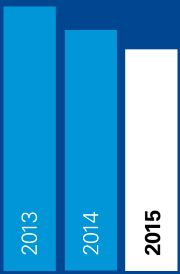
Investing to become the Clear Choice

UK Annual Report 2015
(including the Transparency Report)

December 2015

KPMG.com/uk

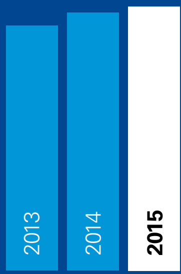
Highlights



Profit before tax and members' profit shares

£383m

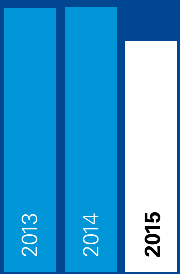
(2014: £414m)
-7%



Revenue

£1,958m

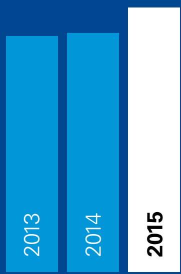
(2014: £1,909m)
+2.6%



Average partner remuneration

£623k

(2014: £715K)
-13%

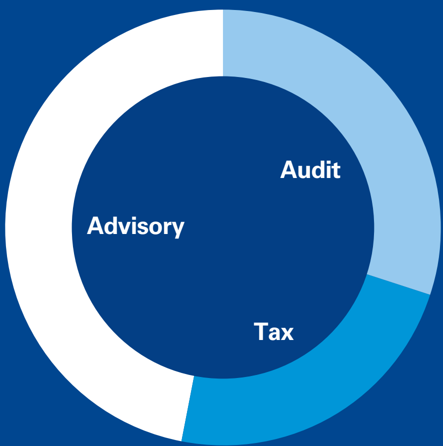


Total tax payable to HMRC

£786m

(2014: £711m)
+11%

Contribution



Audit Contribution

£197m

(2014: £181m)
+9%

Tax Contribution

£151m

(2014: £129m)
+17%

Advisory Contribution

£308m

(2014: £324m)
–5%

Our people UK employees

11,652

Partners

617

Community support
Organisations supported

1,049

(2014: 878)

KPMG in the UK is one of the largest member firms of KPMG's global network providing Audit, Tax and Advisory services. In the UK we have 617 Partners and 11,652 outstanding professionals working together to deliver value to our clients across our 22 offices.

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

Contents

Strategic report

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Chairman's statement

"2015 was the year we put the substantial investment programme we announced in 2014 into action and we have seen some real progress."

Simon Collins
Chairman and Senior Partner
KPMG in the UK

In 2013, we set out on a programme of deep transformation with a three-year 'grip, build, grow' strategy to reposition the business in the markets that we serve. Our annual results for 2015 show the progress we are making towards our ambition of marking out KPMG in the UK as the clear choice for our clients and for the talented people we employ.

In year one, the focus was on controlling costs and restoring profitability. In year two, we rebooted the Firm at our One Firm event at the O2, which reinvigorated the values at the core of our business and boosted engagement with our partners and colleagues. We also announced a bold programme of investment, including an alliance with the McLaren Technology Group and a new deal with our staff.

2015 has seen us begin the process of bedding down our investments – from developing audits which can 'see round corners' to giving our staff their birthdays off. Within 12 months, we have seen these significant investments start to bear fruit. I am proud of what we've achieved so far.

But it's important to be clear that the journey has not been entirely smooth. Growth did not come as quickly in 2015 as we expected and our revenues for the year – at £1.96 billion (£1.91 billion in 2014) – were below what we wanted to achieve. Profit, at £383 million, was also below target.

Above all, that reflects our determination to continue investing heavily in acquisitions, alliances, technology, talent and our network of offices to make sure we have the right resources and scale to meet our clients' most pressing needs. In essence, the build phase of our plan continued into 2015. Nevertheless, we have held our nerve and began to see a distinct change as the year ended. Growth picked up in the last quarter of the year. It's early days, of course, but we are confident that the growth phase of our three-year plan has now begun.

Just as importantly, we have gone into FY 2016 with a clear sense of who and what we are – first commercially, as a market-focused, issues-led business with a much sharper focus on our clients' needs; and secondly, and crucially, in terms of understanding the powerful contribution we can make to society at large.

For me the balance is very important. There are many elements to building a truly sustainable business. We have to be successful, proud, prosperous and aggressive as a business, with an unblinking focus on winning in the market by finding new and better ways to serve our clients.

But we need to be a responsible business which is good for society too, brave enough – as we invariably are – to speak up and act on the issues that will make a real difference to the UK economy. We can take action on issues immediately pertinent to our business, such as taking a lead on the evolution of tax and audit, as well as bigger society issues such as the Living Wage and affordable housing. We are proud to do both.

Audit

The audit retender market was alive with activity in 2015 and I'm delighted to say our Audit practice has not only coped with a disrupted market but thrived at taking the opportunity to make our reports more valuable to investors and work with new clients.

Part of that is down to the Financial Reporting Council's 'comply or explain' governance regime. It has driven a relatively smooth transition to the new system and it's good to see best practice increasingly emerging both in terms of audit tendering and handover.

There are other benefits too. For instance, the new regime has forced us to examine our own practices and procedures. We've had to articulate clearly the role we play in keeping companies safe and in maintaining public trust in the capital markets.

The new regime has also boosted the quality of audit committees. They are now doing a much better job on behalf of shareholders and they are working harder to engage with auditors. It keeps us on our toes, forcing us to be both increasingly relevant and increasingly challenging. Ultimately, that is very good for corporate governance.

We can feel proud about our own role here too. Because we prepared well for the new regime, it has been much less disruptive than it might have been. That achievement is reflected in our results, where we reported a 6.1% growth in audit net sales. We've maintained our win rate successfully with some important new mandates, notably Barclays, British American Tobacco and Experian, and we audit more listed companies than any other firm. We also achieved an important strategic goal for the year – boosting our audit market share among FTSE 100 companies to 24%.

Chairman's statement
continued

However, what's impressed me most is the way the Firm as a whole swings behind the effort to secure new audit mandates, losing all sense of working in silos. This is just the sort of one firm thinking that we are trying to encourage in all aspects of our business, day in and day out.

Audit committees are, of course, looking for value. But their priority is quality. This is important and is contributing positively to improved audit quality, which is critical to investor and public confidence.

We are also continuing our efforts to broaden the audit itself through our extended audit report, where we go beyond regulatory requirements and include additional detailed commentary from the audit partner. Regulators, investors and some clients have responded to this initiative positively; other clients, in truth, remain unconvinced.

Tax

We welcome the growing willingness of governments to work together across borders both to modernise international tax rules to make them relevant to modern business practices and to clamp down on aggressive tax planning, with the sort of proposals that have emerged, for instance, from the OECD's Base Erosion and Profit Shifting (BEPS) initiative.

In the last two years, we have re-orientated our business towards tax compliance and the provision of specialist services in areas like transaction advice, tax value chain and country-by-country reporting. That strategic shift is now paying dividends. Our Tax practice recorded a 12.5% growth in net sales during the year, the greatest growth of any of the Big 4 in 2015.

During the year we extended our own thinking on responsible corporate tax into the public arena. We have been pleased to sponsor and support a consultation and series of events in which we encouraged key participants to try to build shared views on tax. Independent think tank CoVi has hosted this process and has published a report to summarise the debate. We are now exploring what next steps are required to achieve a workable consensus. These conversations have not always been comfortable, and there is a long way to go, but I've absolutely no doubt they have been both necessary and useful – thankfully, a view that's widely shared.

In the last two years, we have re-orientated our business towards tax compliance and the provision of specialist services in areas like transaction advice, tax value chain and country-by-country reporting. That strategic shift is now paying dividends. Our Tax practice recorded a 12.5% growth in net sales during the year, the greatest growth of any of the Big 4.

Average Partner remuneration

£623k
(2014: £715k)
-13%

Chairman's remuneration

£2.2m
(2014: £2.5m)
-12%

The wider trust debate

Trust in business – as the tax debate has shown – remains an overriding concern. I'm sad to say that general trust in the corporate sector has plummeted again during the year, not least in the wake of a number of new corporate scandals. Addressing this serious problem will require real and substantial action by companies and business leaders.

Part of the solution will come from strengthening boards and increasing the availability of really first class non-executives. KPMG's Connect On Board platform – https://connectonboard.uk.kpmg.com – which puts both male and female non-executive director candidates from a diverse pool in touch with organisations looking to build better boards, has been developed in collaboration with a powerful group of partners and is helping here. Whilst new, it is gaining good traction.

One area of particular concern is in the vital work we are doing in sensitive areas of the public sector – not least health and defence, two important markets for KPMG.

We need to be absolutely clear about two things here. First, we must clearly demonstrate the value we can bring to these vital public services. But secondly, we must expect our work to face real and searching scrutiny. Ultimately, that means standing up to the sort of challenge that a patient in the NHS or a soldier on the frontline might bring – a tough test for us, but one we absolutely have to measure up to.

Solving client issues

As the economy continues to grow, our clients are grappling with a range of issues that we are very familiar with – growth, the talent agenda (particularly among so-called 'millennials'), cost control, digital risk and opportunity, and regulation. Increasingly, clients are also searching for advisers who share their values – their ambitions to have a positive impact on the world through responsible business practices or diversity and inclusion. We have found in the last year that our own commitment in these areas has been viewed favourably by clients and has contributed to their decisions to work with us.

While parts of our Advisory business are not yet achieving the growth we'd like, this reflects our decision to invest in and refocus our consulting practices to address these client issues head on with relevant capabilities and propositions. Real prioritisation of the work we want to win means taking a strong position and resisting the temptation to work on everything. We are at our best when we specialise and scale, rather than solve every issue.

To sharpen our focus we have begun to roll out a new operating model for the business, which will be fully in place in 2016. We have grouped our capabilities around the issues our clients have asked us to help them solve: our Audit practice will continue to pitch its stall in the market as companies seek to retender their audits based on audit quality and enhancing investors confidence, while our new Solutions umbrella practice will help us put together Tax and Advisory services in the most effective way for our non-audit clients. We have also grouped our markets into National Markets, which will serve those clients based primarily in the UK (typically in the mid-market) and International Markets & Government which will serve the world's largest companies and our central government clients. This new operating model will allow us to hone in much more precisely on our clients and their most pressing business issues, with minimal barriers to drawing on the Firm's broad and rich resources.

Our people

Our new approach will bring practical benefits to KPMG people. For instance, it will allow our young talent to gain much wider experience earlier in their careers, while also giving them the opportunity to develop deep specialist expertise.

Our colleagues also relish the opportunity to work abroad so it is vital to our success as a business that we give our people the opportunity to work on 'big ticket' projects around the world. We are one of KPMG International's largest member firms and have been active contributors in 2015 to the development of the global strategy to target the largest client engagements across wider geographic areas. In tune with the global strategic aims to grow more rapidly and more cost effectively, we are developing a culture of international collaboration which goes far beyond our historic work and are making the substantial investments both organically and inorganically which are required.

Chairman's statement
continued

Acquisitions and alliances

Our investment in acquisitions totalled £49 million during the year and these acquisitions, together with new alliances formed, are all about adding new capabilities to the Firm or filling gaps in our client offering. Our job in the months ahead is to bed these acquisitions down and to really explore the extent to which they can enhance our client work. The signs are positive. Nunwood's achievements in the customer experience field, backed by its proprietary Fizz technology, opens new opportunities in customer data; while Boxwood gives us the chance to extend our consulting business into the regional UK mid-market.

In addition, our alliance with McLaren Technology Group and relationship with Imperial College open exciting opportunities in predictive analytics in both audit and advisory work, with some early successes.

Upgrading our network of offices throughout the UK is vitally important and I'm delighted that we have new offices in Manchester, Leeds, Southampton and London, with Bristol, Glasgow, Sheffield and Norwich to follow. They are all about creating an exciting, and collaborative workspace for KPMG people. That's true of our extended head office in Canary Wharf, London, too, while our new West End client meeting space in London offers us a new and convenient place in which to interact and build new relationships with clients from all sectors and geographies.

The task ahead is to strike a balance between organic growth and acquisitions. The investment emphasis in 2016 will be on our, now much stronger, existing capabilities. The small and medium enterprise (SME) sector has the potential to be a real engine for growth in the years ahead and will be a priority investment area for us in 2016.

A false dichotomy

Society tends to draw a sharp distinction between big business and SME. People love entrepreneurs and one-man bands, but tend to mistrust bigger companies – and it's a trend that plays out in politics too.

I think it is false dichotomy. Increasingly, we are seeing strong ties between the two. And small companies themselves value close relationships with their bigger cousins, because they might get bought or funded by them, can supply to them and may even get mentored by them.

We see a clear social as well as commercial reason to support and nurture the UK's dynamic SME sector, with its huge potential to create jobs and prosperity.

For that reason, I'm delighted we are working with NatWest, Royal Bank of Scotland and Ulster Bank to support the Entrepreneurial Spark small business accelerator initiative to provide mentoring and strategic support for start-up businesses, with well over 100 of our young accountants being trained by us to go out and do this work.

Our Deal – one year on

It's just over a year since we staged our fantastic One Firm event in the O2 arena bringing the entire Firm together to celebrate our achievements, re-affirm our values and to launch Our Deal, our groundbreaking benefits and reward programme.

The sense of shared community and purpose created by the event has endured and we have introduced annual employee summer festivals to bring colleagues together on a regional basis. But this is constant work. As competition for talent intensifies, we want to build further on our innovative approach to reward and engage.

As part of that effort, the partnership decided to maintain our One Firm staff bonus for the year at previously projected levels, despite lower than anticipated growth. What better way to signal our confidence in the future and to thank people, at every level of the Firm, for their fantastic hard work, dedication and skill.

We have hard work to do on diversity and inclusion, where we have gone further than most in the professional services sector in setting detailed and stretching targets on promoting women to the partnership. Externally, we are also lending strong support to efforts to increase the representation of women on boards, not least in sponsoring the report from the Davies Commission on the issue.

Our own targets include an ambition to see women make up at least 25% of the partnership. Although more than a third of the partners promoted inside the Firm were women for the second year running, men dominated our lateral hires and the overall proportion of women partners fell by 1% to 14%. We must get this right, and we will.

Courage

I'm proud that we have taken a brave public stand on some of the UK's most pressing social problems.

The government's decision to adopt a statutory "Living Wage" is the right one and it's in no small way down to firms like KPMG campaigning on the issue, taking the initiative and proving the real practical benefits it can bring. We've clearly shown that paying a living wage leads to better motivated, happier, healthier and more loyal staff, with those benefits far outweighing any economic cost to our business.

Not everyone is convinced, but we need to draw some sharp differences here.

I can sympathise with some smaller companies who worry about the cost of implementing the living wage. The government needs to offer targeted support to these businesses.

But the UK's largest companies, across all sectors, are fully aware of the need to play their part in raising wages, not only because it offers hope to those caught in the trap of low wages but because it bolsters the UK economy as a whole, particularly as an important motivational tool to raise productivity. We continue to debate the issue with our clients and are pleased that many have asked us to support them as they look to implement a living wage.

Solving the UK's housing crisis is also a political imperative, requiring innovative thinking and prompt action, and there's a clear link between this and the living wage debate. It's impossible for people to work where the incomes and the opportunities are if they can't afford to live there.

We've learnt a lot about the potential solutions through our partnership with Shelter and, in our view, some fundamental supply side reforms are needed, not least through better coordination of infrastructure provision, achieving the right balance of affordable housing within development schemes, reforming the planning process and improving labour supply. Both the government and the opposition need to do some very concerted thinking on this issue.

Looking ahead

I remain bullish about the outlook for the UK economy and clear that the challenges and opportunities our clients face will lead to increased demand for our services and expertise.

There is more uncertainty this year than last on the outlook for the global economy, but not in a way that will reduce that demand from clients for our support and help.

The slowdown in growth in China, the upcoming UK referendum on EU membership, rising geopolitical tensions in the Middle East and the structural overvaluation of some stock market indices, relative to traditional measures such as dividend cover and price to earnings ratios, are all areas of concern and illustrate the growing risks we face.

While the immediate environment for our clients remains strong, the danger that such risks could lead to a sudden change in sentiment and sharp market corrections across the global economy is one we must remain acutely aware of.

But the outlook is generally good and we have entered 2016 with a sense of growing confidence that, by focusing on the issues that matter most to our clients and to wider society, we can look forward to a successful year ahead.

Yours,

Simon

Simon Collins
Chairman and Senior Partner

KPMG in the UK

While the immediate environment for our clients remains strong, the danger that such risks could lead to a sudden change in sentiment and sharp market corrections across the global economy is one we must remain acutely aware of.

Strategy

Vision

Clear choice

Purpose

Inspire confidence
Empower change

Strategy

Issues-led
Market-focused
Culture and motivation
Operational excellence

KPIs

Revenue Growth, Improving Profit Margin,
Increasing Global People Survey (GPS) Score, Improving Net Promoter Score

Growth Drivers

Accelerating growth in traditional business	Accelerating growth through UK SGIs	M&A and alliances
Dynamic Audit	KPMG Enterprise	McLaren
Tax reposition	Cyber Security	Imperial
Regulatory change	People Powered, Performance (P^3)	Nunwood
Strategy	Data & Analytics	Boxwood
Deal Advisory	Technology	

One Firm operating model

Shifting partner focus to leading One Firm origination

Creating a One Firm resourcing model

Driving One Firm value aligned behaviours with our new balanced scorecard

Giving our diverse people the careers they want

Contributing to the knowledge engine

Values

Our values underpin all we do

Our vision is to be the clear choice in professional services in the UK – for our clients, for our people and for the communities we work in.

We will achieve our strategy and our growth ambitions with passion and purpose; working shoulder-to-shoulder with you, integrating innovative approaches and deep expertise to deliver real results. This is our promise.

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

>> Read more on p28 – 31 and p32 – 35

Market-focused
Focused on the market, listening to our clients and responding to them as One Firm.

>> Read more on p18 – 21

Culture and motivation
Focused on creating a high performance culture, guided by our values, where our diverse talent feels included and excels.

>> Read more on p36 – 39

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

>> Read more on p22 – 27

Revenue Growth
+2.6%

Improving Profit Margin
-7%

Increasing Global People Survey Score
+11%

Improving Net Promoter Score
+1%

Growth Drivers

Our traditional businesses – notably audit and tax – have seen substantial growth. Our tax practice has led the way on the tax morality debate and our audit practice continues to promote the extended audit report, which goes beyond the new regulatory requirements. Both practices have earned top and bottom line growth as a result of their differentiated propositions. We have also prioritised and invested resource in existing services such as Strategy, which has seen double digit growth. Where we have needed to bolster existing services or add a new dimension to our product offerings to stay ahead of the market, we have acquired businesses or signed strategic alliances. Our Strategic Growth Initiatives, announced in 2014, have moved from incubation phase and are now embedding in our core businesses to accelerate their growth.

Operating Model

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

>> Read more on p12 – p15

Our values

Our values create a sense of shared identity. They define what we stand for and how we do things. Our values help us to work together in the most effective and fulfilling way. They bring us closer as an organisation.

>> Read more on p36 – p45

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

Our business model

Our business model
Who we serve

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

Win and retain clients

We have a broad client base made up of individuals to blue chip companies. It is important to have recurring relationships built on mutual trust.

Increasingly our audit work for investors in our audit clients is limited to a number of years whereas tax and advisory work in our Solutions practice is typically project based.

Secure engagements

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

Deliver services

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

Our business model
Who we are

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

Internal

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

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

Our people

People are at the heart of our business.

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

>> Read more about Our Deal p36 – 37

>> Read more about our Diversity and Inclusion focus, p37 – 38

KPMG network

Our global network of member firms operating in 155 countries enables us to provide assurance and other services, consistently, to global and small national clients alike.

Our scale provides the opportunity to invest in global tools and solutions which underpin our knowledge and expertise.

>> Read more about the KPMG Network and our perspective on the economy in the Chairman's Statement p7 – 9

Knowledge and expertise

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

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

>> Read more about the scope of our Training & Development program, p39

>> Read more about how we are working with NatWest, RBS and Ulster Bank and their Entrepreneurial Spark accelerator program p35

Relationships

Key values:

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

Associated risks:

- **Delivering inappropriate services**
- **Working with the wrong clients**

Role in society

The long-term future of our business depends on our ability to contribute to the efficient functioning of capital markets, the organisations that operate within them, and society at large.

The provision of high quality audits which enhance investor confidence is critical to the functioning of capital markets. We are regulated and we take this seriously. Compliance is important but at a wider level we also aim to maintain positive and pro-active relationships with regulators and professional bodies.

More broadly we recognise the importance of operating to a set of values that are consistent with society's needs.

>> Read more about our extended audit report p5 – 6

>> Read more about our focus on Corporate Responsibility p40 – 45

Client relationships

Our business model depends on recurring relationships.

We must manage the client relationship whilst remaining focused on delivering a service and opinion that meets the needs of these clients.

We have a sector based approach to meeting client needs. Combining our expertise across multiple areas to deliver multidisciplinary solutions is important for us, and a key differentiator when we compete with firms outside the accountancy sector.

>> Read more about our client relationships

Audit p18 – 21
Solutions p22 – 27
International Markets & Government (IMG)p28 – 31
National Markets (NM) p32 – 35

Alliances

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

>> Read more about our alliances – refer above: Audit, Solutions, IMG and NM

Trust and reputation

Key values:

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

Associated risks:

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

Reputation

The value of our opinion is derived from our reputation which in turn is built on our integrity and the quality of the work we undertake.

Our reputation must be central to everything we do. We deliver many opinions and projects and are acutely aware that even one failure can have a significant impact on our reputation.

Trust is at the heart of all our relationships. Clients often cannot assess the quality of our offering until it's been delivered and therefore reputation is key.

Our reputation is also central to our ability to attract talent.

>> Read more about how we monitor our quality through Audit Quality Indicators, p63

Financial overview

2015 saw us continue tightening our focus on being market driven and issues led, growing as one firm along with our people and transforming our business through strategic growth initiatives.

With the exception of our Management and Risk consulting businesses (where we had large projects in the banking sector in 2014) all functions increased their net sales in the year.

From a market perspective, Regions grew solidly at 6% and net sales in Insurance were driven by increased regulatory pressure (mostly resulting from Solvency II) and the associated business model changes helped push net sales up by 34%. Our focus on major corporates and the public sectors this year gained us a 9% growth in sectors net sales, with the outstanding performers coming from Life Sciences, Telecoms and Infrastructure.

Financial Services contrasted with a 3% decline due to the end of some large projects in the banking sector in 2014, as mentioned above.

Functionally, Audit continues to grow strongly across markets (6% overall, though 8% in the Financial Services sector) whilst also engaging in a number of new tenders following recent regulatory changes. Tax reported the largest growth of all functions at 13%, mainly through a growing volume of work in Corporate Tax and People Services.

Deal Advisory benefited from increased M&A activity, achieving full year growth of 4%. Management Consulting closed just behind the prior year, although it did benefit from the majority of the net sales coming from our recent acquisitions. Risk Consulting had the most disappointing results, being unable to replace significant net sales on bank remediation work reported in the prior year, closing the year 8% down.

At gross contribution, our net sales growth translates to a 3% increase year-on-year, although the picture is different across the functions. In Audit, Tax and Deal Advisory we have managed our business in order to become more profitable, with gross contribution percentage improving in these functions. In both consulting businesses, the lack of growth had a negative impact on profitability, but this is being addressed.

Revenue

£1,958m

(2014: £1,909m)
+2.6%

Profit before tax and members' profit shares

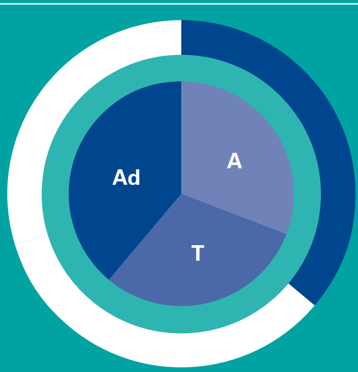
£383m

(2014: £414m)
-7%

Inner chart **Outer chart**

Regions

Audit	Tax	Advisory
£189m	£185m	£237m
(2014: £179m)	(2014: £167m)	(2014: £228m)
+6%	+11%	+4%

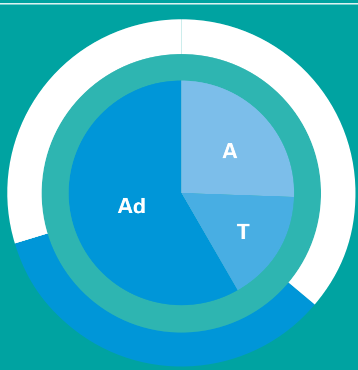


Total net sales

£611m
(2014: £574m)
+6%

Financial Services

Audit	Tax	Advisory
£148m	£94m	£337m
(2014: £137m)	(2014: £86m)	(2014: £374m)
+8%	+9%	-10%

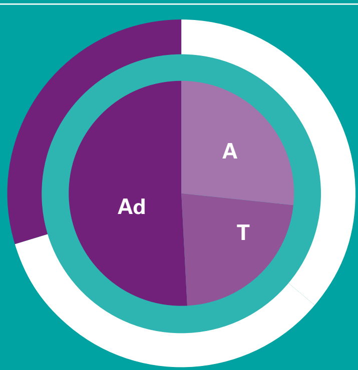


Total net sales

£579m
(2014: £597m)
-3%

Sectors

Audit	Tax	Advisory
£133m	£111m	£253m
(2014: £126m)	(2014: £90m)	(2014: £238m)
+6%	+23%	+6%



Total net sales

£497m
(2014: £454m)
+9%

Total* net sales by

Audit	Tax	Advisory
£472m	£395m	£839m
(2014: £445m)	(2014: £351m)	(2014: £850m)
+6%	+13%	-1%

Total*

£1,706m
(2014: £1,646m)
+4%

Internal reporting
Our key internal performance indicators are net sales and contribution – revenue net of recoverable expenses and profit before central costs respectively. A detailed reconciliation of net sales to reported revenue and contribution to reported profit is given in note 3 of the financial statements, on page 89 of the Annual Report. The reconciliation of net sales to reported revenue is summarised as follows:

	2015 £m	2014 £m
Net sales	**1,706**	**1,646**
Recoverable expenses	253	236
Elimination of intragroup trading	(1)	(8)
Revenue of entities not reported internally	–	35
Revenue	**1,958**	**1,909**

*Total, including net sales to KPMG International member firms, not allocated to the markets above.

Audit

Our Audit practice had a successful year and we're immensely proud of the way we have performed, advancing the debate on transparency and trust, while growing our revenues, our profits and our market share.

Net sales	Contribution	Wins and retentions FTSE 100 and 250 audit retenders	
£472m	£197m	10	2
(2014: £445m) +6%	(2014: £181m) +9%	Wins	Retentions

Audit
Functions and markets report

The UK audit market has never in its history faced so much disruption. But we have been clearheaded about the challenges and opportunities audit retendering presents.

Our aim in 2015 was to grow market share by winning new external mandates and by growing our internal audit business.

Our focus on quality and harnessing new technology in our audits was key and has enabled us to win new audit mandates. We were also determined to lead the 'Restoring Trust' debate, not least through our unique extended audit reports, where we go beyond minimum regulatory requirements by publishing so-called 'long-form' audit reports, which include our detailed findings, in relation to certain audits.

Our Audit practice grew at its fastest pace for at least eight years, with net sales growing by 6.1% and with contribution up by 9%. This powerful result came amidst an unprecedented level of activity with some 34 tenders in the FTSE 350.

Our share of the FTSE 100 market grew during the year, putting us in a strong second place in the market and with every expectation of lifting that share further in the future.

Standout wins at the top end of the market included Barclays, British American Tobacco and Experian, but growth was mirrored right across the corporate sector. We are now the leading auditor among FTSE 250 companies. We have a 27% share among FTSE 350 companies and, overall, we now serve more UK-listed companies, large and small, than any of our competitors.

Since October 2013, we have seen over 100 FTSE 350 companies put their audit out for tender, of which we've won 29, and we are expecting a similar volume over the next two years. This represents about £550 million of annual fees – potentially worth over £5 billion if you consider the average 10 year tenure of an audit. Our success in the next couple of years will define the Firm for the next generation at KPMG and we're confident that we can continue building market share, even though we will inevitably transition off some significant audits in the next 12 months.

As 2015 progressed we further enhanced our ability to use technology to support our audit work.

Our alliance with the McLaren Technology Group is already bearing fruit here, in particular our work with McLaren Applied Technologies (MAT). We launched an impairment tool employing their predictive analytics skills and are using it on a growing number of major assignments. We have further tools in development combining MAT's technology and our existing data and analytics capabilities, which will bring greater insight and value to our audit clients.

Quality remains the clear priority in these highly competitive pitches and is right at the top of the agenda for Audit Committees and for us.

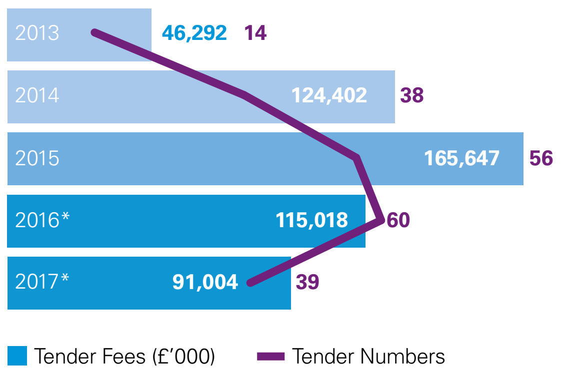
We're judged to have made good progress in improving the quality of our work in the last five years, as our external reviews show. When issues do arise with our regulators we take them very seriously. And we are being much more rigorous about analysing the root causes of any issues we identify and responding directly; for example, by running workshops for partners and directors, as well as issuing guidance and undertaking regular training.

