on remuneration.
- **Senior appointments**: Throughout the year, the Committee was consulted by the Senior Partner and Managing Partner in relation to new members of the Executive Committee and other key leadership roles. These included the new Head of Digital Transformation. In addition, the Committee approved the appointment of the new Chief Risk Officer as a Board appointment and reviewed and endorsed the appointment by the Board of a new Independent Non-Executive.
- **Financial arrangements for Partners**: The Committee provided challenge and support to the Senior Partner and Managing Partner as well as the Head of People in relation to revisions to the Firm's approach to retirement provisions and relocation support.
- **Talent review**: The Committee provided review and oversight of recommendations made by the Head of People with respect to refreshing a high quality pool of talent for business critical roles, including the process to identify and develop appropriate successor candidates.
- **Staff reward strategy**: The Committee reviewed and provided feedback to the Executive Committee on the proposed staff reward strategy, discretionary bonus pool and measures to reward highest performers.

Sue Bonney, Chair of the Nomination & Remuneration Committee

Report on the Governance Committee's activities during the year

The Governance Committee was established in January 2018 to assist the Board in its ongoing oversight of the quality of governance in the Firm.

As at 30 September 2018, the Governance Committee consisted of five members: General Counsel, Deputy Chair, two Non-Executive members of the Board and the Board Secretary. The Governance Committee met formally two times during the year in order to discharge its responsibilities.

Its activities included the following:

- **Triennial Board evaluation**: Agreeing the process and timing of the independent evaluation of the Board and selecting the provider;
- **KPIs**: Agreeing the Key Performance Indicators for governance as required by the Audit Firm Governance Code and reporting in the Transparency Report for the year ended 30 September 2018;
- **Board committees**: Reviewing committee terms of reference prior to Board approval;
- **Risk governance**: Reviewing the governance implications arising from implementation of revisions to the Enterprise Wide Risk Management Framework;
- **Audit Firm Governance Code**: Reviewing and confirming compliance with the Audit Firm Governance Code.

Jeremy Barton, Chair of the Governance Committee

Report on the Ethics Committee's activities during the year

The purpose of the Ethics Committee is to assist the Board in establishing, embedding and providing oversight of the Firm's Values and monitoring the Firm's overall ethical health and its compliance with professional and ethical standards (including the FRC's ES).

The Committee has reviewed its terms of reference during the year and minor revisions were approved by the Board on 31 January 2018. The Committee met five times during the year. Additionally the Committee held one joint meeting with the Audit and Risk Committee and the Public Interest Committee.

As at 30 September 2018 the Ethics Committee consisted of seven members (being three Partners at large and four Board members – including the individual designated as Ethics Partner under the FRC ES). The Head of People and an INE are also invited to attend the meetings.

In terms of the specific matters it has considered during the year, the Committee's oversight in the year has focused on the following two key areas:

i. Firm Culture; and

ii. Compliance with the FRC's (and other relevant) ethical standards.

In this regard it reports as follows:

Firm Culture

Ensuring that an appropriate plan is in place to promote the right culture across the Firm:

The Committee considers what measures are being taken to ensure that an appropriate culture persists to support our Firm's ambition of becoming the 'most trusted' professional services Firm. As part of this it specifically considered the FRC's Audit Culture Thematic Review (published in May 2018) of the activities of the eight firms that have adopted the Audit Firm Governance Code to establish, promote and embed a culture that is committed to deliver consistently high quality audits and reviewed how the general recommendations in this report have been embedded into the overall culture action plan that is already in place for our Firm. As a result of this review, the Firm's overall culture action plan has been restructured to align with the key areas identified in the FRC's thematic report – being design, implementation, monitoring and tone at the top. Over the course of the year the Committee received updates on the progress of the actions in the overall culture plan against each of the four areas.

Monitoring and tone at the top

The Committee believes that the ethical tone within our organisation is set principally by the behaviour of our Partners. It therefore meets regularly with our Head of People to review relevant metrics to provide insight into how well our Partners 'live' our Firm's Values. As Partners set the tone for the Firm, it should be clear that they are held at a minimum to the same standards of behaviour as our people. Accordingly, as part of its work, it has considered the Partner disciplinary framework operated by the Firm. Following feedback from the Ethics Committee, a revised Partner disciplinary framework has been introduced which brings the process under the responsibility of the Head of People, requires any investigations into behaviour to be conducted by the Firm's internal lawyers and for any such investigations to be conducted in a manner consistent with those adopted for employee disciplinary matters. If exceptionally there are any allegations that a Partners' behaviour has not met the standards required by our Firm, it considers the outcome of any investigation and provides feedback on any remedial actions undertaken.

The Committee is pleased to note that the new upward feedback process (360 degree feedback) which was rolled out to Partners last year has now been rolled out to our Firm's most senior grade employees (our directors). In 2018 more than 1,500 Partners and directors participated in the upward feedback programme.

Summary of key changes to independence policies and other developments:

We have introduced restrictions in a number of areas which go beyond the requirements of the ES:

- We are working towards discontinuing the provision of non-audit services (other than those required by law or regulation or closely related to the audit) to the FTSE350 companies we audit in order to remove even the perception of a possible conflict.
- We have made the decision to prohibit secondments (which have in any case in recent years been limited to junior staff) to all entities we audit.
- We are no longer providing personal tax and pension advisory services to executive directors and key management at UK EU PIE audited entities reflecting concerns that a third party might consider there is a perceived familiarity threat.
- We have extended the existing requirement for senior members of the audit team to inform the Ethics & Independence Partner of possible employment by an entity we audit to all members of the audit team rather than when such employment is probable as required by the Ethical Standard.

In other developments:

- During the year the Firm has embarked on a personal independence campaign, particularly for those members of the firm below Partner level – this included the launch of our KPMG iComply app to help our people answer independence questions on the move.
- The Firm is in the process of rolling out additional quality control procedures including the secondary approval of proposed non-audit services for our EU PIE entities and the provision of increased support for engagement teams in respect of maintaining audit entity family trees in Sentinel (KPMG proprietary global conflicts and independence checking system).

Following a recommendation from the Committee, the overall score from the upward feedback programme is now reflected in Partners' scorecards so that it can be overtly considered as part of the appraisal of Partner performance. Whilst overall the results from the 360 feedback programme are positive, the Committee has asked the Head of People to explore apparent disparities with other metrics that are available in this area and consider whether or not the 360 programme needs to be further enhanced in 2019 to address any findings.

In addition to monitoring Partner behaviour, the Committee also receives six-monthly reports on the number and nature of staff disciplinary and grievance cases and, as described in the following section, matters raised through the Firm's channels for our people to report concerns (see below), which may also be relevant to monitoring behaviours. The Committee notes that the number of cases reported for a firm the size of KPMG continues to be modest.

Operating robust channels for our people to report concerns

The Committee considers that an important part of supporting that an appropriate Firm culture is maintained is by ensuring that there are robust channels for our people to report concerns. For many years, the Firm has had an established Speak-Up (whistle-blowing) hotline which is operated under the oversight of an external ombudsman. The Committee receives a half-yearly update and annual report on the cases reported and investigated ensuring that it is satisfied that all matters were investigated robustly and appropriate follow-up action taken where needed. In the current year, 30 separate matters were reported to the hotline for investigation. The Firm has also established a helpline where people can receive advice and support on how to deal with non-Values compliant behaviour. The Committee notes that calls to the Values helpline, which has been operational for just under two years, are lower than it had expected and has recommended a review to ascertain if there is sufficient awareness of the existence and purpose of the helpline and, if not, that it takes action to rectify this.

Compliance with ethical standards

As part of its role, the Committee considers the evidence available on the Firm's overall compliance with the ES. The overall results of the FRC's 2017/18 Audit Quality Review ('AQR') are dealt with elsewhere in this report, but the Committee is pleased to note that KPMG was the only Big 6 firm not to have any areas for improvement related to its independence processes noted by the AQR in that inspection and that our monitoring and approval of non-audit services was identified by the AQR as an area of good practice. However, the Committee does not believe that this is a reason for complacency and remains focussed on providing oversight to ensure that the Firm complies with the ES.

As such, at every meeting it considers the results of the latest audits into our Partners' compliance with the personal independence requirements of the ES. It notes that the level of personal breaches identified in these audits is low and that the audit results specifically for Partners continues to show an improving trend (95% of Partners had either no or very minor findings in their audits this year). The Committee also considers the adequacy of the processes and support that the Firm provides to ensure compliance of our employees with the requirements of the ES and is pleased to report that the Firm has taken a number of measures to help ensure compliance from that population including investment into a bespoke App in this area.

The Committee also receives regular reports into any other breaches of the ES. Whilst the number of overall breaches remains relatively modest, it was very disappointed to note that (as explained on page 18) during the year the Firm was fined by the FRC for providing certain impermissible expert witness services to a listed audited entity during 2013 and 2014, albeit that the services provided pre-date the establishment of the Ethics Committee. It notes that the Firm has significantly enhanced its independence policies and procedures since taking on this service six years ago and that further in 2017 the Firm took the decision not to undertake expert witness work for any company audited by the Firm, going beyond the requirements of the ES.

In addition to assessing compliance with the ES, the Committee also considers the adequacy of other Firm policies relating to our Firm's wider Ethical Health. In this regard, during the year it considered (i) refinements to our policies relating to gifts and entertaining, (ii) enhancements to our policies relating to accepting engagements which might give rise to a potential conflict of interest with an audit client and (iii) amendments to our policies relating to when former Partners of KPMG can join audit clients in certain roles.

Finally, the Committee has considered whether the Firm's approach to determining when a conflict arises (which was consistent with applicable ICAEW guidance) remains appropriate in light of changes in market expectations in this area. The Committee considered the Firm's proposals to set up a panel, comprising a sub-group of Executive Committee members, to ensure that a wider perspective is taken into account when making decisions on proposed engagements which could give rise to the perception of a conflict of interest was an appropriate response.

Christine Hewson, Chair of the Ethics Committee

KPMG iComply

To help individuals within the firm answer independence questions we have launched a new app for our people – KPMG iComply.

The app has been created to make it easier to check personal independence and to determine the non-audit services that can be offered to entities we audit.