Audit Market FTSE 350 Tenders Volumes

Total

£542,363
Fees

207
Tender numbers



*Anticipated

Audit
Functions and markets report *continued*

A clear choice for companies

We have further tools in development combining McLaren Applied Technologies technology and our existing data and analytics capabilities, which bring greater insight and add value to our audit clients.

Regulators continue to monitor audit quality carefully and will, rightly, keep it in the spotlight. They are working much more closely these days across borders to make sure auditors apply consistent standards around the world. The Financial Stability Board is also calling for greater rigour in the auditing of major banks, and the Financial Reporting Council is soon to come forward with new proposals on corporate reporting and audit quality reviews. The quality and trust agenda has a long way to run.

Our extended audit report – which includes a detailed commentary on audit findings from the lead audit partner – goes beyond regulatory requirements in terms of transparency. It is gaining traction in the marketplace and we think it can play a significant role in boosting public trust in audit. It was great to see this approach recognised in both the Investment Management Association's inaugural Auditor Reporting Awards and the British Accountancy Awards in the year.

Investors have welcomed the new approach and some clients have embraced it enthusiastically. Major clients that adopted the extended audit report in 2015 included Rolls-Royce (for the second time) and AstraZeneca.

We believe this new approach to audit reporting meets investors' demands for greater transparency and chimes with the spirit of new and upcoming regulation, not least the new EU rules set to come into force in June 2016, and we would encourage investors to take an active part in supporting innovation in this area.

Overall, it's been a very strong year for audit but we face some big challenges ahead. We must maintain a relentless focus on quality and continue to build market share. We also need to remain nimble, adapting quickly to new regulatory developments and quickly embracing the opportunities to innovate that technology presents. We look forward to continued growth and success.

This pioneering approach to audit has generated great admiration from the wider business community and stakeholders and, as such, deserves recognition.

Kevin Reed
Editor of Accountancy Age on KPMG audit partner, Jimmy Daboo, winning the 2014 British Accountancy Award for Outstanding Industry Contribution

Solutions

Our Tax and Advisory practices – now grouped together as one Solutions business under our new operating model – are being reconfigured to meet significant changes in the business and regulatory landscape. The opportunity in both is the same – to harness our skills and technology to create sharper propositions for our clients, which promise strong, long-term growth.

Tax net sales	Contribution	Advisory net sales	Contribution
£395m	£151m	£839m	£308m
(2014: £351m)	(2014: £129m)	(2014: £850m)	(2014: £324m)
+13%	+17%	-1%	-5%

Solutions
Functions and markets report

Huge – and sometimes seismic – changes in the operating and regulatory landscape are presenting our clients with significant challenges.

Whether that change is connected with tough new rules on international corporate tax compliance, a shake-up of rules governing pensions, new governance rules for senior directors in the banking industry, or industry-specific regulatory change across a wide range of sectors, all these have a fundamental effect on how our clients organise and operate their businesses.

Throw in additional challenges like the continuing need to boost efficiency and cut costs, adjust to life in a digitally-enabled world, connect with customers in a more compelling way or the need to find new ways to attract and motivate talented people, and it's clear our clients face a massive agenda of change. Often it is change that requires a fundamental rethink of the organisation, rather than just piecemeal adjustments.

To help clients succeed, it's vital we organise our resources in different ways and build new capabilities to offer our clients relevant solutions that really meet their needs. In both our Tax and Advisory businesses that's precisely what we are doing.

Since 2013 – as we've moved through a three-year transformation of the Firm – we've been reconfiguring our Tax and Advisory capabilities to meet these new and upcoming changes in the business landscape.

In order to respond to the international and national tax changes, for example, that has meant focusing our Tax, Pensions and Legal Services increasingly on all our core propositions, a move which has paid off handsomely, while Transfer Pricing, Tax Value Chain and the tax aspects of M&A activity have also driven growth. We are investing in our Pensions team to address the new world for long-term savings with new technology and new talent. Coupled directly to that we've taken a leading role in the, often heated, public debate about tax, actively bringing people together to understand each other's viewpoints and to build a consensus on responsible tax.

But we've also built a more sophisticated approach to help clients address the talent and people challenge via our People Powered Performance (P^3) team, where we've brought together our capabilities across people and change, reward, pensions and tax. And we've invested in complementary capabilities, not least in building a fast-growing Legal Services division.

In Advisory, the process of repositioning the business has followed a similar path. Crucially, we are focusing and specialising our advice, rather than chasing work across the full breadth of client issues.

We've bolstered our Deal Advisory practice – always a traditional strength of the Firm – bringing in new senior hires in readiness for the upsurge in both domestic and cross-border transactions activity that is now in full swing. We've also invested heavily in acquisitions to boost our skills and technology capability in both Management and Risk Consulting to help clients handle challenges as diverse as transformation, financial risk management, operational excellence, customer strategy and cyber security.

Technology has been a particular focus across all areas of the Firm. Using systems we've developed in-house and skills gained through acquisitions and alliances, we are increasingly well placed in Tax and Advisory to deploy cutting edge, often cloud-based, digital solutions to sharpen our offerings. A great example is how Tax and Advisory have worked together to deploy our cloud-based Powered Finance proposition, with integrated tax solutions, developed with Oracle. It is helping us win important work transforming company finance functions, as we are with the Royal London Group.

Bringing these two businesses together under the solutions banner will, we're convinced, help us to work cohesively to build the right, carefully targeted end-to-end solutions for our clients which draw on the full range of our multi-disciplinary skills. We've made a very good start. But there's a great deal more to do if we want to succeed in a highly competitive market.

Tax, Pensions and Legal Services – strong growth

The investment and work we have put in to shape our Tax, Pensions and Legal Services practice for the future has paid off. It has rebounded strongly from a relatively flat period, net sales growing by an overall 12.5% during the year.

Profitability also increased year-on-year, with contribution up by 17.1% at £150.6 million – a fantastic result which underlines how right we were to refocus our business on specialist skills across all areas, all of which were in high demand.

Having said that we saw growth across the board. It was pleasing to see net sales in Pensions grow by 5% and People Services grow strongly too, up 28%, particularly in the tax aspects of People Powered Performance (P^3); indirect tax also staged a strong recovery, returning to growth after a challenging 2014.

We were delighted to be able to recognise individuals' success and career progression, promoting over 400 people across Tax, Pensions and Legal services during the year.

Solutions
Functions and markets report *continued*

We were the first Big 4 professional services firm to be granted an Alternative Business Structure (ABS) licence on a multi-disciplinary basis to operate a truly integrated Legal Services division, where we also see strong growth potential.

Legal Services saw increased demand across its three areas of focus – Corporate and Commercial, Tax Litigation and Employment and Immigration. Overall net sales here were up by 53% in the year. Despite this being from a relatively low base, it's clear that clients really like our idea of wrapping multi-disciplinary legal advice around our other propositions. We continue to invest heavily in new hires to build the business in both existing and new areas, such as corporate crime and regulation, and to extend our national coverage.

Investment in compliance continues. Headcount at our Tax Centre of Excellence in Glasgow grew again in the year, with over 70 new roles created here and in two further satellite centres we have opened in Birmingham and Manchester. Flexible working arrangements – like home working and annualised contracts – are helping us to recruit and retain the staff we need, despite strong competition for talent. We also draw heavily on the skills of people in our KPMG Global Services business in India in this area. With these foundations in place, we have a strong opportunity to increase the volume and type of work the Centre does.

Tax is also an important element in our fast-growing Small Business Accounting proposition. This competitively priced online tool is quickly gathering new clients, targeted at SME entities that would not normally consider working with us.

Tech-enabling propositions are also driving growth. Many of our systems have been developed in-house by the Tax and Pensions practice in recent years, and some are now being enhanced through the alliances we struck during the year, not least the emx ('employee experience') hub system, which will be an area of focus for our colleagues joining us from the human capital consultancy, Towers Watson.

At a time of huge change in the UK pensions industry, including the introduction of new rules on flexible retirement choices, we now have exciting user-friendly pensions technology supporting companies and trustees in managing their schemes, by using our KPMG Fusion® online pensions risk management modelling tool. KPMG Pilot® is also helping employees and scheme members understand their options under these new rules and make the most of their retirement savings.

A Clear Choice for tax

Responsible tax for the common good – sustainable outcomes that contribute to the overall benefit of society.

The tax debate

It's hard to exaggerate the scale of change we have seen in the, often febrile, debate over tax.

There has been a raft of new measures introduced from different national and international bodies during the year to bring tax rules up to date and, in particular, prevent multinational corporations moving profits offshore to avoid tax, not least some 15 proposals from the OECD's Base Erosion and Profit Shifting (BEPS) initiative.

The BEPS proposals include a provision that companies must issue country-by-country reports on their earnings and tax payments in different countries. These will be filed with the 'local' tax authority and shared with agencies in other jurisdictions where information-sharing agreements are in place.

Campaigners have called for the reports to be made public and the EU Commission is currently consulting on whether public reporting should be mandatory. The UK government has separately introduced its own measures in the form of a 'Diverted Profits Tax', enabling HMRC to tax profits artificially moved offshore, and is also planning a new provision forcing companies to publish their approach to tax.

Taken together, these and other measures present a significant challenge for our clients and are one clear reason why we have directed so much of our resources into compliance, governance and specialist areas like Transfer Pricing. They will force companies to create new frameworks for their tax affairs, ensuring that tax is aligned with real economic activity. There will also be a new onus on communicating clearly about tax within companies and to the public.

During the year we were pleased to sponsor and support an initiative developed in conjunction with the consultancy, Jericho Chambers, and the thinktank, CoVi, to explore the meaning and purpose of responsible tax for the common good and what responsible tax behaviour looks like in today's world. Through this project, CoVi has hosted and curated a wide-ranging consultation via the platform www.responsibletax.org.uk and a series of events involving companies, politicians, NGOs, campaigners, faith groups, tax professionals and other stakeholders.

Discussions have focused on key issues such as defining tax responsibility, tax and morality, transparency, competitiveness and unfair competition, as well as special sessions in Scotland on tax and devolution and in Brussels on tax in the EU. Some 250 stakeholders have taken part. In July 2015, CoVi published a report summarising the debates and will now convene working groups to explore the next steps for practical collaboration between stakeholders. Separately, and working with a number of clients, we also published a paper which tries to define a new framework for tax transparency.

Solutions
Functions and markets report *continued*

Total value of loan portfolios, where the team advised on the seller's side

EUR 20bn

Total value of loan portfolios, where the team advised on the buyer's side

EUR 29bn

Countries

20

Advisory – a year of transition

Our Advisory practice had a mixed year – we saw strong growth in our Transaction Services, Corporate Finance and Strategy businesses, while work to build and reposition both our Management and Risk Consulting business continued. As expected at this point in the economic cycle, there was a small softening in restructuring work. Overall net sales remained relatively flat, with our contribution falling by 5%.

Continued growth in Deal Advisory

We saw growth across nearly all parts of our Deal Advisory practice as we brought our traditional strengths in transaction services to bear, helping corporate and private equity clients complete deals in an increasingly busy UK and international M&A market.

We continue to advise on significant transactions, including cross-border. Over the past year, amongst those we worked on were the £620 million acquisition of Co-op Pharmacy by the Bestway Group, and the disposal of the government's 40% stake in Eurostar. We have had notable success in the UK telecoms market, supporting investors on seven of the 11 largest telecoms transactions that cover the key infrastructure asset classes of fibre, data-centres and mobile networks. Combined tax and advisory work on major deals has also increased with a number of significant projects, including work on the giant GSK/Novartis asset swap deal. We also benefit from having one of the strongest mid-market Deal Advisory practices in our industry.

With the London IPO market springing back into life, we advised on a number of the most significant listings during the year. We were the Reporting Accountants for the Worldpay IPO, which floated on the LSE just after our year end in October 2015, with an initial market capitalisation of £4.8 billion (total valuation of £6.3 billion including debt) the largest IPO since the Royal Mail IPO in 2013. We also advised on the IPOs of designer shoemaker, Jimmy Choo, Virgin Money and the main market listings of Revolution Bars and Apax Global. Our Portfolio Solutions Group – which helps clients with 'non-core' and non-performing loan portfolios, ranging from single debt exposures to large complex portfolios – had a very successful year. One transaction, the sale of the €9.3 billion portfolio of non-performing loans held against real estate in the UK, Ireland, and continental Europe in which PSG was the lead sell-side adviser to the IBRC (in liquidation), was awarded Real Estate Capital's inaugural NPL Sale of the Year award.

Post-deal integration is a burgeoning area for us and our practice in this area is growing strongly.

Our restructuring team worked on a number of complex cases, with the practice receiving four industry awards – including for work on Monarch Airlines. This concluded at the start of the financial year where our advisory team provided strategic input in a number of critical areas, enabling the distressed group to be restructured and sold to a new owner, preserving more than 2,400 jobs and avoiding travel disruption to more than 150,000 holidaymakers abroad. Similarly, in the administration of Alpari (UK) Limited, the innovative use of web-based technology by our insolvency team allowed electronic claim agreement using existing secure logins to minimise cost and quickly distribute funds to creditors in over 150 countries. Our Strategy Group, which has grown successfully in the last year, helps clients tackle their key strategic challenges and opportunities on issues such as growth, operating strategy and cost, deals and transformation. The focus of the Strategy Group is to provide boardroom advice from 'innovation to results' and in doing so combines and deploys the specialist capabilities within KPMG to the benefit of clients.

We continue to invest in new Deal Advisory talent at a senior level. We made a number of important senior hires during the year, including welcoming James Agnew and Mark Gallagher, from Deutsche Bank and UBS, respectively.

Refining our Management and Risk Consulting approach

Net sales from our Risk Consulting practice fell by 8% during the year. This was largely expected following the slowing down in 2014 of a number of big, multi-year bank remediation projects. Demand for key services, not least remediation, regulation and investigations, remains high and we see net sales returning to growth this year and beyond.

Several of our Risk Consulting service lines grew in the year, including Forensic. Here, our fast growing Competition Economics practice, which helps clients deal effectively with competition investigations, saw net sales increase by 65%, while our Corporate Intelligence team, using innovative search technology to help clients satisfy stringent regulatory requirements, has grown quickly from a standing start. Our award-winning Financial Crime team continued to lead a number of high profile investigations, and we are investing heavily in our capabilities in anticipation of strong growth in this area over the coming year.

In Technology, our Data Insight Services and Technology Risk functions grew by 7% and 3% respectively off the back of continued expansion in core services as well as investment in emerging technologies such as Trader Surveillance and GRC. Technology continues to be a key focus area for us as we help clients deal with technical complexity and in maximising the value from their data.

In cyber security – where we are one of the firms advising the government on its FTSE 350 Cyber Governance Health Check initiative – we have consolidated our position and built our capabilities, with three partner hires, the integration of Qubera Solutions (a provider of identity and access management services) and an equity stake (by KPMG Capital) in Norse Corp, a leader in live attack intelligence solutions. We continue to see increased demand from the marketplace for our cyber services as companies, government and other public sector organisations seek to manage this growing area of alarming risk.

Regulation is an increasingly hot area; and demand remains particularly strong in financial services, where the tide of regulatory change continues to sweep in.

In insurance, many of our clients are still coming to terms with the Solvency II capital regulations and we are working with some of the largest insurers in the UK and the US as they adapt their businesses to the new regime. In banking, the impact of MiFID II on our clients is significant, and we are working with five of the top ten global investment banks to implement the changes. New requirements for senior leaders being brought in under the FCA's Senior Managers' and Certification Regime, designed to hold leaders in the banking industry to account, underline the continuing regulatory pressures our clients face. But other sectors – including pharmaceuticals, healthcare and energy – also face similar challenges and we have grown our Economics and Regulation capabilities to meet client demand.

The rapid pace of regulatory and technological change continues and with our existing services and enhanced capabilities we are well placed for future growth.

Management Consultancy net sales reduced marginally in a challenging year but we continued to invest in strengthening our capabilities through a combination of acquisitions, alliances and targeted recruitment. The competition for talent in this area is particularly intense, so we are pleased that we are successfully building a strong team to help our clients and better position KPMG in this important market.

2015 saw us complete a number of important acquisitions, which we believe enhance our services for clients, our ability to drive value through deploying leading technologies and better cover our core markets

Boxwood, acquired in June, bolsters our mid-market consulting capability, helping clients to grow and transform their businesses which, in turn, builds out our Enterprise investment, one of our Strategic Growth Initiatives. Nunwood, acquired in May, creates new capability and real insight in customer experience management and feedback, strengthened by its proprietary 'Fizz: Experience Management' platform. Crimsonwing, also acquired in May, established us as a leading player in Europe's fast-growing Microsoft Dynamics market, bolstering our capabilities to design and deliver customer data analytics, e-commerce and cloud based enterprise transformation. Crimsonwing builds on our existing capabilities where we are developing and deploying the latest cloud based tools. Fundamentally, this allows us to speed up implementation and focus our clients' attention on business value rather than the distraction and justification of major capital based systems programmes.

Recent strategic alliances further strengthen our client offerings and create unique services for clients. The strategic alliance with McLaren positions sophisticated predictive data analytics at the heart of our Advisory services, as well as our audits. Through our relationship with Imperial College London we have recently launched the KPMG Centre for Advanced Business Analytics. Imperial, combined with our sector insights, advanced analytics team and proven platforms creates a compelling way to work alongside clients on their most valuable and most difficult strategic opportunities. Essentially, we are using rigorous, sophisticated and smarter ways to understand and present data in clear and highly usable ways to allow clients to focus on the interventions that drive growth and margins.

Our current focus in Management Consulting is to integrate these exciting acquisitions and alliances into our business and we are already exploring with clients how best to introduce their skills and expertise. The emphasis in 2016 will be firmly on organic growth and creating scale in our core business.

But, for us, growth across KPMG also means being more selective about the propositions we want to build and the key client issues we want to help resolve. Clients challenge us to come to them with a set of unique propositions supported by combinations of capabilities inside and outside KPMG; to create 'Solutions' that speed up time to value and focus attention on the specifics of each client situation and make quick use of existing knowledge and assets.

To do so we need to focus our attention on the strategic issues that concern clients most, rather than spread our resources too thinly across the market. In short, it means deciding what we want to be famous for as we build a truly market-focused, issues-led business that helps our clients succeed.

That is our challenge in the year ahead, and, across Tax and Advisory, we're confident that we are on course to achieve it.

International Markets and Government

While our biggest clients are in confident mood, they continue to seek our help in grappling with an unprecedented level of change. Working with large clients to solve big issues generated strong growth in sectors such as insurance and government this year.

International Markets and Government
Functions and markets report

The big theme of audit rotation in the FTSE 100 was a major pre-occupation in 2015, which taught us some crucial lessons about winning big audit clients and, more broadly, has taught us how best to build lasting and valuable relationships with our biggest non-audit clients through our International Markets and Government (IMG) group.

Securing the best audit mandates by focusing on quality and restoring investor and public trust is critical to our business.

But, equally where an audit relationship comes to an end, there is an opportunity for our advisory specialists to work with a new client on an expansive array of issues. We have thought carefully about how we make the most of this new opportunity and the most important lesson we've learned this year is a relatively straightforward one – it's all about relationship and focus.

Where we have had to transition off audits, a key objective for us is to maintain our relationship with the client by working with them on other issues. We are managing this process carefully and with great success, not least with HSBC, Morrisons, Bunzl and Associated British Foods, where we continue to have a good relationship and where we provide a variety of non-audit services.

To create really relevant and valuable propositions for our clients, we need to make tough choices about which clients and which sectors to focus on. We then need to prioritise our resources to create chosen standout solutions, drawing on specialist skills and capabilities from across the Firm. It's an approach that goes to the heart of our overall strategy to be a market-focused, issues-led business and the clear choice for our clients.

We're in a good position to do this. Our sector-led approach gives us a powerful lens to home in on our clients' most pressing needs. We focus on which issues are specific to a client or sector, but seek to industrialise a repeatable solution wherever possible. We also find that our largest clients in banking, for example, are keen to learn from businesses in telecommunications and our clients in telecommunications are keen to learn from businesses in retail.

A good example of a cross-sector issue which sits at the top of our clients' agendas at the moment is digitalisation, which is a number one priority for many boards as they try to find new ways to interact with customers in a digitally enabled way or more efficient ways to run their organisations.

Transformation remains an overriding theme. Sometimes that's from a digital perspective. Elsewhere it is about the continuing need to address the growing cost pressures that globalisation is creating, particularly for companies in developed markets. Regulation remains an ongoing pre-occupation in financial services, but it is also high on the agenda in telecoms, pharmaceuticals, healthcare and other sectors. The darker side of the digital revolution – the growing threat to cyber security – is an urgent concern in both industry and government and the recent challenges found by a major UK telecoms group merely serve to highlight the threats.

During the year, we used our acquisitions to build our capabilities on the issues that matter most to our clients. The acquisition of Nunwood brings important new capabilities and technology around customer experience, channels to market and developing a customer set with enduring value. Our alliance with McLaren presents an exciting opportunity to look afresh at business transformation, already a major strength, harnessing and analysing data in new and valuable ways.

We saw good growth across most of our sectors in the year and achieved overall growth in net sales of 4%. Insurance net sales grew by over 30% driven, particularly, by continuing work on Solvency II regulation.

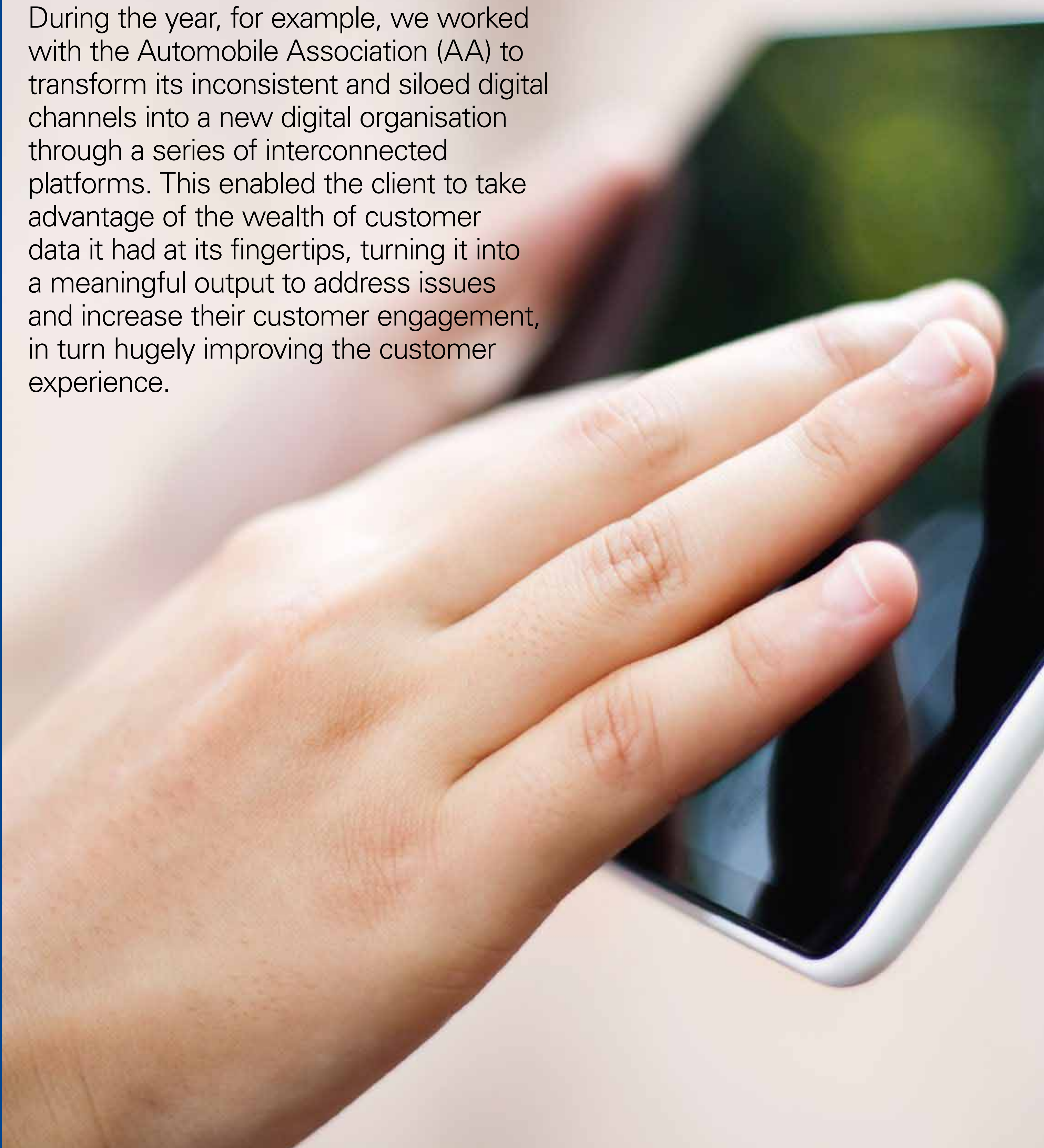
Government net sales also grew in double digits as we continued to deliver important digital projects – indeed we have just put our biggest ever bid into central government for a major e-learning project. We knew banking would see declining net sales due to the completion in 2014 of major remediation work for several big banks, but, overall, financial services remains a key sector for us with very strong growth potential.

Our long-term success depends on us creating the right portfolio of clients, striking a careful balance between audit and non-audit clients and between our international and national market places. We are aiming to have foundation FTSE 100 audit mandates in each of our sectors, for example – we were selected as auditors for Barclays and we have transitioned off the HSBC audit with the objective to make HSBC a key non-audit client.

International Markets and Government
Functions and markets report *continued*

A clear choice for customers

During the year, for example, we worked with the Automobile Association (AA) to transform its inconsistent and siloed digital channels into a new digital organisation through a series of interconnected platforms. This enabled the client to take advantage of the wealth of customer data it had at its fingertips, turning it into a meaningful output to address issues and increase their customer engagement, in turn hugely improving the customer experience.



Successfully seizing the opportunity to secure large advisory engagements in our non-audit clients is only possible where our people develop strong relationships with clients across the board. To secure the trusted adviser role, we must demonstrate real understanding of our clients' businesses and issues. While this is an opportunity, it is also a challenge but we have won significant advisory work where we have been able to build new relationships quickly.

Within IMG our strategy is to focus on a smaller group of big clients, working with them to solve their biggest issues and, in turn, generating higher net sales.

Our people are working with governments and the world's largest businesses to tackle the most difficult issues they face internationally, from efficient and effective supply chains to delivering national healthcare services. These projects bring together the best of KPMG's international talent.

That's a strategy we are pursuing successfully as the KPMG network, putting emphasis on our 50 global platinum accounts and managing them in an integrated global way. Given the importance of the UK economy and the pre-eminence of the City of London, many of these accounts are managed by the UK firm, with 18% of IMG net sales coming from the global platinum clients.

Making the most of our global network is allowing us to tap into exciting opportunities to work with some of the world's largest organisations. Our work on large financial services audits such as Barclays are obvious examples but we are also seeing real success by working with our global experts in sectors such as healthcare, pharmaceuticals and automotive. Working on the most pressing issues governments and our largest clients face is both important to our own business' success but is also rewarding for our staff around the world and helps us attract the best talent.

We have a great deal of work to do. But we're confident that, by enhancing our relationship, and continuing to build market leading solutions, with our biggest clients, we can achieve significant growth in IMG in the years ahead.

National Markets

Our National Markets business continues to be a powerful growth engine for the Firm as a whole. As we build on our services for businesses of all sizes – from start-ups to quoted companies – and for our public sector clients in the regions, we expect growth to accelerate further.

National Markets
Functions and markets report

Small- and medium-sized (SME) companies continue to be the backbone of the UK economy and when they prosper our National Markets business grows with them. But we see an opportunity to build on our traditional strengths in this market and boost the contribution we make to the Firm significantly.

Levels of activity among our private corporate clients, who account for 52% of our net sales, picked up strongly in 2015 as companies went confidently back on the front foot to look for growth opportunities.

Audit and Tax continued to thrive during the year – net sales up by 6% and 13%, respectively, and with tax growing particularly strongly towards the end of the year. Tax , Pensions and Legal (TPL) results reflect a clear strategy of relentless market focus and relationship led approach supported by investments in areas of specialist services including R&D, Capital Allowances, Tax value chain and Transfer Pricing. We have seen excellent growth in our Tax Legal Services, Reward, Family office and Investment Management Business offerings.

Renewed focus on integrating our Deal Advisory approach, continued investment in our core business and markets plus a structured approach to driving campaigns will help to build on the performance and momentum achieved in the current year.

With the transactions market becoming increasingly frothy during the year, our regional deal advisory business – another traditional strength of the Firm – also recorded strong growth.

We worked with companies and well-funded Private Equity firms on a range of transactions, including the £620 million acquisition of Co-op Pharmacy by Bestway Group, a family business with which we have built strong ties. Deal activity has more than compensated for a small reduction in restructuring work, which inevitably falls off at times of strong economic growth. But the core strengths and capabilities of our Restructuring teams – such as cash management, working capital and performance improvement continued to be invested in and to generate good revenue.

By contrast, the regional public sector and healthcare business had a tougher time. This was due largely to a significant slowdown in health spending in the uncertain months leading up to the general election. Since then, however, activity has increased again, not least demand from NHS Trusts for help in tackling growing deficits. The NHS Leadership Academy, now in its third year, continues to thrive and we are looking to extend the approach both to other parts of the UK public sector and abroad, with one significant overseas deal. Demand in other areas of the public sector is increasing and we are significantly growing this business, particularly in local and regional government where Joanna Killian, formerly CEO of Essex County Council, has joined the Firm to lead this practice along with several other senior recruits. This will be a major focus of our public sector work in the coming years.