KPMG iComply will help answer a number of questions – including help::

- determine if an individual can make a particular investment;
- check which family members are caught by the independence regulations;
- make it clear what individuals needs to do if they wish to be employed by an entity we audit;
- make it clear what individuals need to do if they wish to take on a role such as a school governor or trustee of a charity; and
- understand what services KPMG can deliver to different types of entities we audit.

Report of the Independent Non-Executives

The principal role of KPMG's Independent Non-Executives has been to help ensure that the Firm fulfils its public interest remit, particularly with regard to audit.

Over the past twelve months issues and concerns about the audit market have received a lot more attention amongst policy makers and in the media, not least because of some significant corporate shocks including the collapse of Carillion.

In response, KPMG has made some important announcements and taken some significant actions. These include:

- a programme to improve audit quality costing £24 million annually in the UK[7];
- its intention to work with the profession and its stakeholders towards the adoption by all FTSE350 companies of 'graduated findings' within audit reports;
- a voluntary restriction on the provision of non-audit services to audited companies in the FTSE 350; and
- the introduction of improved governance, incentives and performance management for the audit function.

These have had strong encouragement and support from the INEs. We recognise that some of these announcements are recent, and are still to be worked through and implemented. However taken together they potentially represent a very significant response to the important challenges being made to the audit profession. Their success will depend in part on KPMG's will and skill in implementation. But it will also depend on the degree to which they are welcomed and rewarded by stakeholders.

This report 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 audited by KPMG, as well as regulators and policy makers, and of course the Partners and staff of the Firm.

Despite the public criticisms we continue to see a high degree of skill and professionalism within the Firm, both in its leadership and more broadly amongst Partners and staff. It is through that professionalism that the public interest is most surely protected. However, we are acutely aware of the criticisms made of the profession and the Firm.

7 The UK Firm also contributes to much larger amounts spent globally to enhance KPMG's audit methodology and technology

It is perhaps helpful to outline the issues being raised about audit and the profession. These have been significant and have therefore helped shape our work. The issues, and our response to them are discussed more fully later in this report.

1. **Audit Quality**: All the major firms have seen their Audit Quality Review (AQR) scores fall this year. KPMG's scores were the lowest.
2. **Audit Purpose**: It is far from clear that the current scope of audit and auditor reporting meets legitimate public expectations
3. **Independence and Conflicts of Interest**: Questions have been asked about the independence of auditors and whether they are sufficiently free of conflicts of interests. Audits are undertaken on behalf of investors to report on the truth and fairness of the financial statements presented by the company, and to enable users to assess the performance of management. However, particularly in a multifunctional firm, the public question whether there may be actual or perceived incentives for auditors not to offer sufficient challenge to management.
4. **Competition**: The market for audits of large listed companies is concentrated. Often the buyers of audit believe that only the Big 4 firms are capable of auditing large companies well. Because of the need to avoid conflicts etc in some situations there may be an even more limited choice.
5. **Regulation**: There is a concern that the regulation of the industry has been inadequate. In particular that it has been backward looking, and dominated by the profession itself.

As we have noted in the past, some of these concerns derive from the fact that those who appoint the auditors, (the audited company), are not the customers of the audit (the investors), and hence market forces may not work as they ought. Therefore in crafting solutions it must be recognised that the "clients" of an audit are the shareholders, and others who depend on the integrity of the audited figures.

As in previous years, this report is divided into three sections; a discussion of developments at KPMG; a report back on our work, particularly those relating to the issues raised above, many of which were highlighted in our report last year; and, finally, a discussion of some of the key outstanding issues which we believe are important and impact on the public interest.

Overview of developments

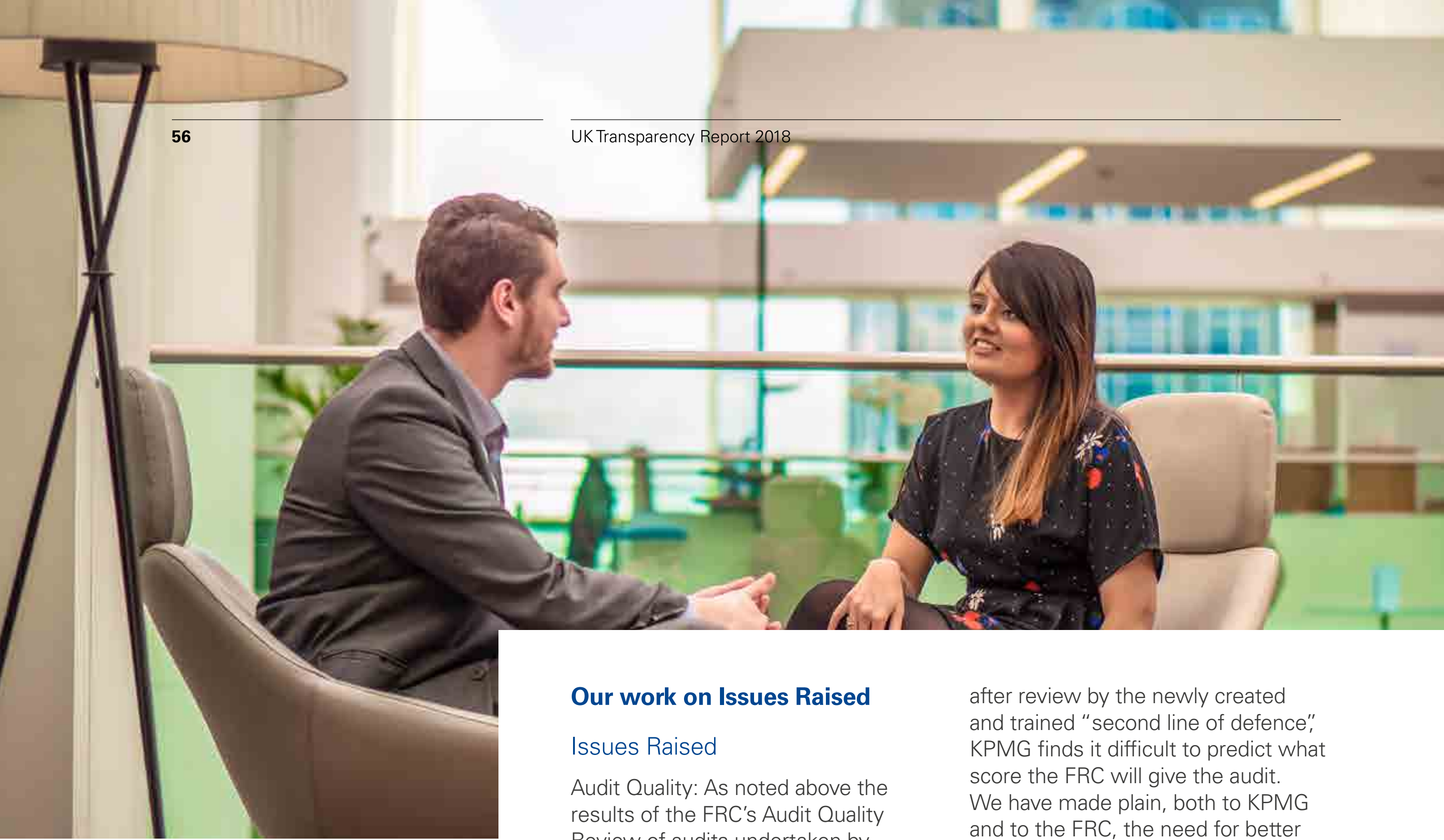
In our last report we noted the appointment of a new Senior Partner, a new board and revised governance structure. This has been followed by the creation of a number of board sub-committees. These have served the Firm well during a period of transition to a new Senior Partner but may have become overly cumbersome. Recently an Independent Board Evaluation has been completed which has suggested more streamlined arrangements. We will aim to ensure that INEs continue to have a broad overview in any new governance arrangements.

The Board has had a particular focus on audit quality as has been reported elsewhere in the Firm's Transparency Report. A new board committee has been established to oversee audit quality. The Chair of the PIC has been a member of this committee.

We would note that the involvement of INEs in the governance of the Firm has been stronger than in previous years as a result of the new governance structure. All the INEs can attend the board and at least one attends each of its committees. At our request, two KPMG executives sit on the Public Interest Committee, (albeit that INEs form the majority, and hold all voting rights on the committee). A more detailed description of our work can be found in the boxed section of this report.

Meantime the focus on improving the profitability of the Firm has been successful this year. KPMG's profitability is catching up with the others. The very real threat that good Partners might drift away from the Firm is thus alleviated. It is both in the public interest, as well as the private interest of KPMG's Partners that this should be happening.

Besides these internal changes, an inquiry into audit is being undertaken by the BEIS Select Committee, a review is being undertaken of the FRC, led by Sir John Kingman, and the Competition and Markets Authority is reviewing the audit market. We hope that these will help in addressing some of the concerns mentioned above; in particular that auditor and financial reporting meet their purpose in addressing legitimate expectations.



Our work on Issues Raised

Issues Raised

Audit Quality: As noted above the results of the FRC's Audit Quality Review of audits undertaken by KPMG were again disappointing. In October 2017 a programme to improve audit quality including annual incremental investment of £24 million, was established in the UK. This is in addition to amounts spent globally to enhance the Firm's audit methodology and technology. The nature of the programme is discussed elsewhere in the Transparency Report. The programme is overseen by a board committee. It also reports to the PIC, and to the board directly. We strongly encouraged this programme, and believe it represents a significant response to the concerns raised by the FRC. We note however that the programme began in October 2017, and that it will take some time for its effects to be fully seen. We also note that reports of audit quality from the FRC are a year or more in arrears. This means that it will be 2020 before audits of companies with December 2018 year-ends will be reported on publicly by the FRC. So it will be some time before we can be fully confident that Audit Quality scores might be expected to meet the appropriate standards, though clearly we hope for some progress in the meantime.

Furthermore, as with all major programmes there are challenges to its delivery. One is that, however good the governance of the programme and the resource devoted to it, there are always issues about implementation. But another is that the criteria by which AQR scores are awarded appear at times not to be clear. Even after review by the newly created and trained "second line of defence", KPMG finds it difficult to predict what score the FRC will give the audit. We have made plain, both to KPMG and to the FRC, the need for better mutual understanding.

Audit Purpose: It is far from clear that the current scope of audit and auditor reporting meet legitimate public expectations. While they are important, AQR scores are only one measure of audit quality. It is important that the scope of audit and auditor reporting is geared to the legitimate expectations and needs of the shareholders and others who depend upon it. As INEs we have continued our own investor outreach and also have encouraged a more extensive programme of investor outreach by KPMG to listen to and understand what is expected of audit. We were pleased with the Board's enthusiastic support for this and the additional resource promised to it. Its value will ultimately be seen if it is reflected in the way in which audits are conducted and reported.

Last year, we noted our disappointment that KPMG was less successful than it might have been in rolling out its award winning extended audit report including graduated audit findings, to a wider group of audited companies. This happened despite the fact that these extended reports were widely welcomed by investors. We have encouraged KPMG to be more insistent on presenting graduated findings in audit reports, and that this in turn would be assisted if investors were to find a way to make their voice better heard in audit choice. We are therefore delighted at KPMG's recent announcement of its intention to work with the profession and its stakeholders towards the adoption by all FTSE350 companies of 'graduated findings' within audit reports.

Larger questions remain about audit purpose, which may need to be resolved on an industry basis. These are discussed in the Outstanding issues section below.

Independence and Conflicts: Independence and management of real and/or perceived conflicts is central to trust in audit opinions. INEs have strongly supported measures to address this. In particular, we have supported the move to restrict the provision of other services to the FTSE 350 companies that KPMG audits.

Another announcement KPMG has made concerns the governance and incentives in the audit function. One is that the new Audit Quality Committee could develop into a more permanent body to oversee the audit function. In our view, such a body could offer the opportunity not only to give audit quality and purpose a higher profile, but perhaps also to address perceived conflicts. For example it could even include external parties, who are the stakeholders of audit. The powers of such a body would need to be determined, but in our opinion they should be adequate not only to oversee audit quality but also to respond to the need to ensure that any perceived conflicts of interest are appropriately managed.

We have also encouraged moves to ensure that audit Partners are rewarded only on the quality of their audits, not on the sale of other KPMG services to non-audit clients. That they recognise the shareholder is the "client". And that at least for large public companies, there should be no sale of consulting and other services to audited companies that could give rise to conflict.

Competition: Last year we noted that KPMG had competed in most audit tenders. Given issues about competition, we commended them on doing so. This year, KPMG has taken a more disciplined approach to the number of bids it makes. In part this is because of practical commercial factors e.g. it makes little sense to bid where one is unlikely to win and in part because of the need to devote more resource to improving Audit Quality. The regulator has been made aware of this approach.

Regulation: We welcome the current investigations into the audit market by the CMA, Sir John Kingman's review of the FRC, and the continuing interest being taken by the BEIS Select Committee. Some of the changes needed to address current concerns about audit will require action at an industry level. We would note that the goal of any regulatory change should be that audit fulfils its purpose in the public interest, and that any changes are focussed on achieving that goal.

Activities of the Independent Non-Executives

The Public Interest Committee

The Independent Non-Executives (INEs) meet formally four times a year, at the Public Interest Committee (PIC). During this year we also asked the Partner in charge of Audit, and the Partner in charge of Quality and Risk, attend our meetings as non-voting members. INEs meet independently, and determine the agenda of the PIC.

The Board and its Committees

INEs attend every monthly board. We are represented as permanent non-voting members on the Ethics, Risk, Nomination and Remuneration, Audit and Audit Quality Committees.

Other KPMG Meetings

We communicate regularly amongst ourselves, and the Chair of the PIC has regular monthly meetings with the Senior Partner. An INE chairs the discussion of the Senior Partner's remuneration. We have presented to the partnership, and particularly to its audit Partners. Independently INEs have met with other KPMG employees, and visited its offices outside London.

Regulators

We meet regularly with the FRC, and express our opinions to them, and them to us.

Investors and others

We meet with investors through Investment Association, and attend KPMG outreach meetings. We also meet with them more informally. We have not had a programme of outreach to other stakeholders.

Throughout our work we have found KPMG senior management open and responsive to our requests

There are currently three INEs. We are currently recruiting for a fourth.

Reputation and risk

This year KPMG in the UK was challenged by two particular events. Its low Audit Quality Review scores, and the collapse of Carillion. In the paragraph above we note KPMG's response to the AQRs. As regards Carillion, as INEs we cannot adjudicate what, if anything, went wrong with the audit. We have written to KPMG and to the regulators on this topic, urging that any investigations need to address not only of audit quality, but also whether current required standards of audit and accounting are fulfilling their purpose. Both of these have been repeated themes in past Transparency Reports.

We welcome the governance changes executed by KPMG to bring a clearer focus on risk, in particular the formation of a dedicated Risk Committee (on which the PIC is represented) with a broad agenda. In parallel there has been progress in designing and enhancing the enterprise wide risk system suitable for the current industry environment, including the appointment of a new Chief Risk Officer. Members of the PIC have had the opportunity to contribute to thinking on these issues; for example in respect of particular risks facing the Firm, through observing a crisis management exercise in the course of the year.

Strategy and performance

The past year has seen a continuing and appropriate focus on financial performance. We have been supportive of the action taken. Given our public interest remit, we have stressed the need to ensure that the audit function remains a strong and central component of KPMG's strategy and that KPMG continues to make appropriate investment in the established audit business alongside other emerging business opportunities. There is indeed a considerable amount of investment being made, much of it on a global basis, and of course a large investment being made in Audit Quality (see above).

Governance, culture and risk

The new Senior Partner has continued to bring energy and momentum to KPMG. His relationship with the Managing Partner seems to be working well. They have complementary skills.

As regards culture, the Firm has a long history of strong management of culture and values across the Firm. In the INEs opinion the espoused culture at KPMG is strong. The key issue is whether this extends throughout the organisation. In the past this appears to have been a problem. And the long hours which staff, particularly junior staff, are working may represent a risk. As we have said in the past we also urge that the positive collegiate nature of the partnership does not act as a barrier in calling out inappropriate behaviour.

Outstanding issues

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

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 discussion of these issues in Parliament and in the press, and calls by a number of investors for a broader view of what constitutes "true and fair". Together with other INEs we have raised these issues with the FRC, asking for further work be done by them to explore whether accounting rules might be used in a way that was against the public interest (e.g. are there are areas where current rules might allow early declaration of profits, which in turn could encourage reckless behaviour by investors and lead to the over statement of company solvency). As the Global Financial Crisis demonstrated, the effects of this could prove catastrophic. We are concerned that there is no programme in place that would aim to give better assurance on this issue. In the meantime, the promotion of graduated audit findings in audit reports may be one step that could help address these issues.

Global issues

KPMG is part of a global network. Members of that network are independent organisations, and while that has some strengths, it is vulnerable should quality slip in any Firm as has been seen this year with the contamination from events in South Africa. As INEs we will be continuing to encourage KPMG LLP to push to improve global governance and to ensure that ethical or other standards are fully in place and enforced, particularly in such areas as client acceptance. We have also noted the need for effective global oversight and response should a crisis arise.

Concluding remarks

This year has been one of great challenge. Important questions are being asked about the audit profession, and about KPMG. As we noted in the introduction to this report, KPMG has made a significant response. It is one that we have, and will continue to encourage and support, as part of the change needed to secure higher quality, purposeful audits.

David Pitt-Watson (Chair)
Jonathan Evans
Oonagh Harpur

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').

During the year, operational responsibility for the system of quality control, risk management and compliance was delegated to the UK Head of Quality & Risk Management, who was responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in the UK. He had a direct reporting line to the Senior Partner and 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 was 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 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 the section titled System of Quality Control on page 26 and in Appendix 2 of this Report.

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.	– 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. – Improved governance for Audit, including the Audit Quality Committee.
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.
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

	Risk description	Mitigation
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

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, Audit Quality, 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 Wide Risk Management Framework), which is reported to the Audit Committee and 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 Committee and 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 on pages 26 to 27 and Appendix 2); and
  - External regulatory inspections.
- The reports to the Board made by the Audit, Risk and Audit Quality Committees on how each committee 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 7) and confirms that the Firm complied with these provisions throughout the year ended 30 September 2018, except that, as explained on page 104, between 28 February 2018 and 30 April 2018 the Firm had two INEs rather than the three required by the provisions of the revised Audit Firm Governance Code.

4 Appendices

Appendix 1 – 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.

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[8].

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 EUR 2.7 billion during the year ending 30th September 2017. An updated statement of aggregated EU/EEA statutory audit revenues for the 12 months to 30th September 2018 will be available within Appendix 2 to the 2018 KPMG International Transparency Report[9]. The aggregated EU/EEA statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2017 (and 30th September 2018 for the updated numbers to be published in the KPMG International Transparency Report).

Responsibilities and obligations of Member Firms

Under agreements with KPMG International, Member Firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools. Each Member Firm takes responsibility for its management and the quality of its work. Member Firms commit to a common set of KPMG Values (see Appendix 8).

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

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, 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.

8 https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2018/12/eu-and-eea-audit-entities-list-30-09-2018.pdf
9 https://home.kpmg.com/xx/en/home/about.html

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.

The Global Board includes the Global 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 Chairman of each of the regions and currently three other senior Partners of Member Firms. The list of Global Board members, as at 1 October 2018 will be available in the International Annual Review[10]

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 Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2018 will be available in the International Annual Review[10].

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;
- 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 will be detailed in section 'Governance and leadership' of the KPMG International Transparency Report[10].

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 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 will be in the 'Governance and leadership' section of the KPMG International Transparency Report[10].

Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a Member Firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG Brand. Significant activities of the Area Quality & Risk management Leaders, including Member Firm issues identified and related Member Firm response/remediation, are reported to GQ&RM leadership:

The objectives of the Area Quality & Risk Management Leaders are to:

- assist GQ&RM leadership in the monitoring of Member Firms in an effort to reduce the number of significant brand and legal risk matters;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled to reduce negative brand and financial impact; and
- monitor the effectiveness of Member Firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

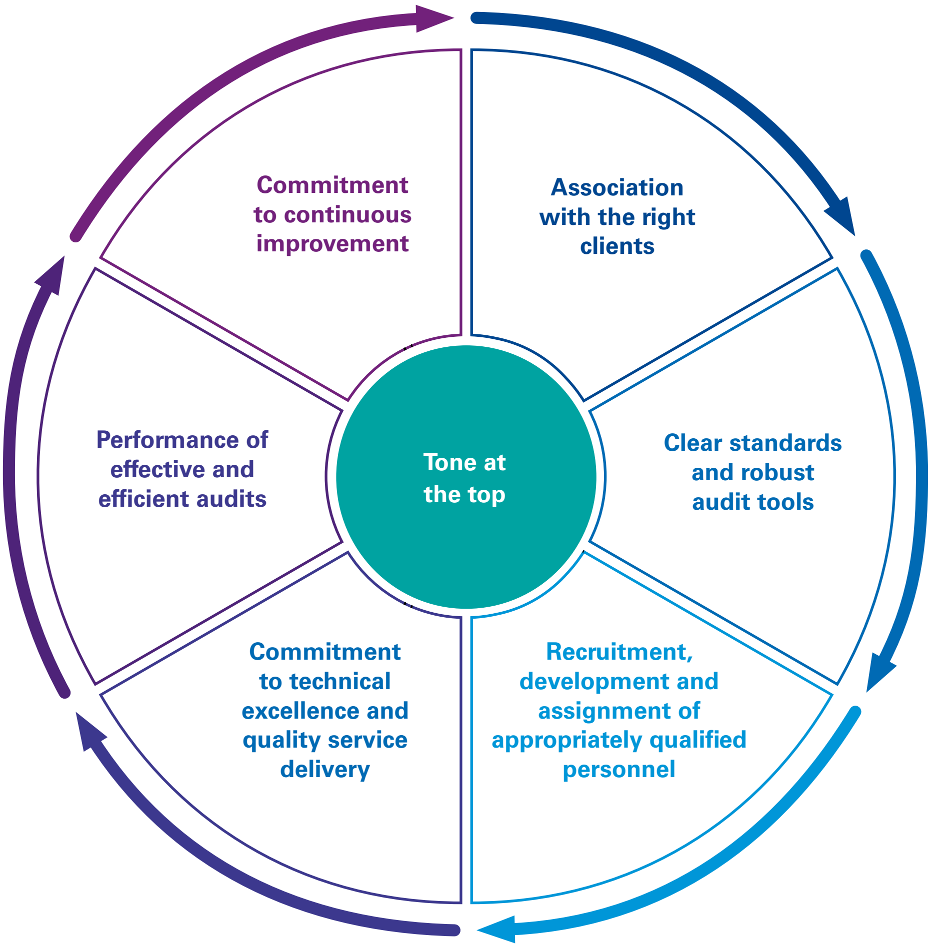
10 https://home.kpmg.com/xx/en/home/about.html

Appendix 2 – Audit Quality Framework

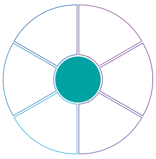
To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have a global Audit Quality Framework. This framework introduces a common language that is used by all KPMG Member Firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

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 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 below. The policies and practices set out 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.



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. The Audit Newsletter publication is released regularly to all audit professionals in addition to regular technical bulletins 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 the entities we audit 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 8.

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 includes 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 'Speak-Up hotline' operates as a whistle-blowing hotline in the UK which is available for our personnel, entities we audit 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 the Firm, its Partners or employees. The Speak-Up 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 2018, 30 matters which required investigation were reported to the Speak-Up hotline (2017: 20 cases investigated). Matters reported to the hotline are investigated under the supervision of our external ombudsman who reports to the Ethics Committee on the operation of the hotline in the year.

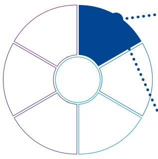
Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – 'Above all, we act with integrity'."

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 and required to do so when they see breaches of KPMG policies, laws and regulations and professional standards.

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.

The ombudsman's 2018 report highlighted key themes including the modest rise in the number of reports, the drop in third party reports since inception and the higher proportion of anonymous reports and concludes that the whistle-blowing hotline is a useful tool which was being utilised and none of the cases raised issues of major policy concern for the Firm.

2. Association with the right clients



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

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.

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 and matters which may have a bearing on our independence. Similar independence evaluations are performed when an existing entity we audit becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the entity. 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 entity and engagement, additional safeguards may be introduced to help mitigate any identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

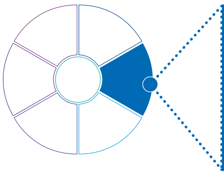
We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and Firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated. Further information on our independence and conflict checking policies can be found below.

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 entity 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 entity (this may include the assignment of additional professionals or the need to involve additional specialists in the case of audit).

3. Clear standards and robust audit tools



- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

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.

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 in the 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 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 to exercise professional scepticism and appropriate challenge when undertaking procedures and reaching conclusions. The methodology 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. KPMG Clara is 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 integrates all of our advanced capabilities and knowledge, and empowers 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.

> // KPMG Clara integrates all of our advanced capabilities and knowledge, and empowers our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit."

The KPMG Clara client collaboration tool facilitates secure collaboration between the entities we audit 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.

In the next 12 months we will also begin the deployment of our new KPMG Clara Audit Workflow tool (our internal record of audit evidence) which will significantly transform the way our staff deliver and document audits. It will incorporate artificial intelligence, robotics, data & analytics and chat bot technology.

Independence, integrity, ethics and objectivity

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, the PCAOB and other applicable regulatory standards. For KPMG in the UK, these policies are supplemented by other processes to ensure compliance with the FRC's ES.

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 Ethics Partner 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 bullet-ins or e-mail alerts.

Failure to comply with the Firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, is factored into promotion and compensation decisions and, in the case of engagement leaders and managers, reflected in their individual quality, ethics and compliance metrics. Our approach 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.

Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audited entity securities to every Member Firm Partner in respect of any audited entity of any Member Firm. KPMG in UK has a policy whereby all client-facing staff are unable to hold investments in companies audited by KPMG.

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 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 and partner-equivalents 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 of the FRC's ES.

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 2018, 452 (2017: 463) of our people were subject to these audits (this included approximately 20% (2017: 20%) of our Partners and partner-equivalents). 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.

We have amended the policy which applies to members of the audit team being recruited by entities we audit such that it goes beyond the requirements of the ES. We now apply the requirement for senior members of the audit team to inform the Ethics Partner of potential employment by an entity we audit to all members of the engagement team rather than when such employment is probable as required by the ES. Additionally, we have amended our terms of business to reflect this and to safeguard the Firm's independence. Our internal policy in relation to retiring, or recently retired Partners goes beyond the requirements of the revised ES.

Significant matters not governed by the ES or our internal policy but which are considered to have a bearing on independence are presented to the Ethics Committee for their consideration.

Firm financial independence

KPMG in the UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in KICS. This record is monitored through our compliance process.

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 ES 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 entity we audit or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant personnel (including all Partners and client service professionals) with independence training twice per year 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, Partner and partner-equivalents are required to provide confirmation twice per year, and other professionals on an annual basis, 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.

Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for entities we audit 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 audited entity. 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 requirements of the ES (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 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.

Firm rotation

EU Public Interest Entities ('EU PIEs), as defined in the FRC's ES, are 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 MFR.

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 ES 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, no individual with the ability to influence the conduct and outcome of an audit can be rewarded for selling non-audit services to entities we audit.

Post the 30 September 2018 year-end, we announced thatthe Firm is working towards discontinuing the provision of non-audit services (other than those required by law or regulation or closely related to the audit) to the FTSE350 companies we audit. This goes beyond the requirements of the ES and is a step we have taken to remove even the perception of a possible conflict.

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 that we audit 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.

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.

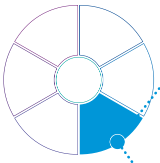
We have risk management resource who are responsible for reviewing an identified potential conflict and working with the affected Member Firms to resolve the conflict the outcome of which must be documented. It may be necessary to apply specific procedures to manage the potential for a conflict of interest 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.

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). In 2018 we have also provided training to all Partners and employees on the requirements of the GDPR.

We keep under review our anti-money laundering and anti-bribery systems and controls to ensure that these meet the requirements of legislation.

4. Recruitment, development and assignment of appropriately qualified personnel



- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

We are 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 entity we audit 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.

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 3,500 new people in the year ended 30 September 2018 (2017: over 3,000).

Upon joining the Firm, new personnel are required to participate in an on-boarding programme designed to help ensure that any independence or conflicts of interest are addressed before the individual's employment or partnership commences.

> 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."

This includes training in areas such as ethics and independence, quality and risk management principles, our people management procedures, our values and the KPMG Story. For qualified joiners to Audit we have developed a two-week face to face induction.

Personal development

Attracting, retaining and developing talented individuals 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.

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 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.

Inclusion, diversity and social equality

Our trust and growth objectives are underpinned by an inclusive culture, which is critical to ensuring that we can thrive as a firm.

We embrace diversity of background, diversity of experience, diversity of perspective – as we recognise the value that diverse thinking brings to our organisation and our reputation in the marketplace. We're committed to inclusion at every level in our organisation and acknowledge the role of leaders in driving this from the top through their inclusive actions and behaviours.

We want to bring about a positive integration between work and life that not only promotes career achievement but also provides an environment that enables everyone, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, to reach their full potential by being valued for being themselves. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and ways of working.

Our established Inclusion, Diversity and Social Equality strategy provides the framework to drive the actions that we believe are necessary to promote inclusive leadership and increased diversity across the KPMG network. Our diverse workforce delivers innovative solutions for our clients, but it is our culture and environment that enables us to harness this most effectively. Our Employee Networks and our calendar of awareness-raising events throughout the year help us to engage all colleagues in conversation and to drive action. We also recognise the importance of enabling people to work in the ways that best suit them, so that high performance and increased engagement can lead to better service for our clients.

Our processes, policies and practices are consistently reviewed to ensure that we are attracting, retaining and developing the best people from the broadest talent pools possible.