UK economic growth continues to be strong, with different regions growing at different rates. The London region has, through a combination of private and mid-market listed companies, leapt ahead – up by 20% during the year – and the South has seen higher growth too. While the Midlands and North regions are our most mature markets, they play leading roles in the regional devolution agenda, and have scope to grow as we broaden our business. In Scotland, declining oil prices slowed transactions in Aberdeen but this is compensated for by activity elsewhere and a steady market across our other service lines. Greater devolved powers and a strengthening financial services sector bode well for the year ahead.

Overall, we're delighted that we were able to report total net sales growth of over 6% even if it was a little lower than anticipated. We believe we can move ahead even more strongly this year and we are concentrating our resources and our investment on the National Markets business in a more focused way to make sure that happens.

Tapping a wider market

Our investment to date has already enabled us to broaden our offering in exciting ways.

While we have always had a strong presence in audit, tax and deal advisory services in the Regions, management and risk consultancy remain in their infancy for us. We see a great opportunity here and, during the year, we acquired Boxwood to help us build a dedicated mid-market consulting business. Although only on the books since June, Boxwood is already delivering good results in line with our targets and we have won a prestigious first joint assignment, working for the electronic retailer Euronics.

Although demand for risk consulting services is growing – we completed an important assignment for one of the UK's largest retailers during the year, for instance – our challenge now is to find a way to shape and grow all our regional consulting services in a similar way.

Traditionally, we have focused on serving relatively large mid-market listed and private companies based in the Regions and London, but now we are widening our scope considerably. As part of the KPMG Enterprise initiative we are increasingly devoting more resource and focus to the UK's network of some 5.4 million private capital companies. We are also expanding our services to target early stage companies, so that we can range across the entire corporate sector right from start-ups to listed PLCs.

National Markets
Functions and markets report *continued*

A clear choice for everyone

The NHS Leadership Academy, now in its third year, continues to thrive and we are looking to extend the approach both to other parts of the UK public sector and abroad, with one significant overseas deal.

Our highly competitive online Small Business Accounting (SBA) service, officially launched in January 2015, is central to this drive and is proving increasingly popular with companies who might never have chosen to work with us in the past. The SBA client base is growing fast, a terrific result from a standing start.

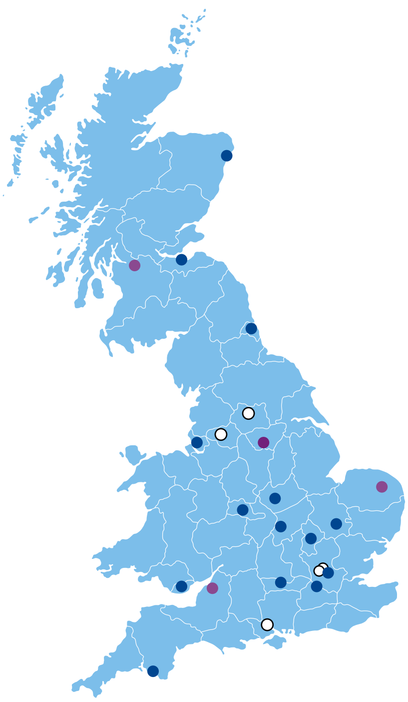
We continue to build on the services already offered through the SBA platform, such as accounts preparation, bookkeeping, payroll, VAT and corporate tax returns. We've already added R&D tax credit and grant application apps to the service and are now developing valuation and funding platforms as well. Alliances with a number of organisations, including Metro Bank, Market Invoice and Enterprise Nation are helping us to promote the service successfully.

We know we can play a really important role in developing and nurturing the UK SME sector – something we see as both a social and a commercial imperative. We're delighted to have joined forces with NatWest, Royal Bank of Scotland and Ulster Bank to support Entrepreneurial Spark, the world's largest free business accelerator which provides unique enablement to entrepreneurs. We're proud to be mentoring and advising these entrepreneurs and enterprises as they start out in life, investing £500,000 in cash and in kind in the scheme.

Already seven Entrepreneurial Spark UK Hatcheries are in operation, with a further six set to open in 2016 and 2017. Our young accountants are enthusiastic about the initiative and eager to get involved. Indeed, in each location, we are over-subscribed amongst our people who have applied to become mentors to these companies. The scheme gives us a privileged insight into the working lives of entrepreneurs and introduces us to a stream of potential future clients, as well as providing valuable experience and exposure for our people.

We're delighted that our new offices have been so well received by KPMG people, offering really cutting-edge accommodation with a strong accent on creating a buzzy and collaborative work environment. Manchester, Leeds, Southampton, Grosvenor Street and Shoreditch, in London, are already open, smaller hubs in Sheffield and Norwich planned, and Bristol and Glasgow in the pipeline too.

Recruiting and retaining the very best people remains a significant challenge as the war for talent continues to rage. Our new deal pay and conditions offer gives us a significant advantage, here. But ultimately, the best way to retain our people is to offer a rich diet of exciting opportunities and experience. This, above all, drives our performance and our ability to offer market-leading rewards.



UK offices

Upgrading our network of offices throughout the UK is vitally important here and we're delighted that we have moved into new main or hub offices in **Leeds, London, Manchester** and **Southampton,** with **Bristol, Glasgow, Norwich** and **Sheffield** to follow. They are all about creating an exciting, modern and collaborative workspace for KPMG people, where ideas sharing and involvement are to the fore. That's true of our extended head office in **Canary Wharf, London,** too, while our new West End client meeting space in London offers us a new and convenient place to interact with and build new relationships with clients from across all sectors and the world.

Relocations and new offices
Leeds
London
– 20 Grosvenor St
– Shoreditch
Manchester
Southampton

Pending relocations and new offices
Bristol
Glasgow
Norwich
Sheffield

Existing offices
Aberdeen
Birmingham
Cambridge
Cardiff
Edinburgh
Gatwick
Leicester
Liverpool
London
– 15 Canada Sq
Milton Keynes
Newcastle
Nottingham
Plymouth
Preston
Reading
Watford

People and resources

Our approach to the recruitment, reward and engagement of talented people, and our efforts to build a truly diverse and inclusive business, are central to achieving our strategic goal to be the clear choice. We've transformed the way we approach these issues in the last two years, but need to improve further and stay ahead of our competitors if we are to succeed.

It's just over a year since Our Deal – our new approach to engagement designed to attract and develop the best talent in the market – was launched in front of all 13,000 of our colleagues, contractors and sub-contractors, at London's O2 Arena at our fantastic One Firm Event.

Our job this year has been to build on the extraordinary sense of community that event generated and to continue developing market-leading approaches to engagement and reward, finding new and exciting ways to attract and retain the talented people we need to achieve our business strategy and our vision for the Firm.

Our Deal

Our Deal redefines some fundamental aspects of the relationship between the Firm and its people. It includes, for instance, a new approach to development using dedicated People Leaders and uses a more honest approach to performance management, with much greater transparency about rewards and bonuses.

A year on we continue to build on the programme and carefully monitor how it is working for people across the Firm, keeping a firm eye on what it is really all about – enhancing engagement and retention of talented people by giving them the sort of careers they really want.

The signs are good. Engagement levels rose by 11 percentage points to 68%, according to our latest engagement survey, conducted in December 2014. The feedback shows a 10% increase in people who think career opportunities in the Firm have increased, while 11% more say performance management has improved and 13% more believe there is now much better transparency about pay and bonuses.

It's great to see that the practical benefits we are offering have been endorsed enthusiastically too. Some 7,008 colleagues took up the offer of a day off on their birthdays, and 903 have used the 'Leisure Bank' where they can store up extra hours worked on client business and use it later as additional time off. Another 559 people are using our offer of a private banking service, including access to a preferential mortgage offer through the scheme.

Feedback on our new approach to performance management through honest conversations has also been favourable. Perhaps most importantly, there's been a 16% decrease in the number of people who feel unclear about whether they are meeting performance expectations.

Our Deal is also helping to boost mobility at all levels of the Firm, an important ambition. This is particularly true for our colleagues in the early stages of their careers, with 84 executive level colleagues and 134 assistant manager level colleagues taking up the chance to move around and gain experience in other parts of the business. In total we organised 427 secondments during the year.

People want the chance to progress in their careers with clear paths to promotion. Our Opportunity Led Promotions initiative has now been expanded with 1,642 colleagues promoted during the year, 148 to director, 291 to senior manager, 547 to manager and 656 to assistant manager. Over the year, 33 directors were also promoted to the partnership. Separately, we made 1,620 external hires.

In parallel, we have introduced further means of recognising the contribution people make through a market-leading set of practical benefits, including days off on birthdays, private banking and 'Jump Start Fridays' – where colleagues can leave work earlier in the summer months.

But it's not just inside the Firm where interest in Our Deal is building. Externally, some 81% of prospective candidates said they were likely to apply to KPMG if Our Deal was a reality. When Jump Start Fridays was discussed on LinkedIn, it generated 57,800 favourable impressions, twice the number we were expecting. And it is gaining attention across our global organisation, with an increasing number of KPMG firms requesting information about the initiative and seeking support to introduce similar measures.

Colleagues that took up the offer of a day off on their birthdays

7,008

Colleagues promoted during the year

1,642

Newly recruited colleagues that joined the organisation

1,620

UK secondments organised in the year

427

Our Deal continues to improve

But, as competition for talent intensifies, we have to keep innovating in this area to continue attracting and retaining the best. For that reason, Our Deal was enhanced in a number of ways during the year.

In January, for instance, we launched The Academy to help colleagues at the start of their careers, whether graduates or school leavers, receive the right training and support to develop their skills, make connections and widen their experience.

Many of our 2014 in-take have taken part in Academy activities and schemes. Some 900 attended launch events and have remained involved. Around 200 have joined the Learning with Leaders programme, where graduates have the chance to shadow a Partner, and 76 have been trained up as part of the new KPMG mentor programme, which is supporting business start-ups. Many more are getting involved in our podcasts, TEDx talks, leadership breakfasts and connection events. Again feedback has been excellent, with 91% of those attending the latest event saying it was a positive experience.

We've also given our 148 People Leaders additional training, focused on leadership development, talent management and making the rewards process more transparent. Development like this can have an immediate impact on our ability to retain the talent we need. In recognition of the great work they are doing, almost two-thirds of those received Encore awards, our internal recognition and reward system, since January.

Diversity and inclusion

We're clear that our work on diversity, inclusion and social mobility is fundamental to our strategy to transform the Firm. Recruiting a truly diverse workforce will inevitably enrich our workplace and bring a greater breadth of thinking and skill to the work we do and the products and services we create for clients.

As we create an engaging and inclusive culture it will allow us to capitalise on the rich diversity that exists in society and help to make KPMG stand out as the clear choice for our clients and the people we employ. Overall, we are making great strides, but we have much more to do to attain our own detailed and stretching targets in this area.

Gender pay gap

Inclusivity is at the heart of what we do. It is good for business, good for clients, and helps us recruit, retain and promote the best talent in the market.

This is one of the reasons that in 2013 KPMG undertook a long-term commitment to become a truly inclusive employer. As a founding member of the 30% Club and Access Accountancy the Firm recognised that diversity wasn't changing fast enough in our profession. We therefore set in place a long-term strategy to address this. This has included being the first of the Big 4 to publish detailed diversity target ratios in 2014.

In 2013, we also recognised that the number of females in the profession at all levels could be improved and we have been working hard to do this across the employee life cycle, from focusing on increasing our female intake at graduate level to ensuring that female talent is given the right support to progress. We are pleased to say that our female promotes to partnership increased this year.

Gender pay is an area of inclusivity that is rightly in the spotlight and we have been reviewing our existing gender pay gap. Across the Firm last year, based on salary, our overall gender pay gap was 21.4%. This number is unfortunately reflective of the smaller number of women currently in senior roles in the Firm. The average gender pay gap across grades was 5.8%. We will continue to focus hard on increasing our female talent pipeline, which we believe will help us to meaningfully address our gender pay gap in future years. The increased number of female promotes to partnership this year demonstrates early signs of success in our strategy, but gender pay parity is about ensuring female talent is also pulled through the middle layers of management at the Firm and this will be an area of particular focus for the Firm's inclusivity strategy going forward.

Inclusive leadership

Inclusive leadership at KPMG is all about taking personal responsibility for building diverse teams. Inclusion at KPMG means building a culture where our people have a secure sense of belonging and feel recognised and valued as individuals, able to be themselves at work.

In October 2014, we launched a three-year Inclusive Leadership strategy, setting out the changes we need to make to embed inclusion in the way we recruit, retain and promote our people. Our target zones have been set to improve the efficiency and fairness of our talent management, and increase the representation of gender and ethnicity, in leadership roles, and in disability and sexual orientation across the Firm.

People and resources
continued

With strong leadership and accountability at the very top of the Firm, we are measuring progress against our targets in a way that keeps our eyes firmly fixed on the end goal. And we continue to measure ourselves carefully against other employers and to draw on help from important external partners, including Stonewall, Opportunity Now, Business Disability Forum and Race for Opportunity.

Behavioural change takes time, but we have made important advances this year. Audit has seen a 20% increase in female partner promotions, Tax and Advisory continue to make significant advances in promoting diversity and 33% of the partner promotions in IM&G were female.

We have seen increases across the board in the number of disabled and LGBT people who feel able to be themselves at work. Changes in our graduate recruitment process has led to 41% of our intake being female, up by 4%. We've introduced 'Espresso Sessions' to offer D and E grade colleagues bite-size learning connected with career-enhancing skills and attributes, and we're piloting Parent Power, to help both female and male colleagues manage the transition into parenthood and back into their career with the Firm.

We held elections to the leadership of our 15 employee networks in May, a process that has re energised these groups and increased membership. We've also introduced a diversity assessment tool in our recruitment and promotion processes and our coaching model GROW (Goal, Reality, Options, Way Forward) is offering targeted support to potential leaders from under-represented groups. Inclusion Week 2015 was a particular highlight this year, with over 45 events across the UK focusing on 'making inclusion a reality'.

We were delighted to see two members of the first GROW cohort secure promotion, and very pleased that our parenting network, Parent Power, won an innovation award from the Working Families employer forum. Three KPMG colleagues were shortlisted in the Women of the Future Awards, including one man who was recognised in the mentor of the year category. We were also pleased to become a co-sponsor of the Race At Work initiative, the biggest ever ethnicity in the workplace survey and part of Business In The Community's wider campaign on race.

Having said that, this is difficult work and the challenge we have committed ourselves to in transforming the Firm is considerable.

Although our data shows we are making small improvements in developing a more diverse talent pipeline at the junior and middle levels of the Firm – namely E to B grades – and within certain functions, our progress at the leadership level is proving frustratingly slow. We need to improve our recruitment performance to match our strong advances in internal promotions.

We are determined to get this right and will deliberately transfer best practice from the fastest improving parts of the firm to those areas most in need of accelerated improvement, embedding successful solutions across the business for the benefit of all of our people and all of our clients.

Diversity and inclusion targets

	Grades	2014 Population (%)	2015 Population (%)	2018 Target (%)
Female	Partner	15	14	25
	Directors	23	26	36
	Senior Managers	36	38	46
BAME*	Partner	7 (0.9)	7 (1.2)	9 (2.2)
(Black/ Mixed)	Directors	9 (1.2)	9 (1.4)	14 (4.4)
	Senior Managers	14 (2.0)	15 (2.2)	18 (4.1)
Disability	Overall	1.4	1.5	2.8
LGBT**	Overall	3.0	3.0	4.1

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

**LGBT stands for Lesbian, Gay, Bisexual, Transgender.

We are determined to get this right and will deliberately transfer best practice from the fastest improving parts of the firm to those areas most in need of accelerated improvement, embedding successful solutions across the business for the benefit of all of our people and all of our clients

Recruitment – new routes into the profession

We talked last year about our ambition to open new routes into our profession so that we can recruit talented people who might never previously have considered working with us. This was an area of focus in 2015.

Building on the success of our School Leaver Programme – where we take school leavers, sponsor them through university and then train them, as paid employees, through to professional qualification – we've now launched an Apprenticeship scheme. While this does not involve going to university, it also leads to professional qualification within six years.

Social mobility is a big feature of our corporate responsibility work and is, increasingly, an important component of recruitment. There are currently 560 school leavers on our Audit programme and 109 apprentices. It was great this year to celebrate the first ever School Leaver graduation ceremony, with 63 colleagues successfully completing the programme.

Our Deal is helping us to distinguish ourselves from other Big 4 firms in our continuing efforts to recruit the best graduates. We're bringing it to life in our recruitment marketing by telling stories about how Our Deal is affecting the real working lives of our people.

A key priority in the campaign is to focus on the issues that matter most to 'millennials', describing, in particular, how we encourage employees to bring their whole selves to work. Social media is an increasingly powerful channel for reaching young people and, in August, we ran sessions on a number of topics, including career progression, environmental responsibility and our investment in training and development.

Our undergraduate summer schools are proving increasingly popular. With 7,000 people applying for a place this year, we almost doubled the intake from 130 to 230 in 2015. Applications to join the Firm's Graduate recruitment programme continue to grow, with 28,000 people applying for the 1,000 positions on offer in our 2015 intake.

Training and development

We spent some £27 million during the year to develop our colleagues and to equip them with the professional qualifications and technical and business skills needed to help us achieve our ambition to be a market-focused, issues-led business.

Of this sum, approximately £10 million was spent on supporting nearly 2,000 colleagues achieve accountancy and other professional qualifications.

To develop technical and business skills we ran over 6,000 individual courses, totalling almost 480,000 hours of training, or the equivalent of 105,000 individual learning experiences. In total, there were over 1,800 diverse course titles, over a third of which were delivered in the classroom, 52% online and 15% through virtual learning. Six dedicated coaches worked with almost 400 senior colleagues and partners to deliver this training.

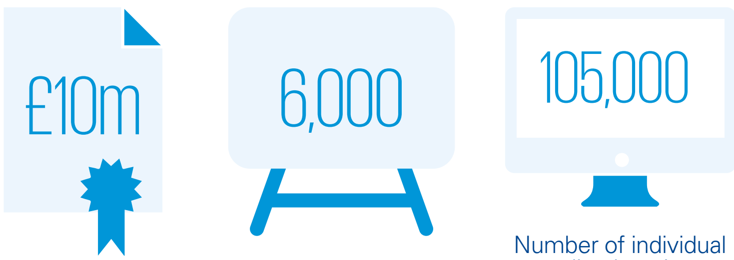
Separately, our 18-month, multi-stage Partner Essentials Masterclass (PEM) – aimed at preparing newly promoted colleagues for life in the partnership and run in collaboration with 23 other EMA member firms – has created some 2,200 new client relationships since its launch in 2010. In 2015, 61 UK Partners were involved, with 30 beginning the course and 31 completing it, having started the year before.

We piloted a number of new programmes during the year, and these will all be expanded in 2016. We've introduced both extended training for our People Leaders and invested in a new Partner Counselling Programme, which will see 70 Partners trained to support fellow leaders in developing the Firm's business strategy. We've also introduced training around key diversity and wellbeing issues, not least the GROW programme, a nine-month inclusive leadership programme aimed at developing a more diverse pipeline of top talent.

Developing people and skills

2015 total

£27m



Spend on Professional Qualifications

Number of individual courses attended

Number of individual online learning experiences

KPMG Business School

Corporate Responsibility

At the heart of our vision to be the clear choice in professional services is a determination to be a responsible business with a clear understanding of the impact we can have in tackling some of the UK's most pressing social issues.

We pride ourselves on taking a pioneering approach to Corporate Responsibility, and here – as in all other aspects of our work – our main asset is our people and the skills they can bring to the issues we want to address.

We provide all employees with six days a year to share their skills and experience as a volunteer.

As we've built our approach to Corporate Responsibility over the years, we've been placing more and more emphasis on transferring these practical and professional skills to our volunteering activities, and we are committed to ensuring that, next year, all of our volunteering is skilled.

Earlier this year, we launched the SPRING initiative to raise awareness about the social mobility and environmental initiatives we support, and encourage our people to volunteer.

Social mobility

Social mobility is a pressing issue for the UK and is high on our agenda.

A person's social or economic background can have a huge impact on their ability to reach their full potential in life – a disadvantage which often passes on from generation to generation. Improving social mobility is about breaking this link.

As a Social Mobility Business Compact Champion, KPMG is helping to drive the social mobility agenda forward and setting a benchmark for other businesses to aspire to. Over 83% of our volunteering is now connected with social mobility, and the remaining proportion is focused on emergency appeals and other causes. Together, our social mobility programmes have supported over 14,000 people in the past year.

Earlier this year, we launched the SPRING initiative to raise awareness about the social mobility and environmental initiatives we support, and encourage our people to volunteer.

We opened our first SPRING community space in our Canary Wharf headquarters. Bursting with creative installations, it is a place where beneficiaries can learn new skills, community partners can grow and develop and our people can get involved and see the impact of their volunteering.

The coming year will see SPRING spaces developed in other offices and the launch of our new cafe space in central London, the SPRING Workshop, focused on improving employability and literacy.

This year we also took an exciting, new approach to improving social mobility across the UK. Recognising that local knowledge is key, each of our offices now partners with community organisations to unlock targeted local solutions to this complex problem.

The social mobility poll

Understanding the barriers to social mobility – like why connections and class matter so much when it comes to getting a job – can be hard.

So, working with expert researchers, we launched the KPMG social mobility poll in the run up to April's general election to gauge attitudes towards key issues, such as affordable housing, poverty, the living wage, education and access to careers in business. Of the 5,000 people across the UK we polled, 70% of adults thought that getting a good job was driven by who you know, and 65% felt it was driven by class or socio-economic backgrounds.

The poll enabled us to gain a sharper insight into public opinion, so that we can tackle these issues, for the benefit of the Firm and for society as a whole.

Social mobility – our areas of focus

We focus our support and volunteering around the following key social mobility issues.

Youth employment and fair access

We are working on a number of initiatives to prepare young people for the world of work and increasing fair access to our profession.

'Work Ready' is a programme helping Year 9 and 10 students develop employability skills in a fun, interactive way. This summer our volunteers supported over 1,950 students in 15 schools across the country.

We're already an industry leader in developing school and college leaver programmes – but we're now doing even more to ensure the long-term diversity of the Professional Services sector.

KPMG360° builds on two of our existing programmes, STARs and the Audit School & College Leaver programme, to offer structured progression over a three to six-year period. The programme helps young people to fulfil their potential and succeed in our firm, one that they would not otherwise necessarily have had the opportunity to join. Since the programme's launch in April, we've welcomed 109 new recruits, from six cities, into the Firm.

Literacy skills

Following a successful national charity partnership between 2012 and 2014, KPMG is now the principal business partner working with the National Literacy Trust to reframe the UK's literacy policy.

In October 2014, the National Literacy Forum, a group of 18 organisations convened by the National Literacy Trust to drive forward the literacy agenda, launched 'Vision for Literacy 2025' at the Houses of Parliament, with KPMG as sponsor. KPMG has worked alongside the Forum to develop a 'Vision for Literacy' business pledge, which was launched in November 2015 and of which we are the first signatory.

KPMG Families for Literacy (KFFL) is a global programme which, to date, has donated two million books to children from low income backgrounds in the US, South Africa, India and Mexico. Launched in the UK in the autumn of 2014, KFFL is helping to improve reading, writing, speaking and listening skills in the UK's most disadvantaged communities.

Secure and affordable housing

Before the general election we chose to raise our voice on the UK's housing crisis, and published new research into the affordability gap.

Our findings revealed a very stark truth – that there is now a gap in every UK region between the amount a first time buyer needs to earn to afford to buy a home, and their actual average salary. UK-wide, the salary needed is £41,000, compared with average annual incomes of just £22,000.

We also published findings from a poll of 10,000 people asking their views on the current state of the housing market. The results showed 73% of respondents are clear they'd rather own than rent, while 67% said there wasn't enough affordable housing in the UK.

Being able to live in a stable home is a basic human need, but something that now only few can hope for. We are calling on the government to act decisively on this key issue, and meet the housing needs in the UK.

We are also working to tackle homelessness in other ways. Unemployment is one of the main causes of homelessness. Volunteers from our London, Bristol, Leeds, Manchester and Nottingham offices provide support, advice and guidance for those looking for work, through Ready for Work, a national programme run by Business in the Community that supports formerly homeless individuals find and sustain employment. This year we directly supported 208 socially excluded adults.

Corporate Responsibility
continued

Youth Leadership

We are very proud to support the work of both Enactus and Free the Children, two organisations working to engage and inspire the leaders of the future.

Enactus provides a platform for teams of outstanding university students to create community development projects. KPMG volunteers act as business advisers to Enactus student teams from 17 UK universities and we were delighted to be the Enactus World Cup sponsoring partner in South Africa, the first time a UK team has won the Enactus World Cup. The 2017 event will be hosted in London, with KPMG as sponsoring partner once again.

For the second year running we supported Free the Children's 'WE' Day, this time with over 340 young people from 11 of our partner schools attending. Our Chairman, Simon Collins, appeared on-stage to capture a selfie with the 12,000 young change-makers gathered at Wembley Arena and urged the young people to turn their perspective from 'me to we', working together to build a brighter future.

Living Wage – helping working people out of poverty

The living wage is a voluntary rate of pay recognising that the statutory minimum wage rates, currently £6.70 for over 21s, do not pay enough to sustain a basic quality of life. The living wage is currently £8.25 (increased from £7.85 in November 2015).

KPMG and Citizens UK have worked together for 10 years to tackle the issue of in-work poverty. We were a founding member of the Living Wage Foundation and one of the first employers in the UK to pay staff a living wage. Our long-standing partnership with the Living Wage Foundation has helped achieve over 2,000 living wage accredited employers, including 24 companies within the FTSE 100, lifting more than 100,000 families out of working poverty. The success of this partnership was recognised this year with an Ethical Corporation's Award for 'Best Business/ NGO Partnership'.

The living wage has been a particularly hot topic this year due to the government's announcement of a compulsory national living wage in the July Budget. By April 2016, the national living wage, set at £7.20, will replace the national minimum wage for over-25s. Encouraged by this changing political landscape, and the impact our voice has had, we will continue to campaign on the issue and to support businesses wishing to follow our lead.

Sustainable Procurement

We continue to operate a wide-ranging Sustainable Procurement Programme focusing on three pillars:

- Environment – predominantly through carbon emissions management
- Diversity and inclusion in the supply chain – in our own workforce and our suppliers' workforces
- Living wage – supporting suppliers implement the living wage and ensuring all contractors on all UK KPMG sites are paid at least the living wage

Amongst our successes in 2015, we achieved 100% supplier submissions to the CDP Supply Chain carbon disclosure survey (an increase from 93% in 2014), and are now ranked number 1 of 75 corporate organisations in terms of ensuring supplier responsiveness to CDP's survey.

We also set up supplier diversity and environment roundtables and launched a framework to boost understanding of sustainable procurement, both internally and externally. Finally, we were delighted to be shortlisted for three industry sustainable procurement awards (CIPS, Ethical Corporation and EDIE).

KPMG Foundation

Established in 2001, the KPMG Foundation is an independent grant giving charitable organisation, funded by KPMG in the UK. The KPMG Foundation focuses on programmes that are working to change the poor life outcomes for young people in care and on the edge of care and those living in deprived families. This year the KPMG Foundation gave £1 million in grants.

Amongst a wide portfolio of projects, the KPMG Foundation is currently co-funding Head, Heart, Hands, an innovative three-year demonstration programme that is testing whether the implementation of a social pedagogic framework can improve outcomes for children in foster care. An independent evaluation will be published in autumn 2016 by CCFR Loughborough University.

Based on research by leading experts at the International Centre for Guidance Studies a compelling case was made for quality teacher training and professional development to support career and employability learning in the UK. The KPMG Foundation is funding Teach First, in partnership with Goldman Sachs, to develop and pilot a school level approach to employability which will facilitate better support for young people to think clearly and creatively about their careers and employability options.

A clear choice for families

Our long-standing partnership with the Living Wage Foundation has helped achieve over 2,000 living wage accredited employers, including 24 companies within the FTSE 100.

Corporate Responsibility
continued

Environmental management

Environmental excellence is very important to KPMG, both in our own operations and in the advice and services we provide to our clients. As a responsible business we want to make sure our environmental impact is kept to a minimum. To help us manage this robustly, we operate an ISO14001-certified environmental management system.

Sustainable Buildings

This year we have had major changes across our estate with new offices in Manchester, and London and ongoing works in Leeds, Southampton, Bristol and Leicester. We have built sustainability principles into the design and fit out of our new buildings, aiming to achieve the highest BREEAM or SKA ratings in all our new buildings.

We aim to design, operate and manage our estate to reduce our environmental impact and have made major investments in carbon saving technologies and sustainable materials. As a result we have achieved a BREEAM "Excellent" rating in Manchester, SKA Gold in Leeds and SKA Silver on our fit out project at Southampton. All of these projects also helped us achieve our score of a "B" rating from CDP, well above the industry average, showcasing our commitment to becoming a sustainable organisation.

Whilst this investment will lead to reductions in emissions across the estate in the long term, we have seen a slight rise in emissions this year due to running existing buildings while the new ones were being built. Nevertheless, we have still seen absolute emissions cut by 9% and an overall reduction of 22% per FTE since 2010.

Travel and technologies

Travelling to meet clients is an integral part of our work. Nevertheless, we continue to look for ways to cut back on this travelling, where appropriate, while maintaining vital interaction.

We have invested in Skype for Business, a technology enabling us to host interactive meetings and use audio and video calling on our laptops. We have also installed videoconferencing and Lync Room Systems in all our new facilities. This has helped us achieve an 8% decrease in our business-related car emissions since 2013.

Bees

We support Defra's pollinator strategy and have been working with local gardeners and our employees to plant more pollinator friendly flowers at our Canary Wharf headquarters. Our bees have been busy this year and this autumn we were able to collect our first batch of honey.