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 mobile enabled application. These evaluations are conducted by performance managers and Partners who are in a position to assess performance. In preparation for their performance development conversation all of our staff are required to seek evidence of their performance during the year. As part of the year-end performance review activity 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 performance management process 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 performance development activity 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, ethics and compliance metrics.

These standardised metrics (which are issued to all engagement leaders and managers) are one of the inputs to the annual performance appraisal process. The quality, ethics and compliance 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. Individuals received metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance. The 2018 results indicate generally a good level of quality and risk compliance across our whole Firm. 92% of our Partner to manager group were awarded green metrics, 5% 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') 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. Adverse metrics generally result in a reduction in the overall compensation paid to the Partner concerned.

We use the same system of quality, ethics and compliance metrics for manager grade staff to reinforce the message that responsibility for engagement quality extends beyond the engagement leader.

For the most recent round of performance reviews we expanded the inputs into our quality assessment of audit engagement leaders beyond the results of internal and external inspections. These assessments now include indicators of the individual's personal contribution to the firm's overall audit quality through their participation in quality improvement actions, their involvement in quality monitoring and similar programmes together with other matters, positive and negative, that inform us of the individual's commitment to audit quality.

For this coming year we are introducing changes to our performance management process with the introduction of a quality scorecard. These amendments reflect the quality goal set earlier this year where we clarified that audit quality would be the overarching determinant of performance.

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.

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 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 2018, KPMG LLP recruited 19 new Partners from the external market (2017: 14) and promoted 54 from within the Firm (2017: 47). 21% of the externally recruited Partners and 30% of the Partners promoted from within during the year ended 30 September 2018 are female.

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:

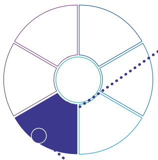
- An understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory requirements;
- Appropriate technical skills, including those related to relevant 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 Performance Group Leader. Each Performance Group Leader (or their approved delegate) meets every audit engagement leader in their Performance Group 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 Performance Group Leader 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 entity we audit. This process takes into account individuals' quality, ethics and compliance metrics.

KGS Audit ('KGS') is KPMG in the UK's Audit off-shoring capability and comprises more than 800 employees located in Delhi and Bangalore, India. KGS employees are available for an audit team 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 entities we audit 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.

5. Commitment to technical excellence and quality service delivery



- Technical training and support
- Accreditation and licensing
- Access to specialists networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

We provide all professionals with the technical training and support they need, including access to networks of specialists and technical experts, in particular DPP Accounting & Reporting and DPP Auditing which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

Technical training

In addition to personal development, 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 workshops involving 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. KPMG Audit University is a three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures and will be an annual part of the training programme.

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. Non-attendance or the late completion of mandatory training is captured as one of the measures in the quality, ethics and compliance metrics.

In addition to structured technical training, we encourage coaching, consultation, on-the-job training and mentoring.

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 engagements 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.

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.

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. We have also established Risk Panels to enable direct challenge of approach to the key audit issues on our highest risk audits. Panels are led by an Audit Quality or Risk Management Partner and they are supported by an experienced practising audit Partner.

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.

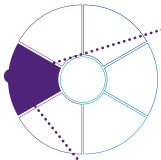
The ISG works with global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between Member Firms, identify emerging issues and develop global guidance on a timely basis.

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.

6. Performance of effective and efficient audits



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

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. In addition to those audit quality initiatives described in the Audit Quality Indicators section of this Report, the key behaviours that our auditors apply throughout the audit process to deliver effective quality audits are:

- Timely Partner, manager and Second Line of Defence (where relevant) involvement;
- Appropriate and timely involvement of specialists;
- Critical assessment of audit evidence, exercise of professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- 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;
  - Focus on effectiveness of group audits; and
- Client confidentiality, information security and data privacy.

Timely Partner, manager and Second Line of Defence involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the business of the entity we audit, 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.

Timely completion of audit planning activities is a key step in driving audit quality. In order to reinforce this, during the year we introduced a requirement which mandates the completion and review of audit planning activities within specified timeframes to evidence completion of the relevant planning activities.

Our Second Line of Defence team is a group made up of senior auditors which supports our higher risk engagements and performs in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. They support teams throughout the audit cycle from planning to completion providing a mix of help when teams identify emerging issues and a greater level of monitoring activity to identify issues before they impact audit quality. This has a dual purpose, firstly, to enable coaching of teams and secondly to act as another level of review and challenge to help engagement teams in the delivery of high quality audits.

Appropriate and timely involvement of specialists

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. Our engagement teams have access to a network of specialists and this may include involving local specialists or those from other KPMG Member Firms.

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.

Our audit methodology 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.

Critical assessment of audit evidence, exercise of professional judgement and 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.

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.

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.

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 – the period during which teams are required to complete audit documentation is a maximum of 15 days from the date of the audit report unless dispensation is provided by the Head of Audit Risk or Head of Audit Quality.

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.

The introduction of standardised approaches and workpapers introduced as part of our Audit Quality Transformation Plan, as described in the Audit Quality Indicators section of this Report on page 19, is part of our programme to assist our audit teams with appropriately supported and documented 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.

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 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 standardised work programmes detailing the level of EQC reviewer involvement
- 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 to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

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 entity'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.

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. Further detail on the ACI is included within the Audit Quality Indicators section of this report.

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, the involvement of the EQC reviewer with group and component auditors, and the conclusions reached by the group team on the group file.

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.

During the year, the Information 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.

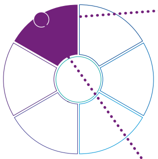
We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. Our personnel are required to comply with our Acceptable Use Policy – this 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.

In response to the introduction of the General Data Protection Regulation (GDPR) and the UK Data Protection Act 2018, KPMG initiated a data privacy and protection compliance programme in early 2017. The programme has taken a risk based approach, ensuring safeguarding of personal data and the rights of data subjects. The key areas covered are listed below:

- Providing Firm wide data privacy and information security training to all UK staff;
- Updating privacy and information protection policies and privacy notices;
- Documenting records of processing activities and inventory of all systems that process personal data, including sensitive personal data;
- Enhancement of risk assessment and management framework including third party supplier assurance, privacy impact assessment (PIA), data subject requests and data incident and breach reporting processes; and
- Appointment of a Data Protection Officer and data privacy staff in all key businesses and functions.

The Firm continues to work towards further strengthening of privacy and data protection compliance by introducing further technical measures, tools and automation.

7. Commitment to continuous improvement



- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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.

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.

We also perform ongoing compliance testing, the results of which are presented to the ExCo and the Audit and Risk Committees on a periodic basis.

Quality Performance Review ('QPR') programme

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 in the 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 2018 Quality Performance Review coverage

	Number of engagements reviewed (2017)	% of engagement leaders reviewed (2017)
Audit	138 (113)	42% (33%)
Tax	161 (149)	27% (24%)
Advisory	264 (265)	34% (35%)

Audit

KPMG International continues to refine and strengthen the Audit QPR Programme. 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.

To further enhance the quality, rigour 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.

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.

The Audit Quality Indicators section of this Report on page 14 contains further information on the results of the 2018 Audit QPR cycle together with detail on the Firm's root-cause analysis process.

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 2018, 91% of Tax engagements were graded as 'Satisfactory', 6% graded as 'Performance Improvement Necessary' and 3% of engagements were graded as 'Unsatisfactory'. This compares with comparative ratings for the 2017 programme of 83% graded as 'Satisfactory', 11% graded as 'Performance Improvement Necessary' and 6% of engagements graded as 'Unsatisfactory'.

In 2018, 78% of Advisory engagements were graded as 'Satisfactory', 17% were graded 'Performance Improvement Necessary' and 5% of engagements were graded as 'Unsatisfactory'. This compares with scores for the 2017 programme of 80% graded as 'Satisfactory', 15% as 'Performance Improvement Necessary' and 5% as 'Unsatisfactory'.

An 'Unsatisfactory' or 'Red' grading does not necessarily mean that the advice issued was incorrect. In the majority of instances the 'PIN' and 'Unsatisfactory' ratings were in relation to internal compliance issues rather than underlying significant quality related matters.

Programme ('RCP')

The 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.

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' (2017: '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.

Global Compliance Review ('GCR')

The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the Firm's RCP), independence and financial processes. It is undertaken by representatives of KPMG International who are independent of the UK firm. The UK Firm was last subject to GCR inspection in October 2018 where a small number of opportunities for improvement were identified including areas which were generally identified by the UK Firm's own RCP and other compliance and quality control processes. The next GCR is due in 2021.

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 Firm's 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 2018, included areas of focus such as information protection recognising the importance of this area in the current environment.

External monitoring

Audit Quality Review ('AQR')

In the UK, the AQR team of the FRC performed their 2017-18 inspection of the Firm and their public report on the inspection was released in June 2018. The report and our response, included within Appendix B of the report, are available on the FRC website[11]. The Firm's audit registration was renewed during 2018.

Further detail on the AQR findings and the quality initiatives we have put in place can be found in the Audit Quality Indicators section of this Report.

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 2018, the FRC published the following reports which set out the principal findings of thematic reviews:

- **Audit Culture:** Firms' activities to establish, promote and embed a culture that is committed to delivering consistently high quality audits – we agree with the FRC's view of the important role that culture plays in high quality audits through fundamental principles, rigorous standards, due process and mandated quality assurance and the need for high quality audit work to be valued and rewarded through emphasising the importance of 'doing the right thing'. We welcome the FRC's message that firms are investing considerable time and effort on their firm-wide culture with performance management and reward processes aligned to values and encouraged behaviour and the use of staff surveys and listening processes being well embedded. We also note the FRC's recommendations that whilst progress is being made, there are a number of areas where more should be done by the firms to establish, promote and embed an appropriate audit culture, such as recognising positive contributions to high audit quality. With this in mind, for this coming year we have announced changes to our performance management process with the introduction of a quality scorecard. This functionality is built into our new performance management system and these amendments reflect the quality goal set earlier this year where we clarified that Quality would be the overarching determinant of performance.
- **Materiality:** we welcome the view of the FRC that the majority of the key messages in their previous review of materiality have been addressed by the firms which include increasing the emphasis on the application of judgement when determining overall materiality and performance materiality; providing industry-specific guidance for many sectors and demonstrating the consideration of risk in setting performance materiality. The Thematic Review states audit teams must ensure that in circumstances where adjusted profit is used as a benchmark for setting materiality that this must better meet the needs of the users of the financial statements and that the professional judgements and decisions involved in setting the adjusted benchmark must be clearly documented. A revised materiality assessment forms part of our roll-out of improved workpapers for audit teams that helps our audit teams to document and explain such judgements in a consistent manner.