Waste

This year we have introduced composting at our UK headquarters and removed polystyrene from all catering areas across the firm. This has significantly increased our recycling rates in London and led to an overall increase across the UK to 63%. We want to push this even further and have set ourselves the target of 70% recycling by 2017.

Spring Workshop

SPRING Workshop is a new café-deli, which opened in November 2015, committed to supporting social mobility and providing an inclusive community space, in the heart of Mayfair. To bring our Corporate Responsibility commitments to life, the café has a literacy theme with a poem on social mobility taking centre stage. The café will also provide apprenticeships for young people from the local Borough of Westminster – all of whom will be paid the London living wage.

Corporate Responsibility Environmental and Community Data

Emissions (tonnes CO_2e)	Current year Year ending Dec-14	Prior year Year ending Dec-13	Base line Year ending Dec-10
Scope 1			
Natural gas	3,011,647	3,164,421	3,334,743
KPMG owned car travel	1,480,866	1,579,694	1,383,514
Total – Scope 1	**4,492,513**	**4,744,115**	**4,718,257**
Scope 2			
Purchased electricity*	17,038,169	14,483,039	20,750,717
Total – Scope 2	**17,038,169**	**14,483,039**	**20,750,717**
Scope 3			
Business related car travel	2,654,600	2,899,131	4,213,005
Air Travel			
Short	87,279	82,425	672,347
Medium	2,486,249	2,558,173	1,821,704
Long	16,200,665	15,988,270	14,824,458
Subtotal	18,774,193	18,628,868	17,318,509
Transmission and distribution electricity**	1,489,883	1,238,347	1,670,969
Total – Scope 3	**22,918,676**	**22,766,346**	**23,202,483**
Total gross emissions	**44,449,358**	**41,993,500**	**48,671,457**
Gross emissions per FTE	**3,703**	**3,697**	**4,748**
Additional disclosure for Radiative Forcing (RF) (CO_2e):			
Air Travel			
Short	165,033	155,834	2,154,324
Medium	4,701,981	4,837,718	3,483,660
Long	30,638,243	30,236,779	26,100,724
Subtotal	35,505,257	35,230,331	31,738,708
Additional Indicators:			
Water consumption (Litres)	139,286,309	133,409,000	118,790,000
Paper usage (sheets)	55,802,474	61,588,020	78,433,500
Waste			
Total waste (kg)	2,290,232	2,353,012	2,495,504
Recycled waste (kg)	1,444,067	1,417,286	1,282,719
% waste recycled	63%	60%	51%
CY full-time equivalents	12,003	11,359	10,252

* 100% of the electricity the UK firm buys is obtained from renewable sources including wind, solar, tidal, wave and biomass. Each unit of green electricity is backed by a levy exempt certificate (LEC) which acts as evidence that the supply is from accredited renewable sources. However, this electricity does not meet the current UK Government definition of a green tariff and we have calculated our emissions for electricity using the national grid average conversion factor as provided by Defra.

** Upstream emissions from the transmission and distribution of electricity have been added as per new Defra guidelines.

Community	FY2014/15	FY2013/14
Community benefits		
Individuals directly supported	**14,135**	12,270
Organisations supported	**1,049**	878
Leverage (cash) (£000)	**2,226**	945
Community investment		
Community contribution (cash, time, in-kind and management costs) (£m)	**5.3**	6.2
Volunteering during working hours (number of people)	**2,790**	3,138
Time spent volunteering during working hours (numbers of hrs)	**43,190**	47,930
FTE staff volunteering during work hours (%)	**23%**	28%

Our taxes paid and collected

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

As a 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 £232 million compared with £154 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of the Partners refers to the profits earned in the previous two years. Tax paid during 2015 was higher than the 2014 level as a balancing payment for 2013 was paid in January.

KPMG paid tax to HMRC on behalf of partners based upon the statutory rates of 20% and 40% on the first £150,000 of profit, and then at 45% thereafter (2014: 45%), plus a further 2% in national insurance.

KPMG in the UK makes a significant contribution each year to the public finances through the taxes paid by our partners on our profit, the taxes we bear as an organisation such as employers' national insurance, corporation tax (which is paid on the small proportion of profit earned in subsidiary companies), business rates and property and environmental taxes, and those we collect on behalf of the exchequer, such as employees' national insurance, employment tax and VAT.

Taken together the total paid and collected by us in 2015 was £786.4 million (2014: £710.6 million). The table below shows the split between taxes borne by us directly, and those we collect for the public purse in the course of our day-to-day business.

It shows that our largest contribution comes through the tax paid in respect of and on behalf of our employees. We are proud of the contribution this level of employment makes to the overall economy. The amount of employee related tax increased as we had more employees in 2015 than 2014.

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

Managing tax

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

KPMG UK – cash taxes paid in the years to 30 September 2015 and 2014 – Summary

	Y/E 30 September 2015			Y/E 30 September 2014		
	Cost to firm	**Collecting agent**	**Total**	Cost to firm	Collecting agent	Total
Employment items	**86.1**	**229.7**	**315.8**	80.5	213.2	293.7
Partners	**0.9**	**231.0**	**231.9**	0.5	154.0	154.5
Corporation tax	**11.8**	**0.0**	**11.8**	10.4	0.0	10.4
Rates	**11.2**	**0.0**	**11.2**	11.5	0.0	11.5
VAT	**1.2**	**212.7**	**213.9**	1.0	236.9	237.9
Other items	**1.8**	**0.0**	**1.8**	1.9	0.7	2.6
	113.0	**673.4**	**786.4**	105.8	604.8	710.6

All figures in £ millions.

All figures represent cash taxes paid during the relevant year.

Independent limited assurance report

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

Grant Thornton UK LLP ('Grant Thornton') has been engaged by KPMG LLP ('KPMG') to perform limited assurance procedures in respect of selected Environmental Performance and Community Investment information (hereafter 'Selected Information') contained in the KPMG Annual Report for the year ended 30 September 2015 ('the Report').

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

Scope and subject matter

The Selected Information subject to our limited assurance engagement in respect of the Environmental Performance data for the year ended 31 December 2014, consists of:

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

The carbon footprint data is reported in accordance with the criteria set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), jointly issued by the World Business Council for Sustainable Development and the World Resources Institute. The CO_2 figures are calculated using the Defra/DECC guidelines 'Greenhouse Gas Conversion Factors for Company Reporting', issued on 1 June 2014.

The Selected Information subject to our limited assurance engagement in respect of the Community Investment data for the year ended 30 September 2015, consists of:

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

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

Independent limited assurance report
continued

Responsibilities of KPMG and Grant Thornton

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

Assurance standards used and work performed

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

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

Our limited assurance procedures included:

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

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

Our ethical requirements and quality control

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

- We are independently appointed by KPMG; and
- Our work is performed in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

In accordance with International Standards on Quality Control 1, Grant Thornton maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Limited assurance conclusion

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

Grant Thornton UK LLP
Chartered Accountants
Cambridge
17 November 2015

GrantThornton

Governance

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Governance

Our structure and governance

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

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

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

The Board

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

At the start of the year the Board comprised two Vice Chairs, three members from the Executive Management Team, and seven Non-Executives. During the year one Vice Chair left the Firm and one Non-Executive resigned from the Board in August 2015 to undertake a management role.

As at 30 September 2015 the Board of KPMG LLP was made up of one Vice Chair, three members of the Executive Management Team and six Non-Executives, as set out on pages 54 and 55.

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

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

The Executive Management Team

The Executive Management Team is responsible for the day-to-day management of the activities of the Firm. Its members are all KPMG Partners.

At the start of the year the members of the Executive Management Team comprised ten Partners. As at 30 September 2015 (following a review and changes made in July) the Executive Management Team was changed to comprise eight Partners, as set out on page 54.

In November 2015, the new role of Managing Partner was introduced to the Executive Management Team and in December 2015 the General Counsel joined the Executive Management Team. More details are set out on page 54.

The Public Interest Committee

In addition, and in accordance with the Audit Firm Governance Code, the Firm has a Public Interest Committee, consisting of independent external Non-Executive members.

Further details of the members of the Board, Executive Management Team, Audit & Risk, Nomination & Remuneration and Public Interest Committee, along with their background and meeting attendance, are set out on page 54 to 57 of this report.

This section of the report includes a summary of the activities during the year of the Board Committees (Audit & Risk Committee, page 58, and Nomination & Remuneration Committee, page 59), and of the Ethics Committee, see page 60, and a report from the Public Interest Committee (pages 67 and 68).

Review of governance

An independent review of the effectiveness of the Board was undertaken last September. The review concluded that the Board has been on a journey since it was established two years ago, noting that it now deals with its key governance responsibilities increasingly well and focuses on the key areas. However, it also noted that the nature of the Board's involvement in these key areas still needs to continue to evolve. A number of recommendations were made in the report – the Board discussed a detailed action plan to address these recommendations during the year.

LLP Governance

Executive Management Team members as at 30 September 2015

Members of KPMG LLP Executive Management Team as at 30 September 2015

As at 30 September 2015 the Board comprised the three members of the Executive Management Team (as identified by *), the Vice Chair and all of the Non-Executives.

1 **Simon Collins***
Chairman of KPMG LLP and Senior Partner

Simon has been a partner for 15 years and joined the Board on 30 July 2012. He is also a member of the Boards of KPMG Europe LLP and KPMG International.

2 **Jim Marsh***
Head of International Markets and Government

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

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

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

4 **Marianne Fallon**
Head of People

Marianne has been a partner for five years and joined the Executive Management Team on 30 July 2012. Marianne is also currently UK Head of Corporate Affairs.

5 **Tony Cates**
Head of Audit

Tony has been a partner for 17 years and joined the Executive Management Team in June 2011.

6 **Iain Moffatt**
Head of National Markets

Iain has been a partner for 17 years and joined the Executive Management Team on 30 July 2012.

7 **Mike McDonagh**
Head of Operations

Mike has been a partner for nine years. He joined the Executive Management Team on 27 July 2015.

8 **Karen Briggs**
Head of Solutions

Karen has been a partner for 16 years and joined the Executive Management Team on 1 January 2015.

Changes after the year end

On 23 November 2015 the following changes occurred to the Executive Management Team:

- Jim Marsh resigned from the Executive Management Team and the Board;
- Marianne Fallon resigned from the Executive Management Team;
- Tony Cates became Head of International Markets and Government;
- Adrian Stone became the interim Head of Audit; and
- Philip Davidson took up the new position as Managing Partner.

Philip Davidson joined the Board on 26 November 2015.

Jeremy Barton joined the Executive Management Team as General Counsel on 1 December 2015.

Non-Executive members of the Board as at 30 September 2015

9 **Richard Reid**
Non-Executive member

Richard has been a partner for 23 years and joined the Board on 30 July 2012. He is also the London Chairman and was Chair of the Nomination & Remuneration Committee until 26 October 2014 and was succeeded by Kru Desai.

10 **Melanie Richards**
Vice Chair

Melanie has been a partner for 13 years and joined the UK Board on 14 September 2012. On 1 October 2014 Melanie was appointed as a Vice Chair of the Firm and now sits on the Board in that capacity. She is also a member of the Nomination & Remuneration Committee and the Ethics Committee.

11 **David Sayer**
Non-Executive member

David has been a partner for 10 years and joined the Board on 14 September 2012. He is also a member of the Audit & Risk Committee.

12 **Ian Starkey**
Non-Executive member

Ian has been a partner for 20 years and joined the Board on 14 September 2012. Ian is also the Chair of the Audit & Risk Committee and a member of the Ethics Committee.

13 **Karl Edge**
Non-Executive member

Karl has been a partner for 10 years and joined the Board on 1 October 2014. Karl is also a member of the Nomination & Remuneration Committee and as of 4 August 2015 took over as Chair of the Nomination & Remuneration Committee from Kru Desai.

14 **Nicola Quayle**
Non-Executive member

Nicola has been a partner for seven years and joined the Board on 1 October 2014. Nicola is also a member of the Audit & Risk Committee.

15 **Richard Heis**
Non-Executive member

Richard has been a partner for 18 years and joined the Board on 1 October 2014. Richard is also a member of the Nomination & Remuneration Committee.

Changes after the year end

- Richard Reid retired from the partnership and the Board with effect from 1 October 2015;
- Nicola Quayle took over as Chair of the Audit & Risk Committee from Ian Starkey on 1 October 2015;
- Ian Starkey and David Sayer were re-elected as Non-Executives on 16 October 2015; and
- On 26 November 2015, Amanda Tickel, Stephen Oxley and Maggie Brereton were elected by Partners to become Non-Executives.

Governance
continued

Members of the Public Interest Committee for the year ended 30 September 2015

Sir Steve Robson
Chair and Independent Non-Executive

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

David Pitt-Watson
Independent Non-Executive

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

Philip Augar
Independent Non-Executive

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

Professor Laura Empson
Independent Non-Executive

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

Changes after the year end

With effect from 1 October 2015 Sir Steve Robson has retired from the Public Interest Committee and was succeeded by Professor Laura Empson as the Chair of the Public Interest Committee.

Meeting attendance for the year ended 30 September 2015

(Meetings eligible to attend in brackets)

	Board	ExCo	Audit & Risk Committee	Nomination & Remuneration Committee	Ethics Committee	Public Interest Committee
Executive Management Team members						
Simon Collins*	12 (12)	13 (13)	–	–	–	–
Mike McDonagh		4 (4)				–
David Matthews*	10 (12)	13 (13)	–	–	9 (9)	–
Jim Marsh*	11 (12)	12 (13)	–	–	–	–
Iain Moffatt	–	13 (13)	–	–	–	–
Marianne Fallon	–	12 (13)	–	–	–	–
Tony Cates	–	11 (13)	–	–	–	–
Karen Briggs	–	11 (11)	–	–	–	–
Jane McCormick	–	4 (4)	–	–	–	–
Richard Fleming	–	10 (10)	–	–	–	–
Richard Gostling	–	10 (10)	–	–	–	–
Bill Michael	–	8 (10)	–	–	–	–
Vice Chair						
Melanie Richards	12 (12)	–	–	10 (11)	7 (9)	
Joe Gallagher	1 (1)	–	–	–	–	–
Non-Executives						–
Richard Reid	8 (12)	–	–	2 (2)	–	–
Kru Desai	11 (11)	–	–	9 (9)	–	–
David Sayer	10 (12)	–	5 (5)	–	–	–
Ian Starkey	10 (12)	–	5 (5)	–	9 (9)	
Nicola Quayle	11 (12)	–	5 (5)	–	–	–
Karl Edge	12 (12)	–	–	8 (9)	–	–
Richard Heis	9 (12)	–		5 (9)	–	–
Independent Non-Executives						–
Professor Laura Empson	–	–	4 (5)		–	4 (4)
Sir Steve Robson	–	–	4 (5)		–	4 (4)
Philip Augar	–	–	3 (5)		–	3 (4)
David Pitt-Watson	–	–	4 (5)		–	4 (4)
Partners at large						
Richard Pinckard	–	–	–	–	9 (9)	–
Janette Wilkinson	–	–	–	–	9 (9)	
Christine Hewson	–	–	–	–	4 (4)	–
Maggie Brereton	–	–	–	4 (4)	–	–
General Counsel						
Vanessa Sharp	–	–	–	–	2 (2)	

*See page 54.

Governance
continued

Activities of the Audit & Risk Committee in the year

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

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

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

Financial reporting risks

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

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

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

- Retirement benefits – the ongoing accounting for and disclosure of the Asset Backed Funding Scheme (see notes 2 and 20 of the financial statements).

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

External auditor

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

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

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

The provision of non-audit services is monitored by the Audit & Risk Committee. During the year, fees of £16,000 (2014: £27,000) were paid to Grant Thornton UK LLP in respect of non-audit services.

Activities of the Nomination & Remuneration Committee in the year

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

In order to discharge its responsibilities, the Nomination & Remuneration Committee met 11 times during the year. As at 30 September 2015, the Nomination and Remuneration Committee consisted of three Members (two Non-Executives and the Vice Chair). Additionally a co-opted Member, who was a Partner at large, also attended meetings. The Senior Partner, Chief Operating Officer / Head of Operations, General Counsel and Head of Partner Matters are invited to join the meetings when the Nomination & Remuneration Committee deem necessary.

In terms of specific matters that it considered in 2015, it reports as follows:

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

  During the year the Committee reviewed the principles, parameters and processes involved in determining benchmark pay. This included reviewing benchmark pay for differences in pay in relation to gender, sectors and regions. It also reviewed and recommended suggestions in relation to Partner counselling and the adoption of dual pens (two Partners being responsible for a Partner's benchmark pay determination).

- **Review of the performance and remuneration of the Senior Partner**

  At the end of 2015 the Committee reviewed the performance of the Senior Partner and suggested a recommendation for Senior Partner benchmark pay to be voted on by Partners.

- **Review of the performance and remuneration of the Executive Management Team**

  At the end of 2015 the Committee reviewed and revaluated the performance of and recommended remuneration of the Executive Management Team.

- **Consulting with the Senior Partner to appoint individuals to the Executive Management Team and other senior management positions**

  Throughout the year the Committee, in consultation with the Senior Partner, interviewed for new members of the Executive Management Team, Head of Corporate Affairs and Head of Client Council.

- **Recommending potential Public Interest Committee members**

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

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

  The Committee received a small number of appeals from Partners in relation to their 2015 benchmark pay (which had been referred from the Partner Matters Team) which it reviewed on an individual basis and in some cases recommended that the Executive Management Team reconsider the decision taken.

- **Special awards**

  The Committee reviewed the criteria, and the proposed nominations, for 2014 special awards (awards to reward exceptional performance) and the analysis undertaken by ExCo for their recommendations.

- **Succession planning**

  Following the Board effectiveness review the Committee reviewed succession planning in relation to the Board. This included reviewing the size of the Board and the election process for new NEDs/ re-election of current NEDs, compiling a risk and experience matrix for the Board and planning for Richard Reid's and Sir Steve Robson's retirement.

Focus for 2016

Continue to improve the principles, parameters and processes of benchmark pay based on the learnings gained in the year and recommend a new Public Interest Committee member.

Governance
continued

Activities of the Ethics Committee in the year

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

The Ethics Committee (which was formed in May 2014) has operated throughout the whole of 2015 during which it met nine times. As at 30 September 2015, the committee consisted of six members, being three Partners at large and three Members of the Board (including the Head of Quality & Risk Management).

In terms of the specific matters that it has considered in 2015, it reports as follows:

- **Personal financial independence**

  During the year, the Committee considered the outcome of the 311 personal compliance audits which had been undertaken in the year (this included 164 audits on our partners), any issues arising and the Firm's proposed response to those issues (including any individual financial sanctions that might be appropriate).

- **External appointments for current or retired partners**

  During the year the Committee considered a number of cases where former KPMG partners held director roles or were in a key management position at prospective audit clients where the Firm was considering tendering for the audit. It also considered some cases where retired partners wished to accept appointment at existing (or potential) audit clients.

- **Review of specific policies**

  As part of its programme of work this year, the Committee has considered the Firm's policy for providing gifts and entertaining clients, and has recommended that a number of enhancements be made to the policy (including further examples of what would constitute inappropriate entertaining).

- **General trends**

  The Committee receives six monthly updates on trends in disciplinary and grievances (covering both partners and employees). It notes that the Firm experiences a very low level of both matters (with levels consistent to previous years). In terms of whistle-blowing reports in the year, whilst there has been an increase in the number of reports over 2014, the absolute number of such reports remains very modest for a firm the size of KPMG and there are no specific cases or discernible trends that cause concern from an ethics standpoint (see page 126 for further details).

- **Lord Gold**

  The Committee has reviewed the planned actions that the Firm proposed to take in 2015 in response to Lord Gold's report and was satisfied that these were appropriate. It also requested that KPMG's Internal Audit function undertake an independent review of the actions that the Firm has taken to date – this review was completed in September and confirmed that all of the actions that had been reported as having been taken to date had been completed satisfactorily.

Focus for 2016

Finally, the Committee has considered and approved an overall framework for it to use to assess KPMG's overall ethical health. The framework includes a number of elements including the tone at the top of the organisation, the effectiveness of its governance structures, detailed policies and procedures (including in respect of clients, engagements and our HR processes) and details of relevant monitoring and compliance activities. This framework will be used to inform what is covered at its meetings during 2016 (with the intent being that all key areas of the framework should be reviewed at least once annually).

Quality and risk management

Responsibility for quality and risk management

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

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

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

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

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

Our system of quality control

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

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

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

Risk management

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

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

Risk, potential impact and mitigations

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

Risk description	Mitigation
Major or multiple audit failures Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost clients through the resulting reputational damage.	• A tone at the top which emphasises quality, ethics and integrity • Board oversight of both internal and regulatory audit quality reviews, recommendations and actions • Robust audit quality controls • Rigorous client and engagement acceptance procedures

Governance
continued

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

Audit quality indicators

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

Monitoring and continuous improvement

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

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

Internal monitoring

Our internal monitoring comprises principally three main components:

Our Quality Performance Review (QPR) Programme assesses engagement level quality for each of our functions, and the results of this for 2015 are set out in the table below.

The Risk Compliance Programme (RCP) is our annual self-assessment programme which monitors, assesses and documents Firm-wide/cross functional compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. We have self-assessed our overall levels of compliance as 'Yellow' (2014: 'Green'), indicating substantial compliance with KPMG's policies and procedures but where issues identified require attention in order to meet the highest standards to which we hold ourselves.

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

Overview of 2015 QPR results (2014 data in brackets)

	Satisfactory	Performance improvement necessary	Unsatisfactory	Number of engagements reviewed	% of engagement leaders reviewed
Audit	82% (83%)	12% (12%)	6% (5%)	115 (116)	36% (36%)
Tax	92% (93%)	7% (7%)	1% (0%)	164 (232)	40% (44%)
Advisory	88% (86%)	10% (12%)	2% (2%)	210 (210)	36% (29%)

Governance
continued

External monitoring

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

AQR review category	**2014/15**	2013/14
Good with limited improvements required	**15**	10
Acceptable overall with improvements required	**4**	4
Significant improvements required	**1**	2

QAD review category	**2014/15**	2013/14
Satisfactory or generally acceptable	**8**	6
Some improvement required	**2**	2
Significant improvement required	**1**	3

We were pleased with the comment by the AQR in 2015 in recognising that we had significantly enhanced our internal monitoring of firm-wide policies and procedures in the prior year and that it considers the effort taken in this area to be of particular benefit to our quality control environment.

FRC Thematic Review

The AQR of the FRC also undertakes thematic reviews to supplement their annual programme of audit inspections of individual firms. In a thematic review, firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed. In December 2014 the FRC published a report setting out the principal findings of the thematic inspection of the quality of bank and building society audits.

We were pleased by the comments that there has been an increase in the quality of the audit of loan loss provisions and related IT controls. For KPMG this reflected a number of additional initiatives and increased leadership focus which included additional benchmarking procedures, knowledge sharing sessions, peer reviews and increased use of Data & Analytics tools and techniques.

Three further thematic inspections are scheduled for 2015/2016, covering audit sampling, the role of the engagement quality control reviewer, and firms' internal quality monitoring procedures. We will set out the results of these in next year's Report.

Regulatory investigations

During the year, the FRC commenced an investigation into the preparation, approval and audit of the financial statements of Quindell Plc for the period ended 31 December 2011 to the years ended 31 December 2013. KPMG LLP was the auditor of the 2013 financial statements. An investigation was also started during the year in relation to the role of KPMG Audit Plc in reporting to the FSA on BNY Mellon's compliance with the FSA's client asset rules for the years ended 31 December 2007 to 31 December 2011.

In February 2015, the FRC published decisions of tribunals held in December 2014 regarding two formal complaints made by the FRC against KPMG and two KPMG Partners. KPMG and the Partners accepted reprimands and fines from the FRC in respect of these breaches which related to compliance with certain aspects of the Ethical Standards in 2010–2012. As explained in previous years, we have investigated the underlying reasons giving rise to the issues and taken steps to enhance our processes.

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

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

Investment in audit quality

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

Training delivered in audit

Our annual training programme runs for a calendar year to match the typical audit cycle and the majority of training takes place in summer and autumn. For the year ended 30 September 2015 our audit training programme (excluding those courses for unqualified staff on training contracts) included mandatory technical and risk courses. During the year, additional specific training was undertaken in relation to the application of Data & Analytics tools and techniques in the audit, and also further training compliance (as noted in Appendix 2.3.2.10).

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

The average number of hours of this training undertaken by partners and qualified staff for the year ended 30 September 2015 was 47 hours (2014: 38 hours). These hours exclude the time spent on core skills programmes to support career and professional development, and the many hours spent ensuring continuing professional development by reading technical journals and attending technical briefings (including KPMG hosted events such as our Financial Reporting Seminars and those run by our Audit Committee Institute).

Research and development on audit

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

We are undertaking a multi-year transformational programme to develop a new approach to audit, which we call Dynamic Audit, to add value for all our stakeholders by further increasing quality. Amongst other initiatives, this programme resulting in far greater use of Data & Analytics in the audit. We have also further developed and applied other tools to enhance audit quality, including those from our alliance with McLaren.

We have invested in a number of areas where we believe corporate reporting and audit has an important role to play in restoring trust and as part of our commitment in this area we have continued to develop our new approach to audit reports which was introduced last year.

Partner and staff survey

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

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

Stakeholder interactions

Investor liaison

Recognising investors as the clients for our audits, in 2015 we have sought to increase the level of engagement with investor representative bodies. These meetings, often with one or more of our Public Interest Committee members present, have covered the results of the FRC's AQR team findings in relation to our Firm. We have also met individually with investors. We see dialogue with investors as an important mechanism for increasing trust and understanding and we will be seeking to further increase the level of engagement in 2016.

Interaction with regulators

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

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

Governance
continued

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

Internal controls statement

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

In accordance with the Audit Firm Governance Code the Board has reviewed the effectiveness of its systems of internal control. In reviewing the systems of internal control and their effectiveness, it has adopted the approach prescribed within the UK Corporate Governance Code (as revised in September 2015 with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting).

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

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

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

Conclusions

No significant weaknesses in our internal controls have been identified during the course of this review. In addition, the Board confirms with a reasonable level of assurance that the systems of quality control within our Firm have operated effectively in the year to 30 September 2015.

Further, the Board of KPMG LLP confirms that an internal review of independence practices within our Firm has been conducted in respect of the year ended 30 September 2015.

Compliance with requirements of Audit Firm Governance Code

The Board has reviewed the provisions of the Audit Firm Governance Code (as set out in Appendix 4) and confirms that the Firm complied with these provisions throughout the year ended 30 September 2015.

Report from the Chair of the KPMG LLP Public Interest Committee

The KPMG LLP Public Interest Committee (PIC) has been in existence for two years.

The Independent Non-Executives (INEs) now attend and participate actively in every Board meeting, working alongside the elected Non-Executive members of the Firm. Partnerships are not normally open to challenge from outsiders but KPMG has proven reassuringly receptive. We believe that our active participation in Board meetings, and our representation of the "outsiders'" perspective, has contributed to an environment where robust and constructive challenge is now firmly established.

We continue to participate in the quarterly Audit and Risk Committee meetings, which are held jointly with meetings of the PIC. At these meetings, amongst other tasks, we review the "watch list" of potential risks arising across the firm as a whole and inquire in detail into any areas of concern. We receive regular reports from the Ethics Committee and scrutinise internal and external audit quality reports. We seek always to identify and encourage necessary immediate action.

The PIC itself also meets quarterly separately from the Audit & Risk Committee. We invite members of the Executive Management Team and Board to these meetings so that we can question them about areas of particular importance from a public interest perspective and encourage them to voice any potential concerns. Over the past year we have explored various public interest issues discussed later in this report and have engaged in detailed questioning across the business as a whole, about issues such as: Partner remuneration and investor engagement, cultural integration and ethical standards, performance management and strategic planning, relations with the Financial Reporting Council and "tone at the top".

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

We also meet with the Financial Reporting Council (FRC) throughout the year: as KPMG PIC members privately, with members of KPMG to discuss the results of the FRC's Audit Quality Inspections, and more publicly with the PIC members of competitor firms. We find the private informal meetings with the FRC especially useful. We have also provided a detailed and independent response to the FRC's consultation on the Audit Firm Governance Code.

We meet with groups of investors on an ad hoc basis and are hoping to engage with them more extensively in the year ahead. Whilst the focus of the Audit Firm Governance Code, and therefore our responsibilities, lie primarily in the promotion of high quality statutory audit in the interest of shareholders, we believe our role has relevance for anyone with an interest in the solvency and good management of audited entities.

As the FRC's consultation on the Audit Firm Governance Code makes clear, the concept of the public interest is notoriously difficult to define, while remaining something that we instinctively 'know when we see it'. The consultation on the Audit Firm Governance Code highlights three main elements: audit quality, reputation (including non-audit business), and the prevention of firm failure. These three elements are broadly reflected in the discussion below.

Governance
continued

Audit quality

There are at least two dimensions to audit quality: ensuring that the audit meets user requirements, and ensuring that the audit is conducted properly in accordance with regulatory requirements. Many aspects of this first dimension lie beyond the scope of the PIC, or even KPMG, to determine. Nevertheless we are pleased that KPMG has garnered significant praise from the investor community for its development of the extended audit report. In view of our particular focus on the public interest we have encouraged the Firm to roll out this service across a broader range of audit clients since a more widespread adoption of the extended audit report should help to strengthen investors' faith in the value and credibility of the audit.

With regard to the second dimension (the proper conduct of audit) we recognize the extensive and detailed monitoring systems in place within KPMG to ensure audit quality. There is always the risk in an organization with robust systems that members become overly reliant on them and learn to trust them too completely. As outsiders it is easier for us to step back and see the big picture and we consider it our role as PIC members to continuously encourage KPMG to do the same. In this capacity we have discussed issues with members of KPMG, ranging from client acceptance processes through to responses to Audit Quality Inspection reports, and the nuanced and complex challenges of protecting the primacy of audit within a multidisciplinary firm.

Reputation and Risk

The major accounting firms must contend with significant potential risks arising from their global networks and from the rapid expansion of non-audit work, through acquisitions and organic growth. KPMG is not immune to these risks.

With regard to network risk, we encourage KPMG UK to continue to work closely with KPMG International and international regulators to seek to ensure that all aspects of the global network uphold the highest possible standards. To that end we have met with the Head of International Global Quality and Risk Management at KPMG International in order to understand better the extent of and process for managing risks which originate outside KPMG UK.

In the past two years KPMG has undertaken a number of strategic acquisitions in the advisory area. While this has enhanced KPMG's service offering it has inevitably increased potential risk, as a wide range of new people from very different kinds of businesses need to be integrated rapidly into the KPMG structure and culture. We believe that KPMG is very alive to this issue and is seeking to safeguard against it. We will continue to monitor this potential risk over the coming year.

Governance and Culture, Strategy and Performance

The FRC's consultation on the Audit Firm Governance Code highlights that, in addition to having a concern for audit quality and reputation/risk, the public interest encompasses "the prevention of audit firm failure" to ensure an adequate basis of competition. This requires the continuing success of the firm in the market for audits and recruits, whilst ensuring that the integrity of audit quality remains inviolate. This third element of our remit is, therefore, potentially the most complex and widest ranging as it leads us to consider governance, culture, strategy and performance – all fundamental to the prevention of firm failure.

With regard to *governance and culture*, Lord Gold's Ethical Review of KPMG conducted in 2014 highlighted the robustly ethical culture that permeates KPMG UK. Our experiences to date reassure us that is still the case. However in our previous Transparency Report we expressed concern about the harmonious culture of KPMG – believing that the emphasis on respect and mutual support which is so prevalent in the firm might inhibit robust challenge within the governance structure. Following a series of changes we have seen an appreciable improvement in the level and effectiveness of challenge of senior management over the past year and there is now clear evidence that the Board and Exco members are working together more effectively.

With regard to *strategy and performance*, these issues are dealt with extensively elsewhere in the Transparency Report. We recently participated in a one-day strategy and budgeting meeting of the Board and the Executive Committee at the start of the annual business planning process. We recognize that KPMG has instituted a more robust and demanding process of planning and budgeting than in previous years, including an extensive consultation with relevant stakeholders across the Firm. We hope that this will yield appreciable benefits in the year ahead.

In general we are impressed by the focus on ethics and integrity as role modelled by the highly principled leadership of KPMG. This is a firm which inspires deep affection and abiding commitment from many of its members – the value of these resources to a professional service firm such as KPMG cannot be underestimated.

In conclusion

This September saw the retirement of Sir Steve Robson as Chair of the Public Interest Committee. Steve has worked with KPMG for five years, initially as Chair of the PIC for KPMG Europe. During this time he has made a powerful contribution to KPMG, mounting robust and insightful challenge over a wide range of issues and maintaining a relentless focus on protecting the public interest. He will be much missed.

I am delighted to take over as Chair from Steve, and to continue to serve alongside my colleagues Philip Augar and David Pitt-Watson. We will be joined by a new colleague in the New Year.

Professor Laura Empson
Chair of the Public Interest Committee


KPMG

Financials

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Report to the members

The Board submits its report together with the audited consolidated financial statements of KPMG LLP and its subsidiary undertakings ('the group') for the year ended 30 September 2015. This report to the members should be read in conjunction with the other sections of this Annual Report.

Registered office

As set out in Appendix 1, KPMG LLP is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000 and is referred to in these financial statements as 'the partnership'.

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

Designated members and the Board

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

SJ Collins
P Long
JW Marsh

At 30 September 2015, the UK Board comprised two of the three designated members and a further eight members, including six deemed to be Non-Executive, as set out on pages 54 and 55.

Subsequent to the year end, Jim Marsh resigned as a designated member and Philip Davidson and Jeremy Barton were appointed.

Net assets and liquidity

The financial position of the group remains strong. Operations are generally financed by members' capital and other members' interests, which together totalled £279 million at 30 September 2015 (2014: £366 million) for the group and £214 million (2014: £293 million) for the partnership. Bank facilities of £405 million were also available to the group at 30 September 2015, against which £362 million had been drawn (2014: £67 million).

The group's operating activities are cash generative in the short term, save for investments in property, plant and equipment and intangible assets which are held for the long term. The increase in borrowings year on year reflects the group's strategy of investing for future growth, including investments of £49 million in acquisitions and £120 million in property and intangible asset development.

Cash outflows are also strongly influenced by the timing and amounts of payments in respect of profit shares to members, in settlement of tax liabilities on their behalf and bonuses to members and staff. If necessary, the group could alter the phasing of partner distributions in order to ensure sufficient finance is available to the group as required.

Capital is provided by each member on becoming a partner and totalled £62 million at 30 September 2015 (2014: £52 million). Capital is only repayable on retirement or resignation and is therefore relatively stable from year to year.

The main current assets of the group are trade receivables and unbilled amounts for client work. Both categories are monitored at departmental and function levels. The prompt rendering of fees for work done and collection of the resulting receivables are important aspects of the monitoring of financial risks within the group. These assets totalled £682 million at 30 September 2015 (2014: £610 million) for the group and £641 million (2014: £554 million) for the partnership.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are discussed throughout the Strategic report. The financial position of the group, its cash flows, liquidity position and borrowing facilities are discussed above. In addition, note 22 to the financial statements includes the group's objectives, policies and processes to address risks arising from the group's use of financial instruments, in particular its exposure to market, credit and liquidity risks.

The borrowing facilities, together with details of amounts drawn down under these borrowing facilities, are also set out in note 22. Subsequent to the year end, the group has entered into new borrowing facilities, as set out in note 27.

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

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

Report to the members
continued

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

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

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

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

Information:	Location in Annual Report:
Legal structure	Governance and Appendices
Principal subsidiary and associated undertakings of the group	Financial statements: note 26
Strategy of the group	Strategic Report
Risks and performance	Strategic Report and Governance
Treasury and risk policies	Financial statements: note 22
Governance of the group	Governance
Members' remuneration policies	Financial statements: notes 1 and 5
Events since 30 September 2015	Financial statements: note 27

Statement of members' responsibilities in respect of the report to the members and the financial statements
The members are responsible for preparing the report to the members and financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

Independent auditor's report to the members of KPMG LLP
Our opinion on the financial statements is unmodified

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent limited liability partnership's (LLP's) affairs as at 30 September 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent LLP financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

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

What we have audited
We have audited KPMG LLP's financial statements for the year ended 30 September 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and parent LLP statements of financial position, the group and parent LLP statements of changes in equity, the group and parent LLP statements of cash flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent LLP financial statements, as applied in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

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

Our assessment of risk
In arriving at our opinions set out in this report, we highlight the following risks that are, in our judgement, likely to be most important to users' understanding of our audit.

Risk	How the scope of our audit responded to the risk and our findings from our audit
Revenue recognition The group's accounting policy on revenue recognition is shown in note 1 and related disclosures are included in note 3. The Audit & Risk Committee identified revenue recognition as a significant risk in its report on page 58, where the Committee also described the action that it has taken to address this risk. Revenue is recognised as the fair value of the consideration earned in respect of professional services engagements undertaken during the year. In determining the timing of revenue to be recognised in accordance with International Accounting Standard (IAS) 18 'Revenue' and the value of unbilled revenue to be recognised in the group statement of financial position, each individual engagement team estimates the stage of completion and the right to consideration at the year end for each engagement. This can be highly judgemental. We therefore identified revenue recognition as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, an assessment of the methodology and internal control environment surrounding revenue recognition. We tested controls which we determined as key in the recognition of revenue. We performed substantive testing on a sample of engagements to assess that the right to consideration had been obtained through performance. For individually significant engagements, or engagements where we identified a specific risk, we discussed and challenged estimates applied in determining the level of revenue recognised and unbilled revenue recognised within the group statement of financial position. We also performed certain analytical procedures and made enquiries of engagement and management teams where revenues recognised or trends fell outside our expectations. Where relevant, we sought corroborating evidence (such as evidence from third party sources or evidence from sources independent of the engagement team) to support explanations provided by those teams. **Our findings** Our testing did not identify any significant deficiencies in the operation of controls which would require us to amend the nature or scope of our planned detailed testing. Our audit work indicated that revenue is only recognised when a right to that consideration had been obtained through performance. Overall our assessment is that the estimates applied in determining the level of revenue resulted in a mildly cautious, but consistent, level of revenue recognised in the consolidated income statement and unbilled revenue within the group statement of financial position. We consider the related disclosure in note 1 to the financial statements to be appropriate.

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

Risk	How the scope of our audit responded to the risk and our findings from our audit
Professional claims and regulatory matters The group's accounting policy on professional claims and regulatory matters is shown in note 1 and related disclosures are included in notes 2 and 18. The Audit & Risk Committee identified professional claims and regulatory matters as a significant risk in its report on page 58, where the Committee also described the action that it has taken to address this risk. The group maintains insurance cover in respect of professional claims and regulatory matters which is principally written through mutual insurance companies. In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', a provision is made for any uninsured costs to the group for dealing with and settling negligence claims and regulatory matters. This can be highly judgemental. For claims with merit, generally the level of provision required is limited to the insurance excess (i.e. the amount above which insurance takes effect). However, a claim with a value exceeding the group's insurance cover, or a significant claim which is not covered by the group's insurance, could require a provision to be made. This, in turn, could draw into question the ability of the group to continue as a going concern. We therefore assessed the identification of and provisioning for the costs of settling professional claims and regulatory matters as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, performing an assessment of the professional claim and regulatory matter notification, identification and practice protection procedures in operation. We considered claims and regulatory matters in progress and challenged management's key assumptions underlying the level of provision, including verifying key assumptions to corroborative evidence and considering whether any exposure was, or was not, covered by the group's insurance arrangements. We directly confirmed the existence of insurance cover that the group maintains and considered the financial strength of the insurance providers to ensure that sufficient assets were available to honour the levels of cover provided. We have reviewed both publicly available information and that held solely within the group to consider whether the information we obtained was complete. **Our findings** Our testing did not identify any significant deficiencies in the operation of the professional claim and regulatory matter notification, identification and practice protection procedures. Our audit work over claims and regulatory matters in progress found that, based on the information available to management, appropriate judgement had been made in determining the level of any provision required after taking into account available insurance cover. We confirmed with the insurance providers the levels of insurance cover in place for the group and also obtained direct evidence of the financial strength of the insurance providers which enabled us to conclude that the insurers have sufficient assets to honour the level of cover provided. We did not identify from external sources, or from sources internal to the group, any material claims and regulatory matters or circumstances not already included in the group's internal reporting procedures. We consider that the group's disclosures on page 88 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates.
Defined benefit pension and partner annuity schemes The group's accounting policies on defined benefit pension and partner annuity schemes are shown in note 1 and related disclosures are included in notes 20 and 18 respectively. The Audit & Risk Committee identified defined benefit pension and partner annuity schemes as a significant risk in its report on page 58, where the Committee also described the action that it has taken to address this risk. The group has significant provisions for post-employment benefits, currently resulting in a defined benefit pension deficit and a provision for former members' annuities. The measurement of these liabilities in accordance with IAS 19 (Revised) 'Employee benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension and annuity liabilities being recognised within the group financial statements. We therefore identified post-employment benefit liabilities as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, reviewing the appropriateness of the valuation methodologies and their inherent actuarial assumptions, agreeing underlying data sent to the group's internal actuaries and agreeing asset values to investment manager statements. In addition we confirmed the ownership of the scheme assets by contacting the investment custodians. We also involved our actuarial specialists to independently challenge management's actuarial assumptions and held discussions with the group's internal actuaries. **Our findings** Our audit work found the valuation methodologies and the actuarial assumptions inherent within them to be balanced and consistent with the expectation of our actuarial specialists. We obtained direct confirmation of assets from the investment managers and agreed them to the value of assets included within the actuarial valuation. We consider the related disclosure in notes 20 and 18 to the financial statements appropriately describes the significant degree of uncertainty in the underlying assumptions and estimates.

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

Risk	How the scope of our audit responded to the risk and our findings from our audit
Accounting treatment for acquisitions and strategic investments The group's accounting policies on acquisitions and strategic investments are shown in note 1 and related disclosures are included in note 9. The Audit & Risk Committee identified acquisitions and strategic investments as a significant risk in its report on page 58, where the Committee also described the action that it has taken to address this risk. The group has undertaken a number of acquisitions and entered into several alliances with third parties during the year. The measurement and valuation of identifiable intangible fixed assets and the assessment of control and ownership arising from such arrangements is complex and involves significant judgement and the use of estimation techniques. We therefore identified the accounting for acquisitions and strategic investments as a significant risk requiring special audit consideration.	**Our response** Our audit work included, but was not restricted to, reviewing agreements for acquisitions and strategic investments to ensure the correct relationship (i.e. subsidiary, joint venture, associate or some other form of interest) and therefore accounting treatment, had been identified. Subsequently, we involved our internal valuations specialists to review the process and valuation of identifiable intangible assets. The purchase valuation model was reviewed and the key inputs into the purchase valuation model tested for appropriateness. We considered whether adequate disclosure had been made within the financial statements in respect of these judgements and estimates. **Our findings** We found the arrangements for reviewing agreements for acquisition and strategic investments to be effective, which resulted in the appropriate accounting treatment being applied. We involved our internal valuations team to review the process and valuation of the significant identifiable intangible assets. We found that the intangible assets identified were typical for acquisitions of similar businesses and that the purchase valuation models used were appropriate and in accordance with accounting standards. We found the key inputs into the models were balanced. We consider that the group's disclosures on page 88 appropriately describe the relationships, the accounting treatment, valuation inputs and the associated judgements and estimates.

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

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We determined materiality for the audit of the group financial statements as a whole to be £19.4 million, which is 5% of profit before taxation and members' profit share. This benchmark is considered the most appropriate because in our view it is one of the principal considerations of the group in assessing its financial performance, taking into account the public interest nature of the group, and this was agreed with the Audit & Risk Committee during our planning phase. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 70% of financial statement materiality for the audit of the group financial statements. We also determine a lower level of specific materiality for certain areas such as members' remuneration and related party transactions.

We determined the threshold at which we communicated misstatements to the Audit & Risk Committee to be £970,000. In addition we communicated misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

Overview of the scope of our audit

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

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

Our audit scope included an audit of the financial statements of the parent LLP, KPMG LLP, together with audits for group reporting purposes of its subsidiary undertakings as detailed in note 26 (together 'the group'). 100% of group revenues and 98.2% of total assets attributable to members were subject to an audit based upon group materiality, with the remaining net assets subject to analytical review. Substantially all of the subsidiary undertakings were subject to audit by us, directly, as the group auditor.

The only significant subsidiary not audited by us directly was Queen Street Mutual Company PCC Limited (QSM) which is audited by a Grant Thornton International Limited network firm under our instruction. QSM does not generate any of the group's revenue and represents 4.5% of the group's total assets. We determined the level of involvement we needed to have in the audit of QSM to be able to conclude whether sufficient, appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. Detailed audit instructions were sent to the auditor of QSM setting out the audit areas that should be covered and the information required to be reported back to the group audit team, together with the materiality threshold which was set at a lower level than overall group financial statement materiality. We also review the auditor's working papers and held direct discussions with them regarding their findings and conclusions. We met with QSM's management to directly discuss judgements relevant to our group risk assessment.

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

We evaluated key management controls over the financial processes linked to the significant audit risks described above which were identified as part of our risk assessment. From this assessment, we tested certain key management controls to enable us to place reliance on these internal controls.

We evaluated general IT controls, the accounts production process and controls over critical accounting matters.

We reviewed the findings of the work undertaken by internal audit where relevant to our assessment of significant risk.

We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was dependent on various factors including our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Matters on which we are required to report by exception

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

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

Responsibilities for the financial statements and the audit

What an audit of financial statements involves:

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

What the members are responsible for:

As explained more fully in the statement of members' responsibilities set out on page 73, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 December 2015

Grant Thornton

Consolidated income statement
For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Revenue	3	**1,958**	1,909
Recoverable expenses		**(253)**	(241)
Net sales		**1,705**	1,668
Other operating income	4	**75**	71
Staff costs	5	**(869)**	(843)
Depreciation and amortisation	10,11	**(53)**	(44)
Other operating expenses	6	**(464)**	(429)
Operating profit		**394**	423
Financial income	7	**10**	7
Financial expense	7	**(19)**	(16)
Net financial expense		**(9)**	(9)
Share of loss of associated undertakings		**(2)**	–
Profit before taxation and members' profit shares		**383**	414
Tax expense	8	**(11)**	(11)
Profit for the financial year before members' profit shares		**372**	403
Members' profit shares charged as an expense	5	**(342)**	(329)
Profit for the financial year available for discretionary division among members		**30**	74
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**29**	79
Non-controlling interests		**1**	(5)
		30	74

Consolidated statement of comprehensive income
For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Profit for the financial year available for discretionary division among members		**30**	74
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on defined benefit pension plans	20	**5**	(15)
Other comprehensive income for the year, net of tax		**5**	(15)
Total comprehensive income for the financial year		**35**	59
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**34**	64
Non-controlling interests		**1**	(5)
		35	59

Statements of financial position
At 30 September 2015

		Group		Partnership	
	Note	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**449**	373	**449**	373
Intangible assets	11	**74**	49	**30**	31
Investments	12	**23**	3	**13**	14
Other non-current assets	13	**–**	14	**85**	85
		546	439	**577**	503
Current assets, excluding members' interests					
Trade and other receivables	14	**807**	713	**763**	676
Other investments	15	**48**	54	**–**	–
Cash and cash equivalents	16	**32**	48	**–**	13
		887	815	**763**	689
Total assets, excluding members' interests		**1,433**	1,254	**1,340**	1,192
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**141**	151	**141**	151
Provisions	18	**96**	104	**67**	72
Deferred tax liability	19	**3**	2	**–**	–
Other non-current liabilities	13	**1**	14	**90**	90
		241	271	**298**	313
Current liabilities, excluding members' interests					
Short-term bank borrowings	22	**362**	67	**280**	33
Trade and other payables	17	**546**	544	**543**	547
Tax payable		**5**	6	**–**	–
Provisions	18	**5**	6	**5**	6
		918	623	**828**	586
Total liabilities, excluding members' interests		**1,159**	894	**1,126**	899
Net assets attributable to members and non-controlling interests		**274**	360	**214**	293
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(42)**	(40)	**(42)**	(40)
Amounts classified as current liabilities:					
Amounts due to members	21	**235**	294	**235**	299
Members' capital	21	**62**	52	**62**	52
		297	346	**297**	351
Amounts classified as equity:					
Other reserves classified as equity, being equity attributable to members		**24**	60	**(41)**	(18)
Total members' interests		**279**	366	**214**	293
Non-controlling interests		**(5)**	(6)	**–**	–
		274	360	**214**	293

The financial statements on pages 78 to 118 were approved by the members on 17 December 2015 and were signed on their behalf by:

Simon Collins
Chairman
KPMG LLP registered number: OC301540

Paul Long
Chief Financial Officer

Statements of changes in equity
For the year ended 30 September 2015

	Note	Members' other reserves £m	Non-controlling interests £m	Group Total £m	Partnership Total £m
Balance at 1 October 2013		419	11	**430**	**370**
Profits for the financial year available for discretionary division among members		79	(5)	**74**	**37**
Remeasurement on defined benefit pension plans	20	(15)	–	**(15)**	**(15)**
Total comprehensive income		64	(5)	**59**	**22**
2013 profits allocated to members during the year	5	(423)	–	**(423)**	**(410)**
Disposal of subsidiary	9	–	(8)	**(8)**	**–**
Other movements	21a	–	(4)	**(4)**	**–**
Transactions with owners		(423)	(12)	**(435)**	**(410)**
Balance at 30 September 2014		60	(6)	**54**	**(18)**
Profit for the financial year available for discretionary division among members		**29**	**1**	**30**	**38**
Remeasurement on defined benefit pension plans	20	**5**	**–**	**5**	**5**
Total comprehensive income		**34**	**1**	**35**	**43**
2014 profits available for discretionary division, allocated to members during the year	5	**(69)**	**–**	**(69)**	**(65)**
Other movements	21a	**(1)**	**–**	**(1)**	**(1)**
Transactions with owners		**(70)**	**–**	**(70)**	**(66)**
Balance at 30 September 2015		**24**	**(5)**	**19**	**(41)**

Statements of cash flows
For the year ended 30 September 2015

		Group		Partnership	
	Note	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**30**	74	**38**	37
Adjustments for:					
Tax expense	8	**11**	11	**–**	–
Depreciation and amortisation	10,11	**53**	44	**49**	41
Financial income	7	**(10)**	(7)	**(48)**	(3)
Financial expense	7	**19**	16	**21**	14
Share of loss of associated undertakings		**2**	–	**–**	–
Acquisition costs expensed	9	**–**	1	**–**	1
Impairment of investments		**–**	–	**1**	–
Members' profit shares		**342**	329	**342**	329
		447	468	**403**	419
Increase in trade and other receivables		**(72)**	(43)	**(86)**	(36)
(Decrease)/increase in trade and other payables		**(22)**	52	**(5)**	83
(Decrease)/increase in provisions and retirement benefits		**(23)**	5	**(15)**	(13)
Cash generated from operations		**330**	482	**297**	453
Interest and other financial costs paid	7	**(4)**	(3)	**(8)**	(1)
Corporation tax paid		**(12)**	(10)	**–**	–
Net cash flows from operating activities before transactions with members		**314**	469	**289**	452
Payments to members		**(472)**	(380)	**(472)**	(370)
Net cash flow from operating activities		**(158)**	89	**(183)**	82
Cash flows from investing activities					
Cash paid on business combinations (net of cash acquired)	9	**(32)**	(1)	**(7)**	(1)
Cash paid on acquisition of associate	9	**(17)**	–	**–**	–
Interest and other financial income received	7	**1**	3	**–**	–
Dividends received		**–**	–	**37**	–
Dividends paid to non-controlling interests		**–**	(2)	**–**	–
Proceeds from disposal of subsidiary (net of cash disposed)	9	**–**	(5)	**–**	–
Disposal/(acquisition) of other investments		**3**	(5)	**–**	(1)
Proceeds from sale of property, plant and equipment		**2**	2	**2**	2
Acquisition of property, plant and equipment	10	**(114)**	(41)	**(114)**	(41)
Development of intangible assets	11	**(6)**	(10)	**(5)**	(10)
Net cash flows from investing activities		**(163)**	(59)	**(87)**	(51)
Cash flows from financing activities					
Short-term bank borrowings		**295**	(28)	**247**	(29)
Capital introduced by members	21	**16**	6	**16**	6
Capital repayments to members	21	**(6)**	(4)	**(6)**	(4)
Net cash flows from financing activities		**305**	(26)	**257**	(27)
Net (decrease)/increase in cash and cash equivalents		**(16)**	4	**(13)**	4
Cash and cash equivalents at the beginning of the year		**48**	44	**13**	9
Cash and cash equivalents at the end of the year	16	**32**	48	**–**	13

Notes
Forming part of the consolidated financial statements

1 Accounting policies

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

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

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

The accounting policies set out below have been applied consistently by all group entities and to all periods presented in these consolidated financial statements. A number of new standards, amendments and interpretations to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have been endorsed by the European Union (adopted IFRSs) with effective dates such that they fall to be applied by the group.

The following amendments to published standards are the only changes of relevance to these financial statements and have been applied in the year ended 30 September 2015:

- Amendments to IAS 19: 'Employee benefits'; effective for periods beginning on or after 1 July 2014.
- Improvements to IFRSs 2010 – 2012 Cycle (issued by IASB in December 2013): effective for periods beginning 1 July 2014.
- Improvements to IFRSs 2011 – 2013 Cycle (issued by IASB in December 2013): effective for periods beginning 1 July 2014.

These amendments resulted in a small number of insignificant changes to disclosures given in the group's and partnership's financial statements but otherwise had no impact.

The group early adopted the following IFRSs and related amendments in the year ended 30 September 2014:

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

As a result of implementing IFRS 11, 'Joint Arrangements' in the year ended 30 September 2014, the group changed its accounting policy for its interests in joint arrangements resulting in adjustments to the figures previously disclosed for 2013. Excluding that impact, these amendments resulted in a small number of insignificant changes to disclosures given in the group's and partnership's financial statements but otherwise had no impact.

There are no other adopted IFRSs, amendments or interpretations that required mandatory application or were available for early adoption at 30 September 2015.

Future developments

There are a number of standards, amendments and interpretations issued by the IASB that are effective for financial statements after this reporting period but have either been endorsed by the European Union since 30 September 2015 or have not yet been endorsed by the European Union and so are not yet available for adoption by the group:

- Amendments to IFRS 11: 'Accounting for Acquisitions of Interests in Joint Operations': effective for periods beginning on or after 1 January 2016 (endorsed 25 November 2015).
- IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018.
- IFRS 15: 'Revenue from Contracts with Customers' effective for periods beginning on or after 1 January 2018.
- Amendments to IAS 1: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2016.
- Improvements to IFRSs 2012–2014 Cycle; effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation': effective for periods beginning on or after 1 January 2016.

Based on preliminary assessments the adoption of these standards, amendments and interpretations is not expected to have a significant impact on either the group's or partnership's results, financial position or disclosures.

Basis of preparation

The group's business activities, together with the factors likely to affect its future development, performance and position are discussed throughout the Strategic report. The financial position of the group, its cash flows, liquidity position and borrowing facilities are discussed in the Report to members. In addition, note 22 to the financial statements includes the group's objectives, policies and processes to address risks arising from the group's use of financial instruments, in particular its exposure to market, credit and liquidity risks.

The borrowing facilities, together with details of amounts drawn down under these borrowing facilities, are also set out in note 22. Subsequent to the year end, the group has entered into new borrowing facilities, as set out in note 27.

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

Notes
Forming part of the consolidated financial statements *continued*

1 Accounting policies continued

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

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

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

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

Basis of consolidation and equity accounting

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

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

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

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method and are initially recognised at cost. Subsequent to the initial recognition, the consolidated financial statements include the group's share of the total comprehensive income and equity movements of associates, from the date that significant influence commences until the date that significant influence ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

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

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

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

Intangible assets have been recognised in respect of customer relationships (and similar assets) and trade names. Each category is amortised over its estimated useful life as follows:

Customer relationships	4–10 years
Trade names	5–10 years

Foreign currency

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

Revenue

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

Notes
Forming part of the consolidated financial statements *continued*

1 Accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes
Forming part of the consolidated financial statements *continued*

1 Accounting policies continued

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

Goodwill, customer relationships and trade names are discussed in 'Business combinations' on page 83. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Customer relationships and trade names are stated at cost less accumulated amortisation and impairment.

Investments
In the entity financial statements, the partnership's investments in subsidiaries are stated at cost less provision for impairment. In the group financial statements, investments where the group has neither control nor significant influence are stated at fair value calculated by reference to an appropriate earnings multiple.

Non-derivative financial instruments
The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

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

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

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

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

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

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

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

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

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

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

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

No interest is paid on capital.

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

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

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

Notes
Forming part of the consolidated financial statements *continued*

1 Accounting policies continued

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

Impairment

Financial assets (including receivables)

The carrying amounts of the group's and partnership's financial assets not carried at fair value through profit or loss are reviewed at each year end to determine whether there is any objective evidence that there is an indication of impairment which include default by a debtor; adverse changes in the payment status of debtors or issuers; or the disappearance of an active market for a security. If any such indication exists, the assets' recoverable amounts are estimated.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash generating unit' (or 'CGU')). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

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

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

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

Provisions

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

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

Notes
Forming part of the consolidated financial statements *continued*

1 Accounting policies continued

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

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

The group maintains professional indemnity insurance, principally written through mutual insurance companies. Premiums are expensed as they fall due with prepayments or accruals being recognised accordingly. Rebates are recognised once they become receivable. Where appropriate, provision is made for the uninsured cost of settling professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the position of the group in any dispute with other parties.

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

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

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

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

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

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

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

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

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

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

Allocation of profits and drawings
Following a change to the LLP Partnership Agreement during the year ended 30 September 2014, 90% of the partnership profits must be allocated to members; the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the accounting profits of the partnership for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the partnership for the period is subject to a member vote. It is therefore considered that a contractual liability exists under IAS 32 'Financial Instruments: Presentation' in respect of 90% of the partnership profits and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

The allocation of partnership profits between those who were members of the partnership during the financial year occurs following the finalisation of these financial statements.

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

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

Notes
Forming part of the consolidated financial statements *continued*

2 Accounting estimates and judgements

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

Key sources of estimation uncertainty

Revenue on service contracts

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

Trade and other receivables

The total carrying amount of trade receivables and unbilled amounts for client work is £682 million (2014: £610 million) for group and £641 million (2014: £554 million) for the partnership. These amounts are net of impairment losses on trade receivables and after giving consideration to the clients' willingness to pay those amounts accrued in respect of incomplete contracts. A different assessment of the recoverability of either balance, with reference to either the ability or willingness of the client to pay, may result in different values being determined.

Retirement benefits

The net obligations of the group's pension plans of £141 million (2014: £151 million) are based on certain assumptions as to mortality, using current published tables (note 20), discount rates reflecting current market trends and inflation rates reflecting current expectations. The use of different assumptions would result in different actuarial gains and losses and financial expense being recognised.

Former members' annuities

The partnership has used certain assumptions in assessing the provision for former members' annuities of £55 million (2014: £61 million) as set out in note 18. The assumptions used are consistent with those used for valuation of the retirement benefit liability. The use of different assumptions would result in a different estimate of the obligation amount in respect of these annuities.