11 https://www.frc.org.uk/getattachment/c2c92d13-4a5a-4711-9ec5-9d69c60da278/KPMG-LLP-Public-Report-2017-18.pdf

Two further thematic inspections are scheduled for 2018–19, covering Transparency Reporting and Audit Quality Indicators. We will set out the findings from these reviews in next year's Report. In addition to this, the FRC will also complete its thematic review of The Auditors Work on the Front Half of the Annual Report.

In addition to thematic reviews the FRC has also, under its new Audit Firm Monitoring and Supervisory Approach, undertaken enhanced monitoring in two areas during the year – contingency planning and information security. Unlike thematic reviews, the results of this monitoring is made available to the firms but not published. Where matters have been identified relevant to KPMG, these are reflected in our plans for continuous improvement in the relevant area.

ICAEW Quality Assurance Department and Practice Assurance reviews

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 results of this review are included in the Audit Quality Indicators section of this Report.

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 2018.

Our Firm is also registered with the US PCAOB, the Japanese Financial Services Authority and the Canadian Public Accountability Board ('CPAB').

The US PCAOB performed an inspection during 2018. As at the date of this Transparency Report a final report has not been issued. We will include details of this report in the 2019 Transparency Report.

Regulatory investigations and sanctions

Information on regulatory investigations and sanctions are detailed in the Audit Quality Indicators section on page 17 of this Report.

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 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.

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received 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 Chief Risk Officer (prior to the creation of the Chief Risk Officer role complaints were investigated under the authority of the Head of Quality & Risk Management.

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 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 – 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 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.

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 £125.6 million compared with £175 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 (2017: 45%), plus a further 2% in national insurance. Tax paid during 2018 was lower than the 2017 level as the taxable profits for the year to 30 September 2017 were lower than those in 2016.

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.

KPMG in the UK – cash taxes paid in the years to 30 September 2018 and 2017 – Summary

	2018			2017		
£m	**Cost to Firm**	**Collecting agent**	**Total**	**Cost to Firm**	**Collecting agent**	**Total**
Employment items	105.3	269.1	374.4	99.3	258.2	357.5
Partners	1.1	124.5	125.6	0.0	175.0	175.0
Corporation tax	9.9	0.0	9.9	12.7	0.0	12.7
Rates	15.5	0.0	15.5	15.7	0.0	15.7
VAT	1.1	356.6	357.7	1.3	257.3	258.6
Other items	1.8	0.9	2.7	3.2	1.2	4.4
	134.7	**751.1**	**885.8**	**132.2**	**691.7**	**823.9**

All figures represent cash taxes paid during the relevant year by KPMG and subsidiaries.
All figures in £ millions

Taken together the total paid and collected by us in 2018 was £886 million (2017: £824 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 2018 than 2017.

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.

Appendix 4 – Financial Information

The information below is extracted from Firm's financial reporting systems and is consistent with segmental analysis presented in the 2018 Financial Statements, the consolidated financial statements incorporating both KPMG LLP and KPMG Audit Plc.

Relative importance of statutory audit work

Revenue 2018	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	1	568	3	572
Other assurance work	-	15	1	16
	1	583	4	588
Tax, Pensions and Legal	-	545	3	548
Deal Advisory	-	403	38	441
Consulting	1	670	90	761
	2	**2,201**	**135**	**2,338**

Total KPMG in the UK revenues can be further analysed on the following basis:

Revenue 2018	Total £m
Audit and directly related services for audit clients	572
Non-audit services for audit clients	216
Non-audit services for non-audit clients	1,550
	2,338

Audit and directly related services reflects revenue of £137 million in respect of EU public interest entities and their subsidiaries and £435 million audit and related services provided to other entities.

In accordance with the Local Auditors (Transparency) Instrument 2015 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014), KPMG LLP issued audit opinions on the Major Local Audits detailed in Appendix 6. The total audit fees for Local Audits signed during the year ended September 2018 is £15m.

Appendix 5 - Basis of partner remuneration

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 of the LLP, 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 with quality as the primary factor and with others factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group also taken into account.

The profit allocated to members is 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 – 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.

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 retention 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.

During the year members receive monthly drawings and, from time to time, additional profit distributions. The level and timing of the additional profit distributions are decided by the Executive Committee and approved by the Board, taking into account group's cash requirements for operating and investing activities. Both the monthly drawings and profit distributions are reclaimable from members until the date on which profits are allocated.

To maintain auditor independence, no individual can be rewarded for selling non-audit services to companies we audit.

Appendix 6 – Public interest entities listing

Disclosures in accordance with (1) Article 13.2 (f) of the EU Audit Regulation and (2) the schedule of The Local Auditors (Transparency) Instrument 2015

1) Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2018.

The list includes the entities which meet all of the following conditions: i) the entity is incorporated/established in the United Kingdom or Ireland; ii) KPMG LLP or KPMG Audit Plc signed an audit report on the entity's annual financial statements during the year ended 30 September 2018; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 1210 of the Companies Act 2006.

Pursuant to the EU Audit Regulation, the definition of a PIE includes: i) Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state; ii) Credit institutions authorised by EU member states authorities; iii) Insurance undertakings authorised by EU member state; and iv) Other entities a member state may choose to designate as a PIE.

Entity name

Aberdeen Japan Investment Trust Plc	ANZ Bank (Europe) Limited	Bazalgette Finance Plc
Aberdeen New Dawn Investment Trust Plc	AO World Plc	Beazley Plc
Aberdeen New Thai Investment Trust Plc	Arbuthnot Latham & Company Limited	Bellway Plc
Aberdeen Roads (Finance) Plc	Arlington No.3 Bond Issuer Plc	The Berkeley Group Holdings Plc
Aetna Insurance Company Limited	Arrow Global Group Plc	Beverley Building Society
AEW UK Long Lease REIT plc	Artemis Alpha Trust Plc	BHP Billiton Plc
AEW UK REIT Plc	Artemis VCT Plc	Big Yellow Group Plc
Affinity Sutton Capital Markets Plc	Ascential Plc	Bloomsbury Publishing Plc
Ageas Insurance Limited	Ashmore Group Plc	Booker Group Plc
AGF Insurance Limited	Aspen Insurance UK Limited	BPHA Finance Plc
Aggreko Plc	Aspire Defence Finance Plc	Braemar Shipping Services Plc
Aioi Nissay Dowa Insurance Company of Europe Limited	Aster Treasury plc	British American Tobacco Plc
Air Berlin Plc	Auburn Securities 9 plc	British Arab Commercial Bank plc
Alba 2005 - 1 Plc	Auto Trader Group Plc	British Reserve Insurance Company Limited
Alba 2006 - 1 Plc	Autolink Concessionaires (M6) Plc	BTG Plc
Alba 2006 - 2 Plc	B & C E Insurance Limited	Budget Insurance Company Limited
Alba 2007 - 1 Plc	BAE Systems Plc	Bumper 8 (Uk) Finance Plc
Allianz Insurance plc	Baillie Gifford Shin Nippon Plc	BUPA Finance Plc
Allied Minds Plc	Balfour Beatty Plc	Bupa Insurance Limited
Alpha Bank London Limited	Bank Leumi (Uk) Plc	Business Mortgage Finance No 3 Plc
Alpha Schools (Highland) Project Plc	Bank of Ceylon (UK) Limited	Business Mortgage Finance No 4 Plc
The Alumasc Group Plc	Bank of England	Business Mortgage Finance No 5 Plc
Amati VCT Plc	Barclays Bank Plc	Business Mortgage Finance No 6 Plc
Ambac Assurance UK Limited	Barclays Bank Uk Plc	Business Mortgage Finance No 7 Plc
Amlin Insurance SE	Barclays Plc	By Chelmer Plc
AMT Mortgage Insurance Limited	Baring Emerging Europe Plc	Caledonia Investments Plc
AmTrust Europe Limited	Baronsmead Second Venture Trust Plc	Cambridge & Counties Bank Limited
Annes Gate Property Plc	Baronsmead Venture Trust Plc	Cambridge Building Society
Annington Funding Plc	B.A.T. International Finance Plc	Cambridgeshire Housing Capital Plc