Claims and regulatory matters

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

Acquisition accounting

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

Goodwill arising on acquisitions is capitalised with an indefinite useful life and tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to the CGU's that are expected to benefit from the business combination in which the goodwill arose. The recoverable amount of a CGU is calculated with reference to its value in use. In assessing value in use, the group applies a growth rate to the relevant CGU, as set out in note 11. A different assessment of the growth rate in each case may result in a different assessment of impairment arising.

Critical accounting judgements in applying the group's accounting policies

Member retirement provisions

The group and partnership have assessed that no provision is required in respect of member retirement arrangements since neither contractual nor constructive obligations are deemed to exist in respect of these arrangements. A different assessment as to whether a constructive obligation exists would result in a recognised provision.

Classification of investment in Crimsonwing Plc

The group owns 85% of the share capital of Crimsonwing Plc (see note 9); the remaining share capital is held by the KPMG International member firms in the Netherlands and Malta.

At the time of this acquisition the member firms in the UK, the Netherlands and Malta also entered into a shareholders' agreement, resulting in joint control of the acquired group. Management have determined therefore that the group does not control the relevant activities of the business, as shareholders must exercise their votes collectively. Under the terms of the shareholders' agreement, the group has significant influence over the business and as such has accounted for its investment as an associate.

Asset Backed Funding (ABF) partnership only

As set out in more detail in note 13, under the ABF agreement, the partnership has a receivable from the Scottish Limited Partnership (SLP). The partnership expects to recover its initial contribution of £30 million on future termination of the ABF plus an additional sum, up to a maximum £60 million.

The amount of the additional flow is determined by a number of variables, the most significant of which is considered to be non-financial in nature. Management have therefore concluded that there is no embedded derivative to recognise and the receivable has been recorded at amortised cost as a loan and receivable. A difference assessment as to whether an embedded derivative exists would result in a different treatment of the instrument.

Notes
Forming part of the consolidated financial statements *continued*

3 Segmental reporting

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

Throughout the years ended 30 September 2015 and 2014, the group was primarily managed internally through the functions of Audit, Tax and Advisory. The Advisory function is further split into Deal Advisory (DA, previously Transactions & Restructuring), Risk Consulting (RC) and Management Consulting (MC). Therefore, these are considered as separate operating segments for the purposes of presenting segment information under IFRS 8.

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

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

As set out in the Chairman's statement on page 7, the operating model will change in 2016; segmental reporting presented in the year ending 30 September 2016 will reflect those changes.

Segmental reporting 2015
Information by segment is as follows:

	Audit	Tax	Advisory			
			DA	RC	MC	**Total**
	£m	£m	£m	£m	£m	**£m**
Net sales (as reported internally)	472	395	354	264	221	1,706
Recoverable expenses (as reported internally)	52	59	40	48	54	253
Gross revenue (as reported internally)	524	454	394	312	275	1,959
Elimination of intragroup trading and other financial adjustments	2	(22)	9	4	6	(1)
Revenue of UK entities	526	432	403	316	281	**1,958**
Revenue of overseas entities, not reported internally						–
Total group revenue						**1,958**
Segmental contribution (as reported internally)	197	151	147	102	59	656
Members' remuneration adjustments						156
Costs not allocated to segments						(423)
Net financial expense						(9)
Share of loss of associated undertakings						(2)
Profit before tax of entities not reported internally						5
Total group profit before taxation and members' profit shares						**383**
Segmental assets (as reported internally)	75	136	69	57	67	404
Assets of equity-accounted investees						15
Assets of entities not reported internally						11
Assets not allocated to segments						1,003
Total assets, excluding members' interests						**1,433**

Notes
Forming part of the consolidated financial statements *continued*

3 Segmental reporting continued

Segmental reporting 2014
Information by segment is as follows:

	Audit	Tax	Advisory			
	£m	£m	DA £m	RC £m	MC £m	**Total £m**
Net sales (as reported internally)	445	351	339	288	223	1,646
Recoverable expenses (as reported internally)	49	51	53	37	46	236
Gross revenue (as reported internally)	494	402	392	325	269	1,882
Elimination of intragroup trading and other financial adjustments	1	(21)	8	2	2	(8)
Revenue of UK entities	495	381	400	327	271	**1,874**
Revenue of overseas entities, not reported internally						35
Total group revenue						**1,909**
Segmental contribution (as reported internally)	181	129	137	125	62	634
Members' remuneration adjustments						156
Costs not allocated to segments						(373)
Net financial expense						(9)
Profit before tax of entities not reported internally						6
Total group profit before taxation and members' profit shares						**414**
Segmental assets (as reported internally)	43	114	55	50	56	318
Assets of entities not reported internally						4
Assets not allocated to segments						932
Total assets, excluding members' interests						**1,254**

Profit before taxation of entities not reported internally for the year ended 30 September 2015 arises from the joint operations in India. For the year ended 30 September 2014, gross revenue and profit before taxation arose from joint operations in India and also included consolidated results for Saudi Arabia up until the date of their transfer. The share of loss of associated undertakings for the year ended 30 September 2015 arises from the investment in Crimsonwing Plc (see note 9).

Assets of entities not reported internally arise from entities in India only, following transfer of the group's interest in the Saudi Arabian entity during the year ended 30 September 2014 (see note 9). The assets relating to equity-accounted investees comprise the investment in Crimsonwing Plc (see note 9).

Financial information for these entities is provided to management periodically but is not included for the purposes of UK internal reporting.

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

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

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

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

Notes
Forming part of the consolidated financial statements *continued*

3 Segmental reporting continued

In order to maximise the efficacy of our offerings to clients, the group is managed using a matrix structure. This matrix structure considers the functions of Audit, Tax and Advisory on one hand and the nature of the market on the other. Net sales by market is set out below; prior year net sales by market have been adjusted to reflect changes in the allocation of clients to markets for internal reporting purposes:

	Group	
	2015 £m	2014 £m
Financial Services	**579**	597
Sectors	**497**	454
Regions	**611**	574
KPMG International	**19**	21
	1,706	1,646

Major clients
The group has no reliance on any one client – no more than 3% (2014: 5%) of group revenue and 3% (2014: 6%) of partnership revenue is attributable to the largest client.

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

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

The disclosures below meet both requirements and are consistent with the segmental information presented on pages 89 and 90.

Revenue 2015	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	**27**	**443**	**1**	**471**
Other assurance work	**1**	**54**	**–**	**55**
	28	**497**	**1**	**526**
Tax	**–**	**431**	**1**	**432**
Risk Consulting	**1**	**270**	**45**	**316**
Management Consulting	**–**	**240**	**41**	**281**
Deal Advisory	**–**	**379**	**24**	**403**
	29	**1,817**	**112**	**1,958**
Operating profit 2015				
Audit and directly related services	**4**	**65**	**1**	**70**

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

Notes
Forming part of the consolidated financial statements *continued*

3 Segmental reporting continued

Revenue arising in Audit Plc has reduced significantly during the year ended 30 September 2015, reflecting the decision taken in 2013 to seek re-appointment under KPMG LLP where possible, in order to improve the efficiency of the group's audit service offering.

As set out on page 90, segmental contribution does not allow for the allocation of a significant element of central support costs since these are not allocated for internal reporting purposes. However, under the requirements of the Voluntary Code, we are required to disclose operating profit for the reportable segment. This is calculated based on direct costs recorded in engagements falling within that segment, together with the allocation of certain relevant overheads, such as property and IT costs. These costs have been allocated on a pro-rata basis, based on headcount.

The total revenues are further analysed on the following basis:

		Group
	2015 £m	2014 £m
Audit and directly related services for audit clients	**471**	438
Non-audit services for audit clients	**281**	257
Non-audit services for non-audit clients	**1,206**	1,179
	1,958	1,874

4 Other operating income

Included in other operating income are the following items:

		Group
	2015 £m	2014 £m
Charges to other KPMG International member firms	**64**	59
Rental income	**2**	2
Other items	**9**	10
	75	71

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

5 Members and staff

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

		Group		Partnership
	2015 Number	2014 Number	**2015 Number**	2014 Number
Members	**617**	588	**617**	588
Staff	**11,652**	11,341	**–**	–
	12,269	11,929	**617**	588

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

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

		Group
	2015	2014
Audit	**3,095**	3,163
Tax	**2,321**	2,223
DA	**1,419**	1,565
RC	**1,423**	1,490
MC	**1,156**	1,218
Central	**2,855**	2,270
	12,269	11,929

Increased Central head count includes the impact of the investment in growth initiatives, where those initiatives are for the benefit of all functions and therefore headcount of 192 has not been allocated to the functions above.

5 Members and staff continued

Employment costs

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

	Group	
	2015 £m	2014 £m
Salaries (including bonuses)	**751**	732
Social security costs	**81**	75
Cost of retirement benefits (note 20)	**37**	36
Staff costs per income statement	**869**	843
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 20)	**6**	6
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**(5)**	15
Total staff related costs	**870**	864

Members' profit shares

Following a change to the LLP Partnership Agreement during the year ended 30 September 2014, 90% of the partnership profits must be allocated to members; the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the accounting profits of the partnership for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the partnership for the period is subject to a member vote. It is therefore considered that a contractual liability exists under IAS 32 'Financial Instruments: Presentation' in respect of 90% of the partnership profits, being £342 million for the year ended 30 September 2015 (2014: £329 million), and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

As a result of this change, the profits available for discretionary division, allocated to members during the year, has fallen sharply during 2015; £69 million was charged directly to group equity during 2015 in respect of 2014 profits (£65 million in respect of the partnership) compared to £423 million charged during 2014 in respect of 2013 profits (£410 million in respect of the partnership).

After taking account of amounts withheld and released from profit distribution, including amounts to allow investment into future growth areas and services, average partner remuneration for the year (including both members' profit shares charged as an expense and profits available for discretionary allocation) totalled £623,400 (2014: £714,800).

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

A member's remuneration generally comprises two elements:

Benchmark pay – This is communicated to members in November/December each year and is determined in relation to an individual's medium-term value to the group. Each member's benchmark pay is determined by taking into consideration factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group. For the year to 30 September 2015, the benchmark pay component was approximately 90% of an individual member's remuneration.

Profit share – This is communicated to members shortly after the end of the financial year when the final performance of the group and all of its constituent parts is known. Each member will receive the same percentage of benchmark pay as profit share, therefore reinforcing our commitment and drive to delivering excellence to our clients through a one-firm approach. For the year to 30 September 2015, the profit share component was approximately 10% of an individual member's remuneration.

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

A deduction is made from the total pay for any members if their behaviour or performance has fallen below the levels expected by the group, as indicated by adverse risk metrics (see Appendix 2.3.2) with such amounts donated to the KPMG Foundation.

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

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

Notes
Forming part of the consolidated financial statements *continued*

6 Other operating expenses

Other operating expenses include property and IT costs, together £84 million (2014: £67 million), and employee training costs of £27 million (2014: £22 million). All other general overhead expenses associated with the provision of professional services are also classified within other operating expenses, including the costs of insurance, communications and marketing. Also included in other operating expenses are impairment reversals on trade receivables of £1 million (2014: £1 million reversal) (see note 14).

	Group	
	2015 £000	2014 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**246**	194
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
– Audit of financial statements of subsidiaries	**171**	121
– Audit related assurance services provided to the group	**16**	27
– Audit of certain group pension plans	**49**	30
	482	372

In 2015, audit related assurance services were provided in respect of group sustainability reporting and expenses verification work (2014: group sustainability reporting, grant claim reporting assurance work and expenses verification work).

7 Financial income and expense

	Group	
Recognised in the income statement:	**2015 £m**	2014 £m
Net change in fair value of financial assets at fair value through profit or loss	**2**	1
Exchange gains	**7**	3
Other financial income	**1**	3
Financial income	**10**	7
Net interest on defined benefit pension plan liabilities (note 20)	**6**	6
Discount on provisions (note 18)	**2**	3
Interest expense on short-term bank borrowings	**4**	1
Exchange losses	**7**	4
Other financial expense	**–**	2
Financial expense	**19**	16

The total interest income on financial assets that were not classified as fair value through profit or loss was £1 million (2014: £3 million). The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £4 million (2014: £3 million).

Notes
Forming part of the consolidated financial statements *continued*

8 Tax expense

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

	Group	
	2015 £m	2014 £m
Current tax expense		
Current year	**10**	12
Share of overseas taxes of joint operation	**2**	–
Deferred tax (see note 19)	**(1)**	(1)
Total tax expense in income statement	**11**	11

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

	Group	
	2015 £m	2014 £m
Profit before taxation and members' profit shares	**383**	414
Less profit arising in partnership, on which tax is payable by the members personally	**(380)**	(366)
Profit before taxation arising in group companies	**3**	48
Tax at 20.5% (2014: 22%) being the average rate of corporate taxes levied on the profits of group companies	**1**	11
Impact of tax exempt items	**9**	1
Taxes payable by subsidiary undertakings	**10**	12
Share of overseas taxes of joint operation	**2**	–
Deferred tax (see note 19)	**(1)**	(1)
Total tax expense in income statement	**11**	11

There was no tax (credit)/charge recognised in the statement of comprehensive income (2014: £nil).

Factors affecting the tax charge in future periods
Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017), and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the corporate subsidiaries future current tax charges accordingly. The deferred tax asset at 30 September 2015 has been calculated based on the rate of 19.5% being the rate expected to be in force at the time the losses are anticipated to be utilised.

9 Acquisitions and disposals

Acquisitions
The details set out below provide the information required under IFRS 3 'Business combinations' for those acquisitions that occurred during the year ended 30 September 2015, together with summary information in respect of those that occurred during the year ended 30 September 2014. If the 2015 subsidiary acquisitions had each occurred on 1 October 2014, consolidated revenue and profit for the year would have been £25 million and £1 million respectively.

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

Acquisitions – year ended 30 September 2014
On 30 September 2014, the partnership acquired the UK practice of the Identity and Access Management division of Qubera Solutions Limited for a consideration of £1 million. The consideration represented payment for transfer of employees and certain client relationships. Both were integrated fully into the group structure and the cost was therefore written off to the income statement.

Acquisitions – year ended 30 September 2015
During the year ended 30 September 2015, the group made six acquisitions. Summary details of those acquisitions are as follows:

Crimsonwing Plc:
On 5 February 2015, the group acquired 85% of the shares in Crimsonwing Plc (now KPMG Crimsonwing Limited), for consideration of £17 million. The Crimsonwing group was listed on the Maltese stock exchange and provides Microsoft Dynamics and e-Commerce business solutions; the activities of the Crimsonwing group are considered to be a strategic fit to those of the group. The remaining 15% of the shares in Crimsonwing Plc were acquired by the KPMG International member firms in the Netherlands and Malta.

Notes
Forming part of the consolidated financial statements *continued*

9 Acquisitions and disposals continued

At the time of this acquisition, the member firms in the UK, the Netherlands and Malta also entered into a shareholders' agreement, resulting in joint control of the acquired group. Accordingly, KPMG UK does not have sole control of Crimsonwing Plc and has equity accounted for its investment as an associate. The group's share of loss for the period from acquisition to 30 September 2015 totalled £2 million and is included within these consolidated financial statements.

Nunwood Investments Limited:
On 14 May 2015, the group acquired 100% of the shares in Nunwood Investments Limited (now KPMG Nunwood Investments Limited), the parent of a group of companies specialising in the provision of customer experience insight and management consultancy services, for total consideration of £15 million. Revenue and loss after taxation of £3 million and £1 million respectively for the period from acquisition to 30 September 2015 in respect of these entities are included within these consolidated financial statements.

Boxwood Limited:
On 18 June 2015, the group acquired 100% of the share capital in Boxwood Limited (now KPMG Boxwood Limited), a UK-based management consultancy company specialising in the delivery of business and operational transformation, for consideration of £13 million. Revenue and loss after taxation of £4 million and £1 million respectively for the period from acquisition to 30 September 2015 are included within these consolidated financial statements.

High-Point Rendel Limited:
On 18 July 2015, the partnership acquired the strategic management and commercial consultancy arms of High-Point Rendel Limited (HPR), an international project consultancy company, for consideration of £7 million. The consideration represented payment for transfer of employees and certain client relationships. Revenue and profit after taxation of £nil million and £nil million respectively for the period from acquisition to 30 September 2015 are included within these consolidated financial statements.

Towers Watson Limited:
On 14 August 2015, the group acquired the Human Resource Service Delivery (HRSD) practice of the HR professional services firm Towers Watson, for a consideration of £4 million. The consideration represented payment for transfer of employees and certain client relationships. It is intended that the acquisition will provide the group with the necessary qualification and market recognition as a HR transformation provider. Revenue and profit after taxation of £nil million and £nil million respectively for the period from acquisition to 30 September 2015 are included within these consolidated financial statements.

Flareware Systems Limited:
On 18 September 2015, the group acquired 100% of the shares in Flareware Systems Limited, a UK-based software development company specialising in tax reporting systems, for a consideration of £500,000. It is intended that the assets of the company are integrated fully into the current group structure and the cost has therefore been written off to the income statement.

In respect of the acquisitions of Nunwood Investments Limited and Boxwood Limited and the assets acquired from High-Point Rendel Limited and Towers Watson Limited, further amounts become payable within the next three years, subject to the acquired businesses achieving revenue levels against set targets and certain individuals remaining in employment within the group. These amounts are immaterial and not considered to be part of the consideration for acquiring the business, given the terms under which they become payable. These amounts will be expensed to the income statement over the period to which they relate.

These acquisitions had the following impact on the group's and partnership's assets and liabilities at the date of acquisition:

		Group				Partnership
	Note	Nunwood Investments Limited £m	Boxwood Limited £m	HPR practice £m	HRSD practice £m	HPR practice £m
Intangible assets	11	**7**	**4**	**5**	**2**	**5**
Trade and other receivables		**4**	**3**	**–**	**–**	**–**
Cash and cash equivalents		**–**	**5**	**–**	**–**	**–**
Trade and other payables		**(5)**	**(2)**	**–**	**–**	**–**
Deferred tax liabilities		**(1)**	**(1)**	**–**	**–**	**–**
Net identifiable assets, liabilities and contingent liabilities		**5**	**9**	**5**	**2**	**5**
Goodwill on acquisition	11	**10**	**4**	**2**	**2**	**2**
Consideration payable		**15**	**13**	**7**	**4**	**7**
Of which: cash paid		**13**	**13**	**7**	**4**	**7**
Of which: loan notes		**2**	**–**	**–**	**–**	**–**

Amounts acquired in respect of trade receivables are net of impairment provisions of £nil for those receivables that were expected to be uncollectable at the acquisition date. In all cases, the fair values disclosed above approximate to the contractual amounts receivable, due to their short maturity.

Goodwill is attributable to the skills and knowledge of the workforce and the synergies expected to be achieved from integrating the acquired entities, which are not assets recognisable under IFRSs.

Notes
Forming part of the consolidated financial statements *continued*

9 Acquisitions and disposals continued

Disposals

Disposals – year ended 30 September 2014

In May 2014, the UK member firm entered into a termination agreement to transfer its interest in the KPMG International member firms in Saudi Arabia, Kuwait and Jordan back to local ownership. As a result, the group's call options to acquire shares in these entities were terminated and the shareholding in the Saudi member firm was transferred to local members for a cash consideration of £32,000. Accordingly, this transaction is considered to be a disposal under IFRS 10 and the net assets of KPMG Saudi Arabia were deconsolidated at the date of transfer. The income statement for the prior year included consolidated revenue and profit of KPMG Saudi Arabia for the period until deconsolidation of £35 million and £6 million respectively.

10 Property, plant and equipment

Group

Following the transfer of the group's interests in the KPMG International member firm in Saudi Arabia during the year ended 30 September 2014 (see note 9), the group's property, plant and equipment are materially owned by the partnership and hence the group's movements in property, plant and equipment during the year ended 30 September 2015 reflect those of the partnership in the table below. During the year ended 30 September 2014, the group disposed of computer and communication equipment (cost: £2 million; depreciation: £2 million) and office furniture, fittings and equipment (cost: £2 million; depreciation: £1 million) as a result of the disposal of its subsidiary.

Partnership

	Leasehold land and buildings £m	Computer and communications equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	**Total £m**
Cost					
Balance at 1 October 2013	270	46	152	12	480
Additions	–	18	16	7	41
Disposals	–	(9)	–	(4)	(13)
Balance at 30 September 2014	270	55	168	15	508
Additions	–	9	99	6	114
Disposals	–	(6)	(31)	(3)	(40)
Balance at 30 September 2015	**270**	**58**	**236**	**18**	**582**
Depreciation and impairment					
Balance at 1 October 2013	15	34	60	5	114
Charge for the year	5	9	15	3	32
Disposals	–	(9)	–	(2)	(11)
Balance at 30 September 2014	20	34	75	6	135
Charge for the year	5	10	18	3	36
Disposals	–	(5)	(31)	(2)	(38)
Balance at 30 September 2015	**25**	**39**	**62**	**7**	**133**
Net book value					
At 1 October 2013	255	12	92	7	366
At 30 September 2014	250	21	93	9	373
At 30 September 2015	**245**	**19**	**174**	**11**	**449**

The leasehold land and buildings at 30 September 2015 relate entirely to the group's premises at 15 Canada Square, London. The leasehold interest, including land, falls to be classified as a finance lease, since it has a term of 999 years and so represents the majority of the useful economic life of the asset. This lease is pledged as security for the revolving credit facility (see note 22). The net book value of assets owned under a finance lease therefore was £245 million (2014: £250 million).

Notes
Forming part of the consolidated financial statements *continued*

11 Intangible assets

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	**Total £m**
Cost				
Balance at 1 October 2013	69	17	11	97
Additions	10	–	–	10
Disposals	(6)	–	–	(6)
Disposal of subsidiary	–	(2)	–	(2)
Balance at 30 September 2014	73	15	11	99
Additions	6	–	–	6
Acquisitions	1	17	18	36
Balance at 30 September 2015	**80**	**32**	**29**	**141**
Depreciation and impairment				
Balance at 1 October 2013	39	5	–	44
Charge for the year	9	3	–	12
Disposals	(6)	–	–	(6)
Balance at 30 September 2014	42	8	–	50
Charge for the year	12	5	–	17
Balance at 30 September 2015	**54**	**13**	**–**	**67**
Net book value				
At 1 October 2013	30	12	11	53
At 30 September 2014	31	7	11	49
At 30 September 2015	**26**	**19**	**29**	**74**

Internally generated software includes components of the SAP based ERP system, held by the partnership, which has a remaining amortisation period of one year (2014: two years).

Goodwill has been recognised in respect of the following business acquisitions:

Acquisition	**Year of acquisition**	Note	**Goodwill £m**
KPMG Sourcing Limited (formerly EquaTerra Europe Limited)	30 September 2011		2
KPMG CIO Advisory Limited (formerly Xantus Limited)	30 September 2012		2
Makinson Cowell group of companies	30 September 2013		7
KPMG Nunwood Consulting Limited (formerly Nunwood Investments Limited)	30 September 2015	9	10
KPMG Boxwood Limited (formerly Boxwood Limited)	30 September 2015	9	4
HPR practice of High-Point Rendel Limited	30 September 2015	9	2
HRSD practice of Towers Watson Limited	30 September 2015	9	2

Notes
Forming part of the consolidated financial statements *continued*

11 Intangible assets continued

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

	Group 2015 £m	Group 2014 £m
Deal Advisory	**9**	7
Management Consulting	**20**	4

The recoverable amount of the CGU has been calculated with reference to its value in use, using cash flow projections of the relevant CGU based on budgets approved by management. The key assumptions of this calculation are shown below:

	2015	2014
Period on which management approved forecasts are based	**3 years**	3 years
Growth rate applied beyond approved forecast period	**0%**	0%
Discount rate	**6%**	6%

The growth rates used in the value in use calculation reflects a prudent view given the uncertainties around integration and market growth in these functions.

The calculated recoverable amount is greater than the carrying value and therefore no impairment arises. A reasonable change in the key assumptions does not have a significant impact on the difference between value in use and carrying value.

Partnership

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	Total £m
Cost				
Balance at 1 October 2013	69	–	–	69
Additions	10	–	–	10
Disposals	(6)	–	–	(6)
Balance at 30 September 2014	73	–	–	73
Additions	5	–	–	5
Acquisitions	–	5	2	7
Balance at 30 September 2015	**78**	**5**	**2**	**85**
Depreciation and impairment				
Balance at 1 October 2013	39	–	–	39
Charge for the year	9	–	–	9
Disposals	(6)	–	–	(6)
Balance at 30 September 2014	42	–	–	42
Charge for the year	12	1	–	13
Balance at 30 September 2015	**54**	**1**	**–**	**55**
Net book value				
At 1 October 2013	30	–	–	30
At 30 September 2014	31	–	–	31
At 30 September 2015	**24**	**4**	**2**	**30**

Notes
Forming part of the consolidated financial statements *continued*

12 Investments

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

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Shares in subsidiary undertakings	**–**	–	**13**	13
Interests in associated undertakings	**15**	–	**–**	–
Other investments	**8**	3	**–**	1
	23	3	**13**	14

Group
Interests in associates reflect the group's investment in Crimsonwing Plc (as detailed in note 9). The principal subsidiary undertakings and associated undertakings of the group are set out in note 26 together with summary financial information in respect of associated undertakings.

During the year, the group has invested £5 million (2014: £3 million) in third party investments where the shareholding is less than 20% in each case and the group exercises neither significant influence nor control.

Partnership
The principal subsidiaries of KPMG LLP are set out in note 26.

13 Other non-current assets and liabilities

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Other non-current assets:				
Amounts due from KPMG International member firms	**–**	14	**–**	–
Other prepayments	**–**	–	**54**	55
Other receivables	**–**	–	**31**	30
	–	14	**85**	85
Other non-current liabilities:				
Amounts owed to other UK group undertakings	**–**	–	**90**	90
Amounts due to KPMG International member firms	**–**	14	**–**	–
Other payables	**1**	–	**–**	–
	1	14	**90**	90

Group
Amounts due from and to KPMG International member firms were repaid in September 2015.

Partnership
Under the Asset Backed Funding (ABF) arrangement (see note 20), the partnership prepaid £60 million into the defined benefit plans; £52 million in the pre-2000 fund and £8 million in the TMcL fund, at the inception of the agreement. Under the agreement the Scottish Limited Partnership (SLP), a group entity set up on inception of the agreement, makes monthly payments totalling £4.5 million per annum to the pension plans for 25 years from the date of implementation. The prepayment of £60 million is therefore expected to reduce to £nil over the period of 25 years with the discount unwinding through financial income.

At 30 September 2015, the prepayment was £59 million; £54 million is non-current, whilst the remaining £5 million is current, classified as other prepayments within trade and other receivables.

In addition, at the inception of the ABF, the partnership contributed £30 million to the SLP which it expects to recover on future termination of the ABF. It is the expectation that the pension deficits would reduce over the period and therefore the ABF would generate a return of £60 million to the partnership at the end of the 25-year life. At 30 September 2015, a receivable balance of £31 million is classified as other receivables within other non-current assets with the discount unwinding through financial income.

Also under the ABF, the partnership has transferred £90 million of its trade receivables to the SLP (see note 20). As the partnership retains the risks and rewards of those receivables it has a corresponding liability, reflecting the amount owed to the SLP under this agreement. A financial expense of £4.5 million has been recognised in the partnership's income statement in respect of the unwinding discount on this liability.

Other payables represent amounts due as deferred consideration on the acquisition of Nunwood Investments Limited (see note 9).

14 Trade and other receivables

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trade receivables	**363**	335	**348**	306
Unbilled amounts for client work	**319**	275	**293**	248
Amounts due from other UK group undertakings	**–**	–	**17**	32
Other prepayments	**48**	38	**51**	43
Other receivables	**14**	11	**8**	10
Amounts due from other KPMG International member firms	**63**	54	**46**	37
	807	713	**763**	676

Trade and other receivables are due within 12 months.

Trade receivables are shown net of impairment losses amounting to £4 million (2014: £5 million) for the group and £4 million (2014: £5 million) for the partnership. The movement for the year is recognised in 'Other operating expenses' in each case. An aged analysis of overdue trade receivables and the movement in the allowance for impairment in respect of trade receivables are given below.

Impairment losses

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

Group

	Gross 2015 £m	**Impairment 2015 £m**	Gross 2014 £m	Impairment 2014 £m
Trade receivables				
Overdue 1–30 days	**50**	**–**	43	–
Overdue 31–180 days	**56**	**–**	55	–
More than 180 days	**8**	**4**	8	5
	114	**4**	106	5

Partnership

	Gross 2015 £m	**Impairment 2015 £m**	Gross 2014 £m	Impairment 2014 £m
Trade receivables				
Overdue 1–30 days	**48**	**–**	36	–
Overdue 31–180 days	**54**	**–**	52	–
More than 180 days	**8**	**4**	7	5
	110	**4**	95	5

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

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Balance at 1 October	**5**	6	**5**	5
Impairment reversal recognised in the income statement	**(1)**	(1)	**(1)**	–
Balance at 30 September	**4**	5	**4**	5

Notes
Forming part of the consolidated financial statements *continued*

15 Other investments

		Group		Partnership	
		2015 £m	2014 £m	**2015 £m**	2014 £m
Bonds	Fair value through profit or loss	**35**	38	**–**	–
Equities	Fair value through profit or loss	**13**	16	**–**	–
		48	54	**–**	–

16 Cash and cash equivalents

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Bank balances	**32**	48	**–**	13

17 Trade and other payables

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Accruals	**220**	212	**208**	209
Amounts billed on account	**229**	240	**206**	211
Other taxes and social security	**56**	49	**33**	28
Other payables	**7**	7	**6**	7
Trade payables	**22**	30	**21**	28
Amounts due to other UK group undertakings	**–**	–	**59**	58
Amounts due to other KPMG International member firms	**12**	6	**10**	6
	546	544	**543**	547

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

18 Provisions

Group

	Annuities £m	Property provisions £m	Other £m	**Total £m**
Balance at 1 October 2014	61	7	42	**110**
Utilised during the year	(5)	(1)	(11)	**(17)**
Income statement:				
– Provisions made during the year	–	–	9	**9**
– Provisions reversed during the year	(3)	–	–	**(3)**
– Unwinding of discounted amounts	2	–	–	**2**
Balance at 30 September 2015	**55**	**6**	**40**	**101**
Non-current	51	5	40	**96**
Current	4	1	–	**5**

Notes
Forming part of the consolidated financial statements *continued*

18 Provisions continued

Partnership

	Annuities £m	Property provisions £m	Other £m	**Total £m**
Balance at 1 October 2014	61	7	10	**78**
Utilised during the year	(5)	(1)	(2)	**(8)**
Income statement:				
– Provisions made during the year	–	–	3	**3**
– Provisions reversed during the year	(3)	–	–	**(3)**
– Unwinding of discounted amounts	2	–	–	**2**
Balance at 30 September 2015	**55**	**6**	**11**	**72**
Non-current	51	5	11	**67**
Current	4	1	–	**5**

Group and partnership

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

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

	2015 £m	2014 £m
Within 12 months of the year end	**4**	4
Between one and five years	**12**	13
Between five and fifteen years	**21**	23
In more than fifteen years	**18**	21
	55	61

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

	2015 %	2014 %
Discount rate	**3.70**	3.80
Inflation rate (retail price index)	**3.25**	3.40

The mortality tables used for the former members' annuities provision at both 30 September 2015 and 2014 were consistent with those applied in respect of the defined benefit pension plans (see note 20).