Entity name		
Capita Plc	Devro Plc	First Flexible No. 6 Plc
Capital Hospitals (Issuer) Plc	DFS Furniture Plc	Foresight 4 VCT Plc
Carclo Plc	Dialight Plc	Foresight Solar & Infrastructure VCT Plc
Card Factory Plc	Diamond Bank (UK) Plc	Foresight VCT Plc
Cardiff Property Plc	Domestic & General Insurance Plc	Forester Life Limited
Carillion Plc	Dudley Building Society	French Connection Group Plc
Catalina London Limited	Dukinfield II Plc	Furness Building Society
Catalina Worthing Insurance Limited	Dukinfield Plc	Gemgarto 2015-1 Plc
Catalyst Healthcare (Manchester) Financing Plc	Dunedin Enterprise Investment Trust Plc	Gemgarto 2015-2 Plc
Catalyst Healthcare (Romford) Financing Plc	Dunedin Income Growth Investment Trust Plc	GESB Plc
Catalyst Higher Education (Sheffield) Plc	Dunedin Smaller Companies Investment Trust Plc	GLH Hotels Limited
Cathedral Capital Holdings Limited	Earl Shilton Building Society	Global Graphics SE
Central Nottinghamshire Hospitals Plc	East Finance plc	Global Resources Investment Trust Plc
Charles Stanley Group Plc	East Slope Residencies Plc	Gocompare.com Group Plc
Chetwood Financial Limited	Ecology Building Society	Goodwin Plc
Chorley & District Building Society	Edinburgh Dragon Trust Plc	Gracechurch Card Programme Funding Plc
Cineworld Group Plc	The Edinburgh Investment Trust Plc	Grainger Plc
Circle Anglia Social Housing Plc	Electronic Data Processing Plc	Greggs Plc
Clarion Funding plc	Ellenbrook Developments Plc	Guaranty Trust Bank (UK) Limited
Compass Group Plc	EMH Treasury Plc	Gwynt Y Mor Ofto Plc
Computacenter Plc	Epihiro Plc	Habib Bank Zurich Plc
Connect M77/GSO Plc	Essentra Plc	Halfords Group Plc
Consort Healthcare (Birmingham) Funding Plc	Esure Group Plc	Hampshire Trust Plc
Consort Healthcare (Blackburn) Funding Plc	Esure Insurance Limited	Harben Finance 2017-1 Plc
Consort Healthcare (Mid Yorkshire) Funding Plc	Eurohome UK Mortgages 2007-1 Plc	Harpenden Building Society
Consort Healthcare (Salford) Plc	Eurohome UK Mortgages 2007-2 Plc	Hastings Group Holdings Plc
Consort Healthcare (Tameside) Plc	The Excelsior Insurance Company Limited	Hastoe Capital Plc
Consort Medical Plc	Experian Finance Plc	Hawksmoor Mortgages 2016-1 Plc
The Coventry And Rugby Hospital Company Plc	F&C Managed Portfolio Trust Plc (Growth & Income)	Hawksmoor Mortgages 2016-2 Plc
Credit Suisse (UK) Limited	Family Assurance Friendly Society	Healthcare Support (Newcastle) Finance Plc
Credit Suisse International	Fidelis Underwriting Limited	Herefordshire Capital Plc
Daejan Holdings Plc	Fidessa Group Plc	Heta Funding Designated Activity Company
Darrowby No 3 Plc	Findel Plc	Hill & Smith Holdings Plc
Darrowby No 4 Plc	Finsbury Square 2016-1 Plc	Hollywood Bowl Group Plc
DAS Legal Expenses Insurance Company Limited	Finsbury Square 2016-2 Plc	Holmesdale Building Society
DB UK Bank Limited	Finsbury Square 2017-1 Plc	Holyrood Student Accommodation Plc
De La Rue Plc	Finsbury Square 2017-2 Plc	Home Group Limited
Derby Healthcare Plc	First Flexible (No. 7) Plc	HPC King's College Hospital (Issuer) plc
	First Flexible No.5 Plc	HSB Engineering Insurance Limited
		ICBC (London) Plc

Entity name

Entity name
ICBC Standard Bank Plc
ICICI Bank UK Plc
Imagination Technologies Group Plc
Income Contingent Student Loans 1 (2002-2006) Plc
Inspired Education (South Lanarkshire) Plc
Intelligent Energy Holdings Plc
International Finance Facility for Immunisation
Invesco Asia Trust Plc
IP Group Plc
Ipswich Building Society
Irida Plc
ITV Plc
James Fisher & Sons Plc
JD Sports Fashion Plc
Jimmy Choo Plc
John Lewis Plc
Johnson Matthey Plc
Just Group Plc
Just Retirement Limited
Katanalotika Plc
Kaz Minerals Plc
Keller Group Plc
Kenrick No.2 Plc
Kensington Mortgage Securities Plc
Knightstone Capital Plc
KX Reinsurance Company Limited
LAB Investments Plc
Lancashire Insurance Company (UK) Ltd
Landmark Mortgage Securities No 2 Plc
Landmark Mortgage Securities No.1 Plc
Landmark Mortgage Securities No.3 Plc
Leek United Building Society
LGS Investments Plc
L-J Finco Limited
The Local Shopping REIT Plc
Logistics UK 2015 Plc
Lonmin Plc
Low & Bonar Plc
Luceco Plc
Luceco Plc
Macfarlane Group Plc
Manchester Airport Group Funding Plc
Markel International Insurance Company Limited
Market Harborough Building Society
Marsden Building Society
Masthaven Bank Limited
McKay Securities Plc
Melton Mowbray Building Society
Mercantile Indemnity Company Limited
Merlin Entertainments Plc
Methodist Insurance Plc
Micro Focus International Plc
Midland Heart Capital Plc
Millennium & Copthorne Hotels Plc
Mitsui Sumitomo Insurance Company (Europe) Limited
Moneysupermarket.com Group Plc
Monmouthshire Building Society
Moorgate Funding 2014-1 Plc
Morgan Advanced Materials Plc
Motors Insurance Company Limited
A & J Mucklow Group Plc
Myriad Capital Plc
N Brown Group Plc
National Casualty Company Of America Limited
National Counties Building Society
Navigators International Insurance Limited
NCC Group Plc
Nemus II (Arden) Plc
Aberdeen New India Investment Trust Plc
Newbury Building Society
NewDay Funding 2015-1 Plc
NewDay Funding 2015-2 Plc
NewDay Funding 2016 -1 Plc
Newday Funding 2017-1 Plc
NewDay Partnership Funding 2014-1 Plc
NewDay Partnership Funding 2015-1 Plc
NewHospitals (St Helens and Knowsley) Finance Plc
The North American Income Trust Plc
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
Octagon Healthcare Funding Plc
Old Mutual Plc
Old Mutual Wealth Life Assurance Limited
On the Beach Group Plc
OneSavings Bank Plc
Orbit Capital Plc
Oxford Instruments Plc
Pacific Assets Trust Plc
Paddy Power Betfair Plc
Paragon Bank 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.7) Plc
Paragon Mortgages (No.8) Plc
Paragon Mortgages (No.9) Plc
Paragon Mortgages (No. 23) Plc
Paragon Mortgages (No. 24) Plc
Paragon Mortgages (No.19) Plc
Paragon Mortgages (No.20) Plc
Paragon Mortgages (No.21) Plc
Paragon Mortgages (No.22) Plc
Paragon Secured Finance (No. 1) Plc
Paragon Treasury Plc
Partnership Life Assurance Company Limited
PayPoint Plc
Peabody Capital No 2 Plc
Peabody Capital Plc

Entity name

Pedigree Livestock Insurance Limited	RM Plc	SDL Plc
Pendragon Plc	RMAC 2003 - NS1 Plc	Secure Trust Bank Plc
Penrith Building Society	RMAC 2003 - NS2 Plc	Old Mutual Wealth Life & Pensions Limited
Pension Insurance Corporation Plc	RMAC 2003 - NS3 Plc	Senior Plc
Personal Assurance Plc	RMAC 2003 - NS4 Plc	Serco Group Plc
Pets at Home Group Plc	RMAC 2004 - NS1 Plc	Severfield Plc
Photo - Me International Plc	RMAC 2004 - NSP2 Plc	Shawbrook Bank Limited
Pisti 2010-1 Plc	RMAC 2004 - NSP4 Plc	Shawbrook Group Plc
Places for People Capital Markets Plc	RMAC 2004-NSP3 Plc	Sheffield City Trust
Places for People Finance Plc	RMAC 2005 - NS1 Plc	Skipton Building Society
Places for People Homes Limited	RMAC 2005 - NS3 Plc	Slate No.1 Plc
Places for People Treasury plc	RMAC 2005 - NS4 Plc	Slate No.2 Plc
Polar Capital Technology Trust Plc	RMAC 2005 - NSP2 Plc	Smith & Nephew Plc
Poplar Harca Capital Plc	RMAC Securities No.1 Plc	Sonali Bank (UK) Limited
Premier Foods Plc	Road Management Services (A13) Plc	Sophos Group Plc
Premier Global Infrastructure Trust Plc	Rochester Financing No.1 Plc	Southern Electric Power Distribution Plc
Prudential Pensions Limited	Rochester Financing No.2 Plc	Southern Gas Networks plc
Prudential Plc	Rolls-Royce Holdings Plc	Southern Pacific Financing 05-A Plc
Punch Taverns Finance Plc	Rolls-Royce Plc	Sovereign Health Care
Punch Taverns Plc	Rombalds Run-Off Limited	Sovereign Housing Capital Plc
PureTech Health Plc	Rothschilds Continuation Finance Plc	Speedy Hire Plc
QinetiQ Group Plc	Royal & Sun Alliance Insurance Plc	SSE Plc
Quadrant Housing Finance Limited	Royal & Sun Alliance Reinsurance Limited	SSP Group Plc
R Raphael & Sons Plc	Royal Mail Plc	Stafford Railway Building Society
Rathbone Brothers Plc	RSA Insurance Group Plc	Standard Chartered Bank
Rathbone Investment Management Limited	SAGA Plc	Standard Chartered Plc
Redwood Bank Limited	Samsung Fire & Marine Insurance Company of Europe Limited	Standard Life Assurance Company 2006
Rentokil Initial Plc	Sanctuary Capital Plc	Standard Life Plc
Rentokil Insurance Limited	Sandwell Commercial Finance No. 1 Plc	Standard Life UK Smaller Companies Trust plc
Residential Mortgage Securities 23 Plc	Sandwell Commercial Finance No. 2 Plc	Starling Bank Limited
Residential Mortgage Securities 25 Plc	Satellite Financing Plc	Stewart Title Limited
Residential Mortgage Securities 26 Plc	Scotiabank Europe Plc	Stock Spirits Group Plc
Residential Mortgage Securities 28 Plc	Scotland Gas Networks plc	Strategic Equity Capital Plc
Residential Mortgage Securities 29 Plc	The Scottish American Investment Company Plc	Sumitomo Mitsui Banking Corporation Europe Limited
Residential Mortgage Securities 30 Plc	Scottish Amicable Finance Plc	Sun Insurance Office Limited
Revolution Bars Group Plc	Scottish Building Society	Sunderland Marine Insurance Company Limited
Rightmove Plc	Scottish Hydro-Electric Power Distribution Plc	Sutton & East Surrey Water Plc
Ripon Mortgages Plc	Scottish Mortgage Investment Trust Plc	Ted Baker Plc
River Thames Insurance Company Limited	Scottish Power Uk Plc	Telecom Plus Plc
Riverside Finance Plc		