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

		Impact on annuity provision (decrease)/increase	
Assumption	Change in assumption	£m	%
Discount rate	Increase by 0.25%	(2)	(4)
Inflation rate	Increase by 0.25%	3	5

Property provisions represent the cost of office space which is not currently used by the group or will become redundant as a result of steps to which the group is committed and dilapidation costs anticipated on exiting those properties. Provision is made for the net obligation under such leases; property provisions of £1 million (2014: £2 million) for the group and £1 million (2014: £2 million) for the partnership will be utilised within 12 months and the balance is expected mainly to be utilised within the next five years.

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

Notes
Forming part of the consolidated financial statements *continued*

19 Deferred tax

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

	Group £m
Balance at 1 October 2014	2
Acquisition of subsidiary	2
Amortised during the year	(1)
Balance at 30 September 2015	**3**

Deferred tax assets of £500,000 have been recognised in respect of tax losses totalling £3 million (2014: £200,000 recognised in respect of tax losses totalling £1 million).

20 Retirement benefits

Group and partnership

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

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Contributions to defined contribution schemes	**37**	36	**–**	–
Current service cost for defined benefit pension plans	**–**	–	**–**	–
Cost of retirement benefits	**37**	36	**–**	–

The net financing cost of £6 million (2014: £6 million) and remeasurement gains of £5 million (2014: £15 million losses) relating to defined benefit pension plans are also considered to be a part of the net cost of retirement benefits.

Defined Contribution Plans

The group has two defined contribution pension plans operating in the UK: the stakeholder pension plan; and the KPMG Staff Pension Fund – post-April 2000 fund, which is closed to new entrants. The charge for the year for these plans represents those contributions payable to them in respect of the accounting period.

No contributions to the defined contribution pension plans were outstanding at the end of either financial year.

Defined Benefit Plans

The group and partnership sponsor two defined benefit pension plans. Both pension plans are HMRC registered pension plans and subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the plans are subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension plans have appointed Trustees who are independent of the group. The Trustees of both pension plans are required by law to act in the best interests of the plans' participants and are responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the plans. The assets of each pension plan are held separately from those of the group, administered by AON Trust Corporation Limited and Grant Suckling as independent trustee directors of KPMG Pension Trust Company Limited.

The Trustees invest the assets of the plans with the aim of ensuring that all members' accrued benefits can be paid. The Trustees of the plans make all major strategic decisions including, but not limited to, the plans' asset allocation and the appointment and termination of fund managers. When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees have established an Investment Committee to monitor the operation of the plans' investment strategy, make day-to-day decisions as necessary for the smooth running of the plans, and make recommendations to the Trustees on overall strategy. This structure has been established in order to ensure that decisions are taken by those who have the appropriate training and expertise.

The KPMG Staff Pension Fund – pre-April 2000 fund

The KPMG Staff Pension Fund – pre-April 2000 fund (the pre-2000 fund) provides benefits based on members' average salary. It was closed to new entrants and ceased future service accrual on 1 April 2000. The weighted average duration of the defined benefit obligation for the pre-2000 fund is approximately 17 years.

The most recent triennial actuarial valuation of the pre-2000 fund was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2014. The final results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2015. This triennial actuarial valuation resulted in an actuarially assessed funding deficit of £105.3 million. The Trustees of the pre-2000 fund and the group agreed a recovery plan to address this deficit which included payments of £4.4 million p.a. from 1 October 2014 until 30 September 2022 and an assumption that some of the deficit will be recovered through investment returns, together with a special contribution of £52 million on 29 September 2014, which was immediately reinvested in an Asset Backed Funding (ABF) arrangement (further information below).

Notes
Forming part of the consolidated financial statements *continued*

20 Retirement benefits continued

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group.

The KMG Thomson McLintock Pension Scheme

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan, closed to new entrants, providing benefits based on final pensionable pay. The plan is contributory for members and the group's contributions are the balance of the cost of providing the benefits. The weighted average duration of the defined benefit obligation for the TMcL plan is approximately 16 years.

The most recent full triennial actuarial valuation of the TMcL plan was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2014. The final results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2015. This triennial actuarial valuation resulted in an actuarially assessed deficit of £17.3 million. The Trustees of the TMcL plan and the group agreed an employer contribution rate in respect of future service of 36.4% of pensionable salaries and a recovery plan to address this deficit which included payments of £0.6 million p.a. from 1 October 2014 until 30 September 2022 and an assumption that some of the deficit will be recovered through investment returns, together with a special contribution of £8 million on 29 September 2015, which was immediately reinvested in an ABF arrangement (further information below).

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group.

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided in line with IAS 19 'Employee Benefits' (IAS 19 Revised) as at 30 September 2015 and 30 September 2014 by KPMG's professionally qualified in-house actuaries.

Minimum funding requirements

The group and partnership have determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans, the future contributions that the group has committed to make to the plans have a lower present value than the current deficit within each of the plans respectively. As such, no adjustment has been made for potential additional liabilities at 30 September 2015 (2014: £nil).

Risks

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

- Investment risk – the pre-2000 fund and the TMcL plan invest a proportion of assets in return-seeking assets. There is a risk that the higher returns targeted through such a strategy are not achieved in practice, therefore increasing the deficit and potentially requiring further contributions from the group at the next funding valuations. There is also a risk that the investment strategy does not match the cash flows and liabilities of the plans, or the risk of not being able to reinvest the assets at the assumed rates. These risks are managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. During the year ended 30 September 2015, the Trustees implemented revised investment strategies for the plans, reducing the level of equity exposure and increasing interest rate and inflation hedging through a combination of diversified credit and Liability Driven investments with the aim of reducing funding level volatility. The Trustees of the plans continue to review the investment strategy on a regular basis to minimise these risks.
- Yield risk – a fall in government bond yields will increase both the assets and liabilities of the pre-2000 fund and the TMcL plan, although this is likely to have a greater impact on the liabilities. Therefore a fall in government bond yields would be expected to increase the funding deficit in the plans, potentially requiring further contributions from the group at the next funding valuations.
- Mortality risk – the assumptions adopted by the group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the pre-2000 fund and the TMcL plan and consequently increases in the liabilities. The group and Trustees of each plan review the mortality assumptions on a regular basis to minimise the risk of using an inappropriate assumption.

Other matters

The group expects to contribute approximately £11 million (which includes payments of £4.5 million from the ABF arrangement – see below) to its defined pension plans in the next financial year.

At the time that the funding plans were agreed with the Trustees, KPMG LLP entered into an ABF agreement with the plans, effective from 29 September 2014, through the establishment of a Scottish Limited Partnership (SLP). Under this agreement, the beneficial interest in certain trade receivables to a fair value of £90 million was transferred to the SLP. The transfer was effected via a receivables purchase agreement, setting out how £90 million of the group's receivables were transferred to the SLP for a 25-year period from the date of implementation.

Notes
Forming part of the consolidated financial statements *continued*

20 Retirement benefits continued

The plans have a limited interest in the SLP and are entitled to a combined annual distribution from the profits of the partnership of £4.5 million (£3.9 million pre-2000 fund; £0.6 million TMcL plan) payable monthly for 25 years from the date of implementation. These payments will be in addition to the group's ongoing deficit reduction contributions as per the funding plans. This distribution is linked to the funding level within the plans, whereby the payments to a plan will cease if it reaches a fully funded status determined using a low risk measure of the plans' liabilities.

The SLP is controlled by the group and its results are consolidated by the group. The investment held by the plans in the SLP does not qualify as a plan asset for the purposes of the group's and partnership's financial statements and is therefore not included within the fair value of plan assets. The value of the assets transferred to the SLP remain on the group's statement of financial position. The group's statement of financial position, IAS 19 Revised deficit and income statement are therefore unchanged by the establishment of the SLP.

As a result of the transactions under the ABF, the partnership statement of financial position, at the inception of the arrangement, was changed to reflect its receivable from the SLP of £30 million, prepayment of contributions to the pension funds of £60 million and a liability of £90 million arising under the receivables purchase agreement. The IAS 19 Revised deficit and income statement are unchanged.

Because taxation in the partnership is a personal liability of the individual members, no deferred tax on the plans' balances falls to be recorded in the financial statements of both the group and partnership.

Plan assets and liabilities
The fair values of the plans' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the plans' liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	TMcL plan		**Pre-2000 fund**	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Quoted in an active market				
Equities				
UK	**–**	23	**–**	90
World developed (ex UK)	**–**	35	**–**	126
Emerging market	**–**	7	**–**	27
Bonds				
Domestic Corporate	**–**	12	**–**	100
Domestic Government, Fixed-interest	**70**	–	**360**	–
Domestic Government, Index-linked	**35**	30	**135**	90
Investment funds				
Global equity	**11**	–	**–**	–
Corporate Bonds	**11**	–	**104**	–
Diversified credit	**48**	–	**177**	–
Derivatives				
Equity contracts	**(3)**	–	**(10)**	–
Credit contracts	**(59)**	–	**(303)**	–
Other				
Active currency fund	**–**	5	**–**	19
Non-quoted in an active market				
Fund of hedge funds	**–**	–	**1**	1
Global macro fund	**6**	6	**24**	23
Distressed debt fund	**5**	4	**21**	18
Cash and cash equivalents	**2**	–	**6**	3
Fair value of plans' assets	**126**	122	**515**	497
Present value of funded defined benefit obligations	**(141)**	(143)	**(641)**	(627)
Present value of net obligations being the net liability in the statement of financial position	**(15)**	(21)	**(126)**	(130)

Notes
Forming part of the consolidated financial statements *continued*

20 Retirement benefits continued

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

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

Movements in present value of obligations

	TMcL plan		Pre-2000 fund	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Balance at 1 October	**(143)**	(135)	**(627)**	(581)
Current service cost	**–**	–	**–**	–
Interest on obligations	**(6)**	(6)	**(24)**	(25)
Actuarial gain/(loss) arising from changes in demographic assumptions	**3**	2	**(4)**	8
Actuarial loss arising from changes in financial assumptions	**–**	(10)	**(10)**	(46)
Actuarial gain/(loss) arising from experience on the plan's liabilities	**–**	2	**–**	(2)
Benefits paid	**5**	4	**24**	19
Balance at 30 September	**(141)**	(143)	**(641)**	(627)
Of which: amounts owing to active members	**(13)**	(13)	**–**	–
Of which: amounts owing to deferred members	**(73)**	(74)	**(469)**	(451)
Of which: amounts owing to pensioner members	**(55)**	(56)	**(172)**	(176)

The split of the defined benefit obligation between active, deferred and pensioner members has been based on the proportions set out in the final results for the actuarial valuation of the plans as at 31 March 2014.

During the reporting period there have been no plan amendments, curtailments or settlements.

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

Movements in fair value of assets

	TMcL plan		Pre-2000 fund	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Balance at 1 October	**122**	113	**497**	465
Interest income	**5**	5	**19**	20
Return on plans' assets, excluding interest income	**3**	6	**13**	25
Contributions by employer	**1**	2	**10**	6
Benefits paid	**(5)**	(4)	**(24)**	(19)
Balance at 30 September	**126**	122	**515**	497

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

Components of pension expense in the income statement

	2015 £m	2014 £m
Personnel costs:		
– Current service cost	**–**	–
Finance income and expense:		
– Net interest expense on net defined benefit obligations	**6**	6
	6	6

Notes
Forming part of the consolidated financial statements *continued*

20 Retirement benefits continued

Remeasurements recognised in the statement of comprehensive income

	TMcL plan		Pre-2000 fund	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Actuarial gain/(loss) arising from changes in demographic assumptions	**3**	2	**(4)**	8
Actuarial loss arising from changes in financial assumptions	**–**	(10)	**(10)**	(46)
Actuarial gain/(loss) arising from experience on the plan's liabilities	**–**	2	**–**	(2)
Return on plan assets, excluding interest income	**3**	6	**13**	25
Total remeasurements recognised in the statement of comprehensive income	**6**	–	**(1)**	(15)

Actuarial gains and losses arise as a result of changes in assumptions or represent experience adjustments. Actuarial gains and losses are recognised in the statement of comprehensive income in the period in which they occur.

Assumptions
Under IAS 19 Revised, measurement of plan liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions. The assumptions used are applied for the purposes of IAS 19 Revised only.

The significant financial and other assumptions used to calculate the liabilities over the life of the plans on an IAS 19 Revised basis were:

Actuarial assumptions

	2015 %	2014 %
Discount rate	**3.70**	3.80
Future salary increases (TMcL plan only)	**4.25**	4.40
Increase of pensions in payment (RPI linked)	**3.10**	3.25
Increase for deferred pensioners (CPI; TMcL plan only)	**2.25**	2.40

Both plans have been valued using mortality assumptions which retain an allowance for future improvement in longevity. The mortality tables used for the plans at 30 September 2015 were the SAPS Series 2 Lights tables with CMI 2014 projections using a long-term trend rate of 1.25% for both males and females (2014: SAPS Series 1 Light tables with CMI 2013 projections, 1.25% male/1% female long-term trend rates).

These tables lead to life expectancies as follows:

	2015 Years	2014 Years
Retiring today at age 60		
Males	**28.3**	28.3
Females	**29.5**	29.4
Retiring at age 60, currently aged 45		
Males	**29.6**	29.7
Females	**31.0**	30.9

Notes
Forming part of the consolidated financial statements *continued*

20 Retirement benefits continued

Sensitivity analysis
The principal actuarial assumptions all have a significant effect on the valuation of the defined benefit obligations. The following table shows the sensitivity of the value of the plan liabilities to changes in these assumptions.

Assumption	Change in assumption	Impact on scheme liability increase/(decrease) TMcL plan £m	Pre-2000 fund £m	**Total £m**
Discount rate	Increase by 0.25%	(5)	(24)	**(29)**
Increase of pensions in payment (RPI linked)	Increase by 0.25%	2	5	**7**
Increase for deferred pensioners (CPI; TMcL plan only)	Increase by 0.25%	1	–	**1**
Life expectancy	Increase by 1 year	3	14	**17**

These sensitivities are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the benefit obligation.

21 Equity, members' capital and other interests

a) Equity
Group and partnership

Equity includes members' other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members. Also included in members' other reserves are remeasurement gains and losses arising on the defined benefit pension plans (see note 20).

Other movements in members' other reserves represent compensation amounts payable to subsidiary undertakings for corporation tax liabilities arising from the impact of UK transfer pricing legislation.

b) Members' capital
Group and partnership

The group is financed by members' capital. In addition, the short-term working capital requirements of the group will be met by the bank facilities (see note 22d). The phasing of member distributions may also be altered to give further flexibility to meet finance requirements. The group's capital structure is regularly reviewed to ensure it remains relevant for the business.

Movements in members' capital were as follows:

	£m
Balance at 1 October 2013	50
Capital introduced by members	6
Repayments of capital	(4)
Balance at 30 September 2014	52
Capital introduced by members	16
Repayments of capital	(6)
Balance at 30 September 2015	**62**

Notes
Forming part of the consolidated financial statements *continued*

21 Equity, members' capital and other interests continued

c) Other interests
Members' other interests comprise amounts due from/(to) members as follows:

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts due from members	**42**	40	**42**	40
Amounts due to members	**(235)**	(294)	**(235)**	(299)
	(193)	(254)	**(193)**	(259)

Amounts due from members relate to amounts advanced to members in their first year of appointment, to cover the liabilities arising for those individuals as a result of the change in tax basis to self-employed. These balances are repayable by the member upon retirement or earlier cessation of membership.

Amounts due to members that are classified as current liabilities relate to tax withheld from allocated profits and 90% of partnership accounting profits which fall to be recognised as a liability, less amounts paid to members during the year as drawings or profit shares. There are no loans or other amounts payable to members. In the event of a winding up, amounts due to members may be set-off against amounts due from members but would otherwise rank (with individual members' capital) after unsecured creditors.

22 Financial instruments

The group's principal financial instruments arise directly from its operations. Members' capital and amounts due to and from members also fall to be treated as financial instruments. The main purpose of these financial instruments is to finance the operations of the group. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The group has exposure to market risk, credit risk and liquidity risk arising from its use of financial instruments. This note presents information about the exposure of both the group and partnership to each of the above risks and the objectives, policies and processes for measuring and managing risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The group, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Further quantitative disclosures are included throughout these financial statements.

a) Accounting classifications and fair values
The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2015 and 2014, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1. The following table shows the classification and carrying amounts of the group's and partnership's financial assets and financial liabilities.

The only assets designated at fair value for the group are the bonds and equities shown below; the partnership has no financial instruments carried at fair value at either 30 September 2015 or 30 September 2014.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All assets designated at fair value are classified as Level 1 with the exception of other investments which are classified as Level 3. There have been no transfers between Level 1 and 2 during the current or prior year.

Notes
Forming part of the consolidated financial statements *continued*

22 Financial instruments continued

a) Accounting classifications and fair values continued

	Note	Group 2015 £m	Group 2014 £m	Partnership 2015 £m	Partnership 2014 £m
Loans and receivables					
Trade receivables	14	**363**	335	**348**	306
Unbilled amounts for client work	14	**319**	275	**293**	248
Cash and cash equivalents	16	**32**	48	**–**	13
Amounts due from members	21c	**42**	40	**42**	40
Non-current loans and receivables	13	**–**	14	**31**	30
Other receivables	14	**14**	11	**8**	10
Other investments	12	**8**	3	**–**	1
Amounts due from other UK group undertakings	14	**–**	–	**17**	32
Amounts due from other KPMG International member firms	14	**63**	54	**46**	37
Total loans and receivables		**841**	780	**785**	717
Financial assets designated as fair value through profit or loss					
Bonds	15	**35**	38	**–**	–
Equities	15	**13**	16	**–**	–
Total financial assets at fair value through profit or loss		**48**	54	**–**	–
Total financial assets		**889**	834	**785**	717
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	21c	**235**	294	**235**	299
Short-term bank borrowings		**362**	67	**280**	33
Members' capital	21b	**62**	52	**62**	52
Other payables	17	**7**	7	**6**	7
Trade payables	17	**22**	30	**21**	28
Amounts due to other UK group undertakings	17	**–**	–	**59**	58
Amounts due to other KPMG International member firms	17	**12**	6	**10**	6
Other non-current liabilities	13	**1**	14	**90**	90
Total non-derivative financial liabilities measured at amortised cost		**701**	470	**763**	573
Total financial liabilities		**701**	470	**763**	573
Total financial instruments		**188**	364	**22**	144

b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group uses derivatives on a case-by-case basis in order to manage market risks. The group does not hold or issue derivative financial instruments for trading purposes.

Notes
Forming part of the consolidated financial statements *continued*

22 Financial instruments continued

b) Market risk continued

Interest rate risk

The group faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations. The group uses interest rate options to manage exposure to interest rate risk; an interest rate cap was entered into during the year ended 30 September 2011, to cap the interest arising on the short-term borrowing facility to 4.5%. This interest rate cap contract had expired by 30 September 2015.

The financial assets and liabilities of the group and partnership are non-interest bearing, with the exception of the following:

		Group		Partnership	
	Note	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Fixed rate instruments					
Bonds	15	**35**	38	**–**	–
Loans receivable	13	**–**	14	**–**	–
Loans payable	13	**–**	(14)	**–**	–
		35	38	**–**	–
Variable rate instruments					
Short-term bank borrowings	22d	**(362)**	(67)	**(280)**	(33)
Bank balances and cash deposits	16	**32**	48	**–**	13
		(330)	(19)	**(280)**	(20)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates during the year would have increased or decreased group profit by £1.8 million (2014: £0.4 million) and increased or decreased partnership profit by £1.3 million (2014: £0.4 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exchange rate risk

The functional currency of the partnership and its subsidiaries is pound sterling. However, certain expenses and charges from other KPMG International member firms or other international relationships are denominated in currencies other than the functional currency of the entities within the group. In addition, some fees are rendered in other currencies where this is requested by the clients involved.

The group maintains currency cash balances and uses currency swaps or forward foreign exchange contracts in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Notes
Forming part of the consolidated financial statements *continued*

22 Financial instruments continued

b) Market risk continued

Exchange rate risk continued

As set out above, the group trades in its functional currency and so does not generally have material receivable and payable balances denominated in non-functional currencies. However, at 30 September 2015 the group had receivable and payable balances, denominated in non-functional currencies as follows:

	Group		Partnership	
Receivables	**2015 £m**	2014 £m	**2015 £m**	2014 £m
US dollar	**13**	12	**13**	10
Euro	**20**	16	**15**	10

	Group		Partnership	
Payables	**2015 £m**	2014 £m	**2015 £m**	2014 £m
US dollar	**7**	2	**6**	2
Euro	**2**	2	**2**	2

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

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
US dollar	**4**	8	**4**	8
Euro	**4**	–	**4**	–

A 5% movement in either the US dollar or euro closing exchange rates would have increased (or decreased) group profit by £2 million (2014: £2 million) and partnership profit by £1 million (2014: £1 million).

There were open forward foreign exchange contracts at 30 September 2015 to sell US$nil million in exchange for pound sterling (2014: to sell US$2 million in exchange for pound sterling), to sell 55 million Saudi Riyals in exchange for pounds sterling (2014: to sell 66 million Saudi Riyals in exchange for pound sterling), to sell nil million Swiss francs in exchange for pound sterling (2014: sell 2 million Swiss francs in exchange for pounds sterling) and to sell €2 million in exchange for pounds sterling (2014: €nil). The fair value of these contracts at 30 September 2015 was a gain of £168,000 (2014: £355,000 loss).

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2015	2014	**2015**	2014
Euro	**1.3482**	1.2207	**1.3519**	1.2794
US dollar	**1.5457**	1.6566	**1.5189**	1.6231

Equity price risk

Equity price risk arises from fair value through profit or loss equity securities. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by at least one Board member or the Chief Financial Officer.

The primary goal of the group's investment strategy is to maximise investment returns; management is assisted by external advisers in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The only financial assets which are considered to be exposed to equity price risk are equity securities, totalling £13 million (2014: £16 million).

Notes
Forming part of the consolidated financial statements *continued*

22 Financial instruments continued

c) Credit risk
Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from clients, securities and other investments.

Trade and other receivables
Exposure to credit risk is monitored on a routine basis and credit evaluations are performed on clients as appropriate. The group does not require security in respect of financial assets.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each client. Credit risk is monitored frequently, with close contact with each client and routine billing and cash collection for work done.

The group establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables and investments.

Impairment information is included in note 14. There are no significant impairment provisions against the other classes of assets.

Securities, other investments and derivatives
Cash investments are made only in liquid securities, mainly fixed-term deposits or government or high-quality corporate bonds, and are monitored regularly. Derivatives are concluded with high quality counterparties only and are monitored regularly.

The maximum exposure to credit risk is represented by the carrying amount of the group's and partnership's financial assets as set out in the table in section a) on page 111.

d) Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the group's reputation.

The focus of the group's treasury policy is to ensure that there are sufficient funds to finance the business. Surplus funds are invested according to the assessment of rates of return available through the money market or from bonds or equities.

The Treasury function monitors the group's significant cash positions daily and it is the group's policy to use finance facilities or to invest surplus funds efficiently. Limits are maintained on amounts to be deposited with each banking counterpart and these are reviewed regularly in the light of market changes.

The group has access to committed overdraft and revolving credit facilities which are drawn down as required. The borrowings under this facility are the only financial liabilities of the group and partnership that are interest bearing.

Committed borrowing facilities of £405 million (2014: £405 million) were available to the group at 30 September 2015. Actual amounts drawn were £362 million (2014: £67 million) by the group and £280 million (2014: £33 million) by the partnership. Of the facilities available as at 30 September 2015, £5 million (2014: £5 million) expires in one year or less, and the revolving credit facility of £400 million (2014: £400 million) was due to expire in January 2020. Although the revolving facility was due to expire in January 2020, the short-term bank borrowings drawn from time to time under the facility usually have a maximum term of three months. The availability of this revolving facility was dependent on certain conditions, including a minimum level of members' capital, all of which were satisfied at 30 September 2015 and 2014. The revolving credit facility was secured on the lease of 15 Canada Square, London. Subsequent to the year end, the group has entered into a new borrowing facility (see note 27).

The group and partnership have non-derivative financial liabilities as set out in the table in section a) on page 111. All of those financial liabilities are measured at amortised cost. In each case, the carrying amount reflects the contractual cashflows due to the short maturity; they are all due for payment within 12 months except the other non-current liabilities, due in two years.

Notes
Forming part of the consolidated financial statements *continued*

23 Operating leases

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

Non-cancellable operating lease rentals

	Group		Partnership	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Within one year	**43**	37	**42**	37
Between one and five years	**113**	79	**113**	79
More than five years	**172**	119	**172**	119
	328	235	**327**	235

A number of office facilities are leased under operating leases. The periods of the leases vary; lease payments are generally subject to rent review every five years.

Group and partnership

	2015 £m	2014 £m
Amounts receivable from sub-let properties:		
– within one year	**2**	2
– within two to five years	**1**	3
Operating lease cost for the year in 'Other operating expenses'	**25**	23
Operating lease income for the year in 'Other operating income'	**2**	2

The group also leases certain computer equipment, office equipment and motor vehicles under operating leases. These leases typically run for a period of three years.

All amounts due under the group's finance lease (see note 10) have been accounted for and no future liability arises.

24 Commitments and contingencies

Capital commitments for contracted purchases of property, plant and equipment at the end of the financial year, for which no provision has been made, were £11 million (2014: £54 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

The partnership has given a guarantee in favour of the bank providing borrowing facilities to the KPMG International member firm in Kuwait (previously an associated undertaking of the group) for a value of US$4 million (£3 million) (2014: US$5 million (£3 million)).

25 Related parties

The group is wholly owned and controlled by the UK members.

Between 1 October 2013 and 26 September 2014, the group was wholly owned by KPMG Europe LLP (ELLP), a limited liability partnership registered in England and Wales. With effect from 26 September 2014, the UK member firm demerged from ELLP, and from that date was wholly owned by the UK members.

The group has a related party relationship with its key management, considered to be the members of the Board and the Executive Management Team (as set out on pages 54 and 55) who were also individual members of the partnership.

Transactions with key management

The members of the UK Board and the Executive Management Team are responsible for planning, directing and controlling the activities of the group. The members of the UK Board and the Executive Management Team all share in the profits of the partnership and the following disclosures relate to those members only.

As set out in note 1, the partnership does not divide profits amongst members until after the financial statements have been finalised and approved by the members. The estimated profit entitlement due to the partnership's key management in respect of the current year totalled £22 million. The actual profit allocated in respect of the previous year was £23 million.

The estimated total profit share payable to the highest paid member is £2.2 million (2014: £2.5 million).

There were no balances due to or from key management at 30 September 2015 or 2014 save in respect of relevant shares of profit (or related taxation) and members' capital. As discussed in note 1, members receive monthly drawings and other distributions representing payments on account of current year profits. Any such amounts paid in excess of the liability recognised in respect of 90% of the accounting profits of the partnership would be shown as 'Amounts due from members' until allocation of the current year profits. Amounts that are retained from allocated profits in respect of taxation liabilities that fall on members are classified as 'Amounts due to members' together with the 90% of partnership profits treated as a liability. All amounts are expected to be paid in the short term.

Notes
Forming part of the consolidated financial statements *continued*

25 Related parties continued

Transactions with key management continued
Amounts due from/(to) key management of the partnership (and also the group) are as follows:

	2015 £m	2014 £m
Amounts due from key management	**1**	1
Amounts due to key management	**(13)**	(21)
	(12)	(20)

Total members' capital invested by key management in the partnership amounted to £2 million at 30 September 2015 (2014: £2 million).

Transactions with fellow group entities
Transactions with fellow group entities mainly reflect appropriate charges for the cost of shared services.

The transactions and year end balances with fellow group entities are set out below. With effect from 26 September 2014, the UK member firm demerged from ELLP and therefore transactions with ELLP entities during 2015 are not disclosed as these entities are no longer considered to be related parties.