Entity name		
Tesco Underwriting Limited	Towd Point Mortgage Funding 2016 Granite3 plc	United Utilities Water Limited
Thames Water (Kemble) Finance Plc	Towd Point Mortgage Funding 2016-Auburn11	Unity Trust Bank Plc
Thames Water Utilities Finance Limited	Towd Point Mortgage Funding 2016-Vantage1	University of Liverpool
The Baillie Gifford Japan Trust Plc	TR Property Investment Trust Plc	Vectura Group Plc
The Bank Of New York Mellon (International) Limited	Trafalgar Insurance Plc	Vernon Building Society
The Loughborough Building Society	Transform Schools (North Lanarkshire) Funding Plc	Victrex Plc
The Mansfield Building Society	Travelers Casualty and Surety Company of Europe Limited	The Vitec Group Plc
The Marine Insurance Company Limited	Travelers Insurance Company Limited	W R Berkley Insurance (Europe), Plc
The Paragon Group of Companies Plc	Travis Perkins Plc	The Walsall Hospital Company Plc
The Prudential Assurance Company Limited	Trifast Plc	Wessex Water Services Finance Plc
The World Marine & General Insurance Plc	Trinity Square 2015-1 Plc	West Bromwich Building Society
Thrones 2013-1 Plc	Trinity Square 2016-1 Plc	West Yorkshire Insurance Company Limited
Thrones 2014-1 Plc	TT Electronics Plc	Westfield Contributory Health Scheme Limited
Thrones 2015-1 Plc	Turkish Bank (UK) Limited	Wheatley Group Capital Plc
Tipton & Coseley Building Society	Unilever Plc	Wincanton Plc
Towd Point Mortgage Funding 2016 - Auburn 10 Plc	United Utilities Group Plc	Workspace Group Plc
Towd Point Mortgage Funding 2016 Granite1 Plc	United Utilities Plc	Worldpay Group Plc
Towd Point Mortgage Funding 2016 Granite2 plc	United Utilities Water Finance Plc	Zegona Communications Plc
		Zenith Bank (UK) Limited

2) 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 2018.

Entity name

Barking, Havering and Redbridge UH NHS Trust
Barnsley Metropolitan Borough Council
Berkshire Pension Fund
Blackpool Council
Bolton Metropolitan Borough Council
Brent London Borough Council
Brent Pension Fund
Bury Metropolitan Borough Council
Camden Pension Fund
Chief Constable for West Yorkshire Police
Derbyshire County Council
Derbyshire Pension Fund
Doncaster Metropolitan Borough Council
Dorset County Council
Dorset Pension Fund
Ealing Pension Fund
East Riding Of Yorkshire Council
East Riding Pension Fund
East Sussex County Council
East Sussex Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Hounslow London Borough Council
Hounslow Pension Fund
Islington London Borough Council
Islington Pension Fund
Kensington and Chelsea Pension fund
Kirklees Metropolitan Borough Council
Kirklees Metropolitan Council
Knowsley Metropolitan Borough Council
Lambeth Pension Fund
Leeds City Council
Leicestershire County Council
Leicestershire Pension Fund
Lincolnshire County Council
Lincolnshire Pension Fund
London Borough of Barking and Dagenham
London Borough of Camden Council
London Borough of Ealing
London Borough of Hackney
London Borough of Hammersmith and Fulham
London Borough of Harrow
London Borough of Lambeth
London Borough of Redbridge
London Borough of Tower Hamlets
London Borough of Waltham Forest
NHS Barnet CCG
NHS Bromley CCG
NHS Lambeth CCG
NHS Lewisham CCG
NHS Morecambe Bay CCG
NHS Newham CCG
NHS North East Essex CCG
NHS North West Surrey CCG
NHS Nottingham City CCG
NHS Sandwell and West Birmingham CCG
NHS Sheffield CCG
NHS Southern Derbyshire CCG
NHS Southwark CCG
NHS Wakefield CCG
NHS West Kent CCG
North East Lincolnshire Council
North Lincolnshire Council
Northumbria Healthcare NHS Foundation Trust
North Yorkshire County Council
North Yorkshire Pension Fund
Nottingham City Council
Nottinghamshire County Council
Nottinghamshire Pension Fund
Nottingham University Hospitals NHS Trust
Police and Crime Commissioner for West Yorkshire
Rotherham Metropolitan Borough Council
Royal Borough of Kensington and Chelsea
Royal Devon and Exeter NHS Foundation Trust
Sheffield City Council
South Yorkshire Pensions Authority
Stoke on Trent City Council
The Royal Wolverhampton Hospitals NHS Trust
Tower Hamlets Pension Fund
University Hospitals Coventry and Warwickshire NHS Trust
Waltham Forest Pension Fund
Wiltshire Council

Appendix 7 – Disclosure and Audit Firm Governance Code requirements

Under Article 13.2 of the EU Audit Regulation we are required to disclose certain information. The table below shows where these disclosures may be found in this Transparency Report.

	Provision of Article 13.2	How KPMG LLP and KPMG Audit Plc comply
1	A description of the legal structure and ownership of the audit firm;	A description of our legal structure and ownership is set out on page 30.
2	where the statutory auditor or the audit firm is a member of a network: i. a description of the network and the legal and structural arrangements in the network; ii. the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network; iii. the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business; iv. the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;	A description of the network and its legal and structural arrangements are set out in Appendix 1.
3	a description of the governance structure of the audit firm;	A description of our governance structure is set out on pages 30 to 35.
4	a description of the internal quality control system of the statutory auditor or of the audit firm 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 26, 60 and Appendix 2.
5	an indication of when the last quality assurance review referred to in Article 26 was carried out;	The statement by the Board on the effectiveness of internal controls is included on page 63.
6	a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	A description of the external monitoring process is set out on page 17.
7	a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	A list of relevant public interest entities is set out in Appendix 6.
8	a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;	A description of our independence procedures is set out on page in Appendix 2 and the confirmation in relation to the review of independence practices by the Board is included on page 63.

	Provision of Article 13.2	How KPMG LLP and KPMG Audit Plc comply
9	information concerning the basis for the partners' remuneration in audit firms;	A statement of the policies and practices applied is included in Appendix 2.
10	information about the basis for the remuneration of Partners.	A description of the basis for Partner remuneration is set out in Appendix 5.
11	a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);	A description of the Firm's basis for the rotation of key audit Partners is set out in Appendix 2.
12	where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories: i. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; ii. revenues from the statutory audit of annual and consolidated financial statements of other entities; iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and iv. revenues from non-audit services to other entities.	Financial information is included within Appendix 4.

The table below sets out where you can find how we comply with the principles and provisions of the revised Audit Firm Governance Code issued by the FRC.

	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 30 to 35. A.1.3: Biographical details of those Members of our governance bodies are set out on pages 38 and 39 and details of attendance at each of the committees are included at page 40. A.1.4: The appointment process for Executive and Non-Executive roles is set out on pages 31 to 35. Management team Members' performance evaluation follows the process described on page 48.
	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[1] and are summarised in this report.

1 Executive Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/uk/pdf/2018/06/executive-committee-tor-0618.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 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 nonexecutives should oversee compliance with it.	B.1.1: Quality is one of our key strategic priorities. Our Global Audit Quality Framework (which is described on pages 68) 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 on pages 36. B.1.3: Our Code of Conduct (which incorporates the relevant key principles of the Code) is available on our internet site[2] and is summarised on page 69. 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 8). 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 page 79).

2 Code of Conduct: https://home.kpmg.com/uk/en/home/insights/2016/05/kpmg-uk-code-of-conduct.html

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
C – Independent Non-Executives	C.1: Involvement of independent non-executives principle – a firm should appoint independent nonexecutives 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 39 for details of our Public Interest Committee membership. The Report from the Independent Non-Executives on page 10 and page 54 of this report set out the involvement of the Public Interest Committee. As a result of the resignation of an Independent Non-Executive on 28 February 2018 the number of Independent Non-Executives fell from three to two until 30 April 2018 when the appointment of an additional Independent 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[3] and are summarised in this report. Further details of the Non-Executives, including remuneration, are provided in this Report on pages 32 and 33. C1.3: The report from the Independent Non-Executives on page 10 and page 54 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.

3 Public Interest Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/uk/pdf/2018/02/public-interest-committee-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 on page 32.
	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). David Pitt-Watson has been approved by the Board to serve an additional year such that he will have been appointed for an aggregate of 7 years. No other current member of the Public Interest Committee has served for more than five years. C3.3: The report from the Independent Non-executives on page 10 and page 54 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[4] and are summarised in this report. Further details of the Non-Executives are provided in this Report at page 32.

4 Public Interest Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/uk/pdf/2018/02/public-interest-committee-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: Page 17 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. Page 19 sets out our responses to the AQR findings in addition to providing detail on our other audit quality initiatives.
	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 Report of the Audit Committee 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 63, 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 61.

	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: Section 4 of Appendix 2 covers disclosure in this area. D.3.2: The Public Interest Committee have been involved in a number of areas with regard to people management, including cultural and reward aspects as indicated in the Report of the Independent Non-Executives on page 54.
	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 as detailed on page 69. Periodic reports were made to the Ethics Committee on new reports in the period (as detailed on page 52). The reports were also considered by the Public Interest Committee.
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 on page 37.

	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 63, 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 61. 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 Committee covering the requirements in this area is set out on page 44. Information on the Audit Committee, including its terms of reference, is on our internet site[5] and is summarised in this Report on page 34.
	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 on the Firm's website[6]. E.5.1 and E.5.2: These disclosures are all included in the audited financial statements which are included on the Firm's website.

5 Audit Committee Terms of Reference: https://home.kpmg.com/content/dam/kpmg/uk/pdf/2018/06/audit-committee-tor-0618.pdf
6 Financial statements: https://report.kpmg.co.uk/

	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 on page 23, and the dialogue our Independent Non-Executives have had this year with key stakeholders is summarised in the report from the Independent Non-Executives on pages 54. Contact details for dialogue about matters covered by the Audit Firm Governance Code is provided on our internet site[7].
	F.2: Shareholder dialogue principle – shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	The Firm supports these principles in its capacity as an audit firm through its engagement and dialogue with shareholders and listed companies as described at page 23.
	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 at page 23.

7 https://home.kpmg.com/uk/en/home/about/leadership-governance.html

Appendix 8 – KPMG's Values

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

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