				Group
	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts owed by fellow group entities £m	Amounts owed to fellow group entities £m
2014				
ELLP subsidiaries – costs relating to client engagements	44	38	–	–
KPMG ELLP – stewardship and central costs	5	–	–	–

				Partnership
	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts owed by fellow group entities £m	Amounts owed to fellow group entities £m
2015				
UK subsidiaries – services provided	**–**	**43**	**6**	**–**
KPMG UK Limited – provision of staff	**775**	**–**	**–**	**48**
2014				
UK subsidiaries – services provided	–	84	25	–
KPMG UK Limited – provision of staff	682	–	–	56
ELLP subsidiaries – costs relating to client engagements	38	19	–	–
KPMG ELLP – stewardship and central costs	5	–	–	–

Transactions with associates
Transactions with associated entities namely Crimsonwing Plc (year ended 30 September 2015) and the member firms in Kuwait and Jordan (year ended 30 September 2014), which are not eliminated on consolidation, are as follows:

	Group		**Partnership**	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Transactions with associates:				
Revenue	**1**	–	**1**	–
Balances outstanding with associates at the year end:				
Amounts owed by other KPMG International member firms	**2**	–	**2**	–

These transactions are settled in cash, are on an arm's length basis and follow KPMG UK's normal trade terms.

Notes
Forming part of the consolidated financial statements *continued*

26 Group undertakings

The principal undertakings of the group and partnership at 30 September 2015 are listed in the table below. Statutory Instrument (SI) 2015 No.980 *The Companies, Partnerships and Group (Accounts and Reports) Regulations 2015* was issued on 26 March 2015 and requires UK companies to disclose a full list of related undertakings for all financial statements approved by directors on or after 1 July 2015. This Statutory Instrument does not currently apply to Limited Liability Partnerships and therefore only principal undertakings of the group and partnership have been disclosed below.

All of the subsidiary undertakings make up their accounts to 30 September and are consolidated within these financial statements. The associate undertakings and joint operations provide management information at 30 September for the purposes of group reporting. All entities prepare their accounts under uniform accounting policies and operate principally in their country of incorporation.

Subsidiary undertakings	**Incorporated in**	**Principal activity**	**Regulatory status**	**% of ordinary shares held**
KPMG Holdings Limited	England	Holding company	UK registered Auditor	100
KPMG Audit Plc	England	Statutory audits and related services	UK registered Auditor	100[3]
KPMG United Kingdom Plc	England	Advisory services	None	100[3]
KPMG UK Limited[1]	England	Employment company	None	100[3]
KPMG IT Advisory Limited	England	Advisory services	None	100
KPMG Sourcing Limited	England	Advisory services	None	100[3]
KPMG CIO Advisory Limited	England	Advisory services	None	100[3]
Makinson Cowell Limited	England	Advisory services	FCA Regulated	100[3]
KPMG Nunwood Consulting Limited	England	Advisory services	None	100[3,4]
KPMG Boxwood Limited	England	Advisory services	None	100[3,4]
Queen Street Mutual Company PCC Limited	Guernsey	Insurance	Guernsey Insurer	0[2]
Joint operations				
KPMG Resource Centre Private Limited	India	Internal support services	None	50[3]
KPMG Global Services Management Private Limited	India	Internal advisory support services	None	33[3]
KPMG Global Services Private Limited	India	Internal advisory support services	None	33[3]
Associated undertaking				
Crimsonwing Plc	Malta	Advisory services	None	85[3,4]

1. This company employs the staff occupied in the businesses of KPMG LLP and other group companies.
2. KPMG LLP has a 100% interest in the UK-related net assets of this company through its right to control the Board and its right to entitlement to benefit from future profits or existing retained reserves arising from those assets.
3. Held indirectly through intermediate holding companies.
4. Those entities acquired during the year, (see note 9), are in the process of aligning their year end with that of the group. Management information at 30 September 2015 has been provided for these entities for the purposes of group reporting.

The partnership has an interest in a Scottish Limited Partnership (SLP), KPMG Pension Funding Limited Partnership, which is fully consolidated into these group accounts (see note 20). The SLP is not required to present and file accounts at Companies House as it is not a qualifying partnership as defined in the Partnerships (Accounts) Regulations 2008. The SLP was set up during the year ended 30 September 2014 in connection with the ABF (see note 20).

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

Although these entities are legally separated from their shareholders (as detailed above), the group has classified them as joint operations. This is on the basis that the partners are the recipients of substantially all the services provided by the entities and will be the only source of funding to settle their liabilities.

Notes
Forming part of the consolidated financial statements *continued*

26 Group undertakings continued

As set out in note 2, whilst the group own 85% of the share capital of Crimsonwing Plc, management have determined that they do not control the Crimsonwing group based on the terms of the agreement entered into with other shareholders at the time of the acquisition. Management have assessed that they do have significant influence by virtue of the same agreement and the Crimsonwing group is therefore considered to be an associate of the group.

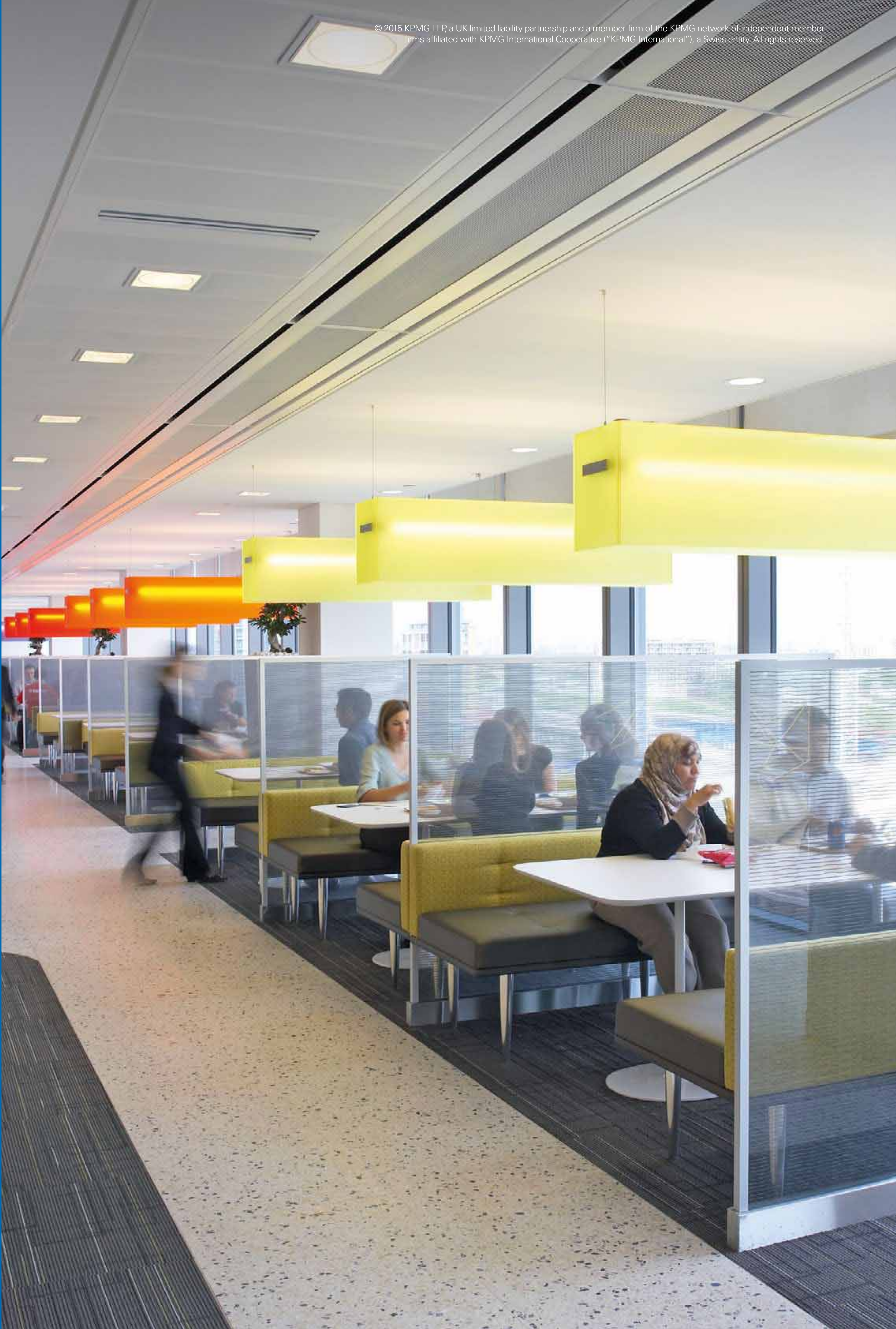
The following financial information reflects 100% of the associates of the group:

	2015 £m	2014 £m
Assets	**25**	–
Liabilities	**(7)**	–
Revenues	**11**	8
(Loss)/profit	**(2)**	1

As disclosed in note 9, in May 2014, the group transferred its interest in the KPMG International member firms in Saudi Arabia, Kuwait and Jordan back to local ownership. KPMG Kuwait and KPMG Jordan were both considered associates of the group until the date of transfer.

27 Events after the year end

In November 2015, as a result of changes in the appointment of auditors by certain of the banks involved in the group's borrowing facilities, the group completed a refinancing. A new facility of £550 million is now in place and matures on 31 January 2021. As with the previous facility, this facility is secured on the lease of 15 Canada Square, London.



Appendices

4

Appendices

Appendix 1

1 Structure and governance

1.1 UK firm structure and governance

1.1.1 Legal structure

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

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

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

KPMG LLP is affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Section 1.2 of Appendix 1.

As described in Section 1.2 of Appendix 1, all KPMG International member firms (including KPMG LLP) belong to one of three regions – Asia Pacific (ASPAC), the Americas or Europe, Middle East and Africa (EMA). KPMG LLP belongs to the EMA region.

1.1.2 Name and ownership

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

During the year to 30 September 2015, there was an average of 617 Partners in KPMG LLP (2014: 588 Partners).

1.1.3 Governance structure

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

Further details of the members of the Board, the Executive Management Team, and the Audit & Risk, Nomination & Remuneration, Public Interest and Ethics Committees including their background and meeting attendance are set out in pages 54–57 of this report.

1.1.3.1 Senior Partner

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

1.1.3.2 The Board

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

Appointments and re-election (at the end of fixed terms) of the Non-Executive Members of the Board are subject to election by the Members. The current Non-Executive Members will serve three-year terms up to a maximum of six years. Any new or re-elected Non-Executive Members will serve a two-year term up to the maximum of three years (as approved by the Board in order to maintain relevant skills and breadth of experience on the Board).

As at 30 September 2015 the Board of KPMG LLP was made up of three members of the Executive Management Team, one Vice Chair and six Non-Executive Members, as set out on pages 54 and 55.

The Board met formally 12 times in the year to 30 September 2015. In addition, the Board met to discuss governance and together with the Executive Management Team or the Public Interest Committee to discuss the Firm's strategy.

1.1.3.3 The Executive Management Team (ExCo)

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

The members of ExCo are appointed by the Senior Partner and as at 1 October 2014, in addition to the Senior Partner, included the Chief Operating Officer ('COO') & Head of People, the Head of Quality & Risk Management, the Head of Corporate Affairs, the Heads of Markets for each of Financial Services, Sectors and Regions, and the Heads of our Functions, namely Audit, Tax and Advisory.

However, following a review of the operating model by the Board in the summer of 2015, the ExCo composition was changed on 27 July 2015 to include, in addition to the Senior Partner, the Head of Operations, Head of People, Head of Quality and Risk, Head of International Markets and Government, Head of National Markets, Head of Audit and Head of Solutions. In the year to 30 September 2015, ExCo met formally 13 times supplemented by frequent additional telephone calls and ad hoc meetings.

1.1.3.4 The Audit & Risk Committee

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

During the year ended 30 September 2015, the Audit & Risk Committee consisted of three of the Non-Executive Members of the Board, one of whom was appointed as Committee Chairman, an appointment ratified by the Board.

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

The Audit & Risk Committee met five times in the year ended 30 September 2015.

A report on the activities of the committee in the year is provided on page 58.

1.1.3.5 The Nomination & Remuneration Committee

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

During the year ended 30 September 2015, the Nomination & Remuneration Committee met 11 times.

As at 30 September 2015, the Nomination and Remuneration Committee consisted of three Members (two Non-Executives and the Vice Chair). Additionally a co-opted Member, who was a Partner at large, also attended meetings. The Senior Partner, COO/HoO, General Counsel and Head of Partner Matters are invited to join the meetings when the Nomination & Remuneration Committee deemed necessary.

A report on the activities of the committee in the year is provided on page 59.

1.1.3.6 The Ethics Committee

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

During the year ended 30 September 2015, the Ethics Committee met nine times. As at 30 September 2015, the committee consisted of six members, being three Partners at large and three members of the Board (including the Head of Quality & Risk Management).

A report on the activities of the committee in the year is provided on page 60.

1.1.3.7 The Public Interest Committee

The Public Interest Committee ('PIC') consists of four individuals who, not being otherwise connected with KPMG UK, we considered to be independent. Members of the PIC were selected to provide specific insights considered to be relevant to the activities of the Public Interest Committee and the development of the Firm, including expertise in corporate matters, leadership of professional services firms and governance and investor needs.

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

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

During the year to 30 September 2015, the Committee met formally four times.

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

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

A report from the chair of the Public Interest Committee on the activities of the Committee in the year is provided on pages 67 to 69.

1.1.3.8 Communication with the members

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

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

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continued

1.2 Network arrangements

Legal structure

Our structure is designed to support consistency of service quality and adherence to agreed values wherever in the world KPMG International member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture nor in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Unless otherwise stated, the words 'member firm' or 'KPMG member firm' when used in this Annual Report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit that KPMG International has no share capital and, therefore, only has members, not shareholders).
- Those entities ('sub-licensees') that are not members of KPMG International as a matter of Swiss law but that have still entered into legal agreements with KPMG International and also an entity that is a 'member'. Such agreements mean that sub-licensees are member firms of the KPMG network. Generally, the rights and obligations of a sub-licensee as a KPMG member firm are exactly the same as if it had been a member. In particular, all rights and obligations of member firms that are described in this Appendix are rights and obligations of sub-licensees unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee's compliance with its obligations as a KPMG member firm.
- Those entities that are owned, managed, and controlled by an entity that is a member or a sub-licensee. The respective member or sub-licensee is responsible to KPMG International for such controlled entity's compliance with obligations to KPMG International as if it were a member or sub-licensee.

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 structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Professional indemnity insurance

Insurance cover is maintained in respect of professional negligence claims. The cover is principally written through a captive insurer under a programme that is available to all KPMG member firms worldwide.

In addition, member firms may enter into local insurance arrangements in respect of the amount below the deductible under the worldwide insurance programme.

Governance structure The key governance and management bodies of KPMG International are the Global Council, the Global Board and the Global Management Team.

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the Global Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 58 member firms that are 'members' of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International and approving policies and regulations. It also admits member firms and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, the Global Deputy Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of Senior Partners of member firms. It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Global Deputy Chairman, the Chairman of each of the regions and currently four other Senior Partners of member firms.

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' Global Board members). A key role of the Lead Director is to act as liaison between the Global Chairman and the 'Non-Executive' Global Board members.

The Global Board is supported in its oversight and governance responsibilities by several other committees, including a Governance Committee, an Operations Committee, an Investments Committee, a Quality & Risk Management Committee and a Professional Indemnity Insurance Committee. The Lead Director nominates the Chairs and members of certain Global Board committees for approval by the Global Board.

Global Management Team and Global Steering Groups

The Global Board has delegated certain responsibilities to the Global Management Team.

These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the Global Deputy Chairman, and includes the Global Chairman, the Global Deputy Chairman, the Global Chief Operating Officer, global function and infrastructure heads and the general counsel.

The Global Steering Groups are responsible for supporting and driving the execution of the strategy and business plan in their respective areas and act under oversight of the Global Management Team.

Regional structure

Each member firm is part of one of three regions (the Americas, ASPAC and EMA). Each region has a Regional Board comprising a regional Chairman, regional Chief Operating or Executive Officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Appendix 2

2 System of quality control

KPMG International has policies of quality control based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and to help our personnel act with integrity and objectivity, and perform their work with diligence.

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

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all of our personnel whether based in the UK or at one of our off-shore locations.

While many of our quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relates to audit and the remainder of this Appendix focuses on what we do to ensure the delivery of quality audits.

In the case of the Audit function, the Audit Leadership Team met on a monthly basis during the year and these meetings included regular discussions (led by the Audit Quality & Risk Management Partner) about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to our global audit methodology or audit tools) these will be developed in conjunction with our Global Services Centre and International Standards Group.

In addition to these regular meetings, within the Audit function our Audit Quality Council considered matters relating to maintaining and improving audit quality. During the year, the Audit Quality Council comprised the UK Head of Audit, the Audit Chief Operating Officer, the Audit Quality & Risk Management Partner, the UK Quality Performance Review Liaison Partner, the leaders of the Department of Professional Practice (DPP) Auditing and DPP Accounting & Reporting, and the Business Unit Heads of Audit. The Audit Quality Council met six times during the year ended 30 September 2015, and considered the detailed findings (and related actions) from external regulatory reviews, the internal Quality Performance Review programme and other quality control programmes, as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement.

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These included consideration of enhancements to how we monitor, assess and reward quality; the appointment and capacity of Engagement Quality Control Review Partners; trend analysis around the quality performance metrics for engagement leaders and managers; and developments related to long form audit reports.

The UK Audit function is also a key contributor to our global thinking with representatives on all major global audit quality and development councils and teams. We use these forums to look for ways to better address local emerging issues by understanding how other member firms have tackled similar issues, contribute to our global knowledge management by sharing our experiences and facilitate common solutions to comparable matters.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

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

Audit quality framework

Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our Firm. All of the other drivers are presented within a virtuous circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly.

Each of the seven drivers, and how they applied in the year, is described in more detail in the following sections of this Appendix.

The policies and practices set out in this Appendix also ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

2.1 Tone at the Top

KPMG's Tone at the Top provides a clear focus on quality through:

- Culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
- A strategy with quality at its heart;
- Standards set by leadership; and
- Governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

Our leadership demonstrates and communicates their commitment to quality, ethics and integrity. Our Audit Matters publication is released every month to all Partners and staff in the UK Audit function as well as, by request, to some others outside of the Audit function. In addition to Audit Matters, we issue regular technical bulletins addressed to all audit professionals to cover emerging issues; new developments, policies, and guidance; and key audit technical and quality messages.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – "Above all, we act with integrity". For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to our clients and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices at KPMG. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to Partner. Our Values are set out in Appendix 5.

Our Code of Conduct incorporates our Values, and defines the standards of ethical conduct that we require from our people. The Code of Conduct was most recently updated in 2012 to reflect changes in laws, regulations and professional ethics. It sets out KPMG's ethical principles and helps Partners and employees to understand and uphold those principles. The Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her job function and level of responsibility. It has provisions that require KPMG people to:

- Comply with all applicable laws, regulations and KPMG policies;
- Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;
- Report breaches of risk management policies by KPMG firms or people;
- Uphold the highest levels of client confidentiality; and
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The commitments in our Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities.

We operate a whistle-blowing hotline in the UK which is available for our personnel, clients and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by members of the group itself, those who work for KPMG UK and the senior leadership of the Firm. The whistle-blowing hotline allows people to report their concerns (via telephone, secure internet lines or surface mail) to a third party organisation. Our people can raise matters anonymously and without fear of retaliation. During 2015, 29 matters which required investigation were reported to the UK hotline (2014: 19 cases investigated). Matters reported to the hotline are investigated under the supervision of our external ombudsman, Richard Pratt. Richard has reported to the Audit & Risk Committee on the operation of the hotline in the year. His 2015 report concluded that the whistle-blowing hotline is a useful tool and none of the cases raised issues of major concern for the firm.

2.2 Association with the right clients

2.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

2.2.2 Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This evaluation is completed through our SAP enabled engagement management system and involves an assessment of its principals, its business and other service-related matters.

This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management as a prospective client. A second Partner, as well as the Evaluating Partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' a Risk Management Partner is involved in approving the evaluation. Each prospective engagement is also evaluated. In practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The engagement leader evaluates this in consultation with other senior personnel and decisions are reviewed by quality and risk management leadership as required.

A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement including, for audit services, the competence of the client's financial management team. Controls are built into our SAP system to help ensure that a valid client and engagement acceptance process has been completed as appropriate.

In addition, when taking on a statutory audit for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the entity for whom we are considering providing audit services and of other relevant relationships. Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated. Appendix 2.3.2 provides more information on our independence and conflict-checking policies.

2.2.3 Continuance process

An annual re-evaluation of all clients is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation. Audit services are reviewed at least annually.

This re-evaluation serves two purposes. Firstly, we will decline to act for any client we consider it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagements we perform for that client (this may include the assignment of additional professionals or the need to involve additional specialists in the case of audit).

2.3 Clear standards and robust audit tools

All of our professionals are expected to adhere to KPMG's policies and procedures (including independence policies) and we provide a range of tools to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

2.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up-to-date. Our global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The methodology is set out in KPMG International's KPMG Audit Manual (KAM) which all member firms are obliged to follow and includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality of our audits. KPMG UK also adds local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements specific to the UK and our own internal policies in the UK.

Our audit methodology is supported by eAudIT, KPMG's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform efficient and focused quality audits. eAudIT has been deployed to all audit professionals in KPMG UK and is regularly updated to add additional functionality to support the efficient and effective delivery of quality audit services. eAudIT's activity-based workflow provides engagement teams with ready access to relevant information and knowledge at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to our stakeholders.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional judgement in all aspects of planning and performing an audit and exercise professional scepticism when undertaking procedures and reaching conclusions. The methodology encourages the use of specialists when appropriate and also requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements. The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual that is applicable to all KPMG member firms, functions and personnel and is tailored in the UK for any local policies and procedures.

Appendices
continued

2.3.2 Independence, integrity, ethics and objectivity

2.3.2.1 Overview

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics (the IESBA Code) and incorporate, as appropriate, the US Securities & Exchange Commission (SEC), the PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with standards (Ethical Standards) issued by the FRC's Audit & Assurance Council (formerly known as the Auditing Practices Board).

These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. In the UK, the Head of Quality and Risk Management is designated as the Ethics Partner and in turn is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are set out on our intranet-hosted Quality & Risk Management Manual, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm and its personnel must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors and significant owners.

In the event of failure to comply with the Firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics (see Appendix 2.4.3). The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our Ethics Committee oversees policies and procedures in relation to ethical matters and breaches of requirements (see page 60).

2.3.2.2 Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audit client securities to every member firm Partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International, we use a web-based independence tracking system (KICS) to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and all client-facing staff who are manager grade or above are required to use this system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted. Earlier this year we introduced a process whereby Partners are required to obtain specific clearance from a newly formed 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.

We monitor Partner and manager compliance with this requirement as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2015, 311 (2014: 195) of our people were subject to these audits (this included approximately 30% (2014: 10%) of our Partners). In addition to these, all new 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. A number of actions have been taken to improve compliance, including the formation of the PIT.

Any professional providing services to an audit client is also required to notify the Ethics and Independence Partner if they intend to enter into employment negotiations with that audit client. Our internal policy in relation to retiring, or recently retired, Partners goes beyond the requirements of the Ethical Standards. Matters not governed by the Ethical Standards or our internal policy but which are considered to have a bearing on independence are presented to the Ethics Committee for their conclusion.

2.3.2.3 Firm financial independence

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

2.3.2.4 Business relationships/suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with both the Ethical Standards and the IESBA Code. Detailed guidance is maintained covering, inter alia, business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an audit client or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

2.3.2.5 Independence training and confirmations

We provide all relevant personnel (including all Partners and client service professionals) with annual independence training appropriate to their grade and function and provide all new personnel with relevant training when they join the Firm.

All personnel are required to sign an independence confirmation upon joining the Firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

2.3.2.6 Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for audit clients under applicable laws and regulations and independence rules. These limit the number of years that engagement leaders in certain roles may provide audit services to an audit client. KPMG rotation policies are consistent with the IESBA Code and also require our Firm to comply with any stricter applicable rotation requirements, which in the UK means we also comply with the Ethical Standards (and, where applicable for certain engagements, the rules of the PCAOB).

We monitor the rotation of audit engagement leaders and any other key roles where there is a rotation requirement, including the Engagement Quality Control Reviewer (see Appendix 2.6.5) and have transition plans to enable us to allocate Partners with the necessary competence and capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

2.3.2.7 Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the Ethical Standards and the IESBA Code, and, where applicable, the rules of the SEC and PCAOB. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Group audit engagement leaders are required to maintain group structures for all publicly traded and certain other entities and their affiliates for whom we are auditors in Sentinel™, which facilitates compliance with KPMG policies. Every engagement intended to be entered into by a KPMG member firm is required to be included in Sentinel™ prior to starting work. Sentinel™ enables lead audit engagement Partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

To maintain auditor independence, the remuneration of any member of the audit team may not include any compensation based on the team member's success in selling non-audit services to entities for whom we are auditors.

2.3.2.8 Fee dependency

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

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

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

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

2.3.2.9 Conflicts of interest

Conflicts of interest may prevent our Firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

2.3.2.10 Compliance with laws, regulations, and anti-bribery and corruption

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct to all client-facing Partners and employees on joining the Firm, and every two years thereafter. The same training is also provided to certain other non-client-facing personnel (such as those who work in finance, procurement or sales and marketing). Training was undertaken by all staff in 2015.

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

2.4 Recruitment, development and assignment of appropriately qualified personnel

We are totally committed to equipping our people with the skills and tools they need to cut through the complexity of today's world – complexity that sees our people increasingly working across borders, collaborating on a global basis and taking on challenging and innovative projects.

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the client. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

We believe it is essential to attract and retain the best people.

2.4.1 Recruitment

All candidates applying for professional positions are required to submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing and qualification/reference checks.

The Firm recruited over 3,500 new people in the year ended 30 September 2015 (2014: approximately 3,000).

Upon joining the Firm, new personnel are required to participate in an on-boarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures.

Our on-boarding procedures are designed to help ensure that any independence or conflicts of interest are addressed before the individual's employment or partnership commences.

2.4.2 Personal development

Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise (see Appendix 2.5.1).

An international and UK Partner development framework provides blended learning solutions via coaching, mentoring and senior level training programmes across the partnership. Partners are encouraged to make use of these development opportunities, and also to actively identify and manage talent and to act as role models for the development of other Partners and staff.

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All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. The Career Paths portal provides information about roles and career options across the Firm, along with learning paths and tools to help individuals and their managers progress their careers. To support career and professional development there is a range of core skills programmes covering skills and behaviours that provide performance improvement and ensure that individuals reach their full potential. The Firm uses a model for learning and development which focuses learning on critical and stretching experiences, learning through others and informal learning with more formal learning for the development of key technical, leadership and business skills.

Development centres and feedback tools enable our Firm to identify high performers who also have the potential to take on more senior or more complex roles. We also have long-term development programmes to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and Partner roles.

In recognition that some of our professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

In relation to Audit we provide specific opportunities from graduate upwards for professionals to develop and maintain the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, country rotational and global mobility opportunities and client secondments.

2.4.3 Performance evaluation and compensation

At KPMG our commitment to the professionalism, openness and quality and risk management principles enshrined in the Audit Firm Governance Code starts at the very top with our Partners but also extends throughout the people processes.

All professionals undergo annual goal-setting and performance reviews. Each professional is evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a SAP-based application. These evaluations are conducted by performance managers and Partners who are in a position to assess performance. In preparation for their counselling all of our staff are required to seek evidence of their performance during the year. As part of the year end counselling process they discuss their achievement of agreed goals, strengths and development areas. Any colleagues who are not meeting expected levels of performance are clearly given this message by their performance managers. The performance discussion influences the total amount of remuneration that they are paid. The results of the annual counselling are also considered when promotion decisions are being made.

Similarly, each year, Partners are also required to agree objectives for the coming year which are specific to their individual role. They do this using a goal setting form which records both their objectives and their performance against those objectives at year end, including their performance related to quality and risk matters (which is of course important for all of our services but absolutely critical for statutory audit). As for staff, as part of the year end counselling process our Partners discuss achievement of agreed goals, strengths and development areas with particular focus on the delivery and personal development of the Partner attributes. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics.

These standardised quality and risk metrics (which are issued to all engagement leaders) are one of the inputs to the annual counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. For 2015, individuals receive receive risk metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance related matters, rather than a single overall metric as in previous years. The 2015 results indicate generally a good level of quality and risk compliance across our whole Firm and are consistent with those arising in 2014 – in particular 92% of our engagement leaders were awarded green metrics, 5% amber and 3% red.

The action taken in respect of any Partner with amber and red ('adverse') quality and risk metrics is dependent upon the cause of the adverse metric initially. The range of actions that can be taken includes remediation of the initial deficiency giving rise to the adverse metric, remedial training, one-to-one counselling with functional leadership and/or Quality and Risk Partners on the issue arising, or, ultimately, the suspension of signing rights. As explained in note 5 to the financial statements, adverse risk metrics for Quality and Ethics related matters in a reduction in the overall compensation paid to the Partner concerned. The proceeds of these sanctions are donated to the KPMG Foundation.

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

2.4.4 Compensation and promotion

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return.

2.4.5 Partner admissions

Our process for admission as a partner is rigorous and thorough, involving appropriate members of leadership. This procedure includes a business case and a personal case for the individual candidate. KPMG also engage with an external provider to gain an independent assessment of the candidates against a range of criteria/competencies. Our key criteria for admission to Partner are consistent with a commitment to professionalism and integrity, quality and being the best choice for our clients and people. Anyone who is being considered for promotion to Partner is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values. Similarly, attitude to quality and risk is explored for any external Partner hires that we are considering.

In the year ended 30 September 2015, KPMG LLP recruited 28 new Partners from the external market (2014: 22) and promoted 40 from within the Firm (2014: 30).

2.4.6 Assignment

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement on the basis of their skills, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the Partner assignment process. Key considerations include Partner experience, accreditation and capacity based on the results of the annual Partner portfolio review (see below) to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving local specialists or those from other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the audit engagement leader's considerations may include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory requirements;
- Appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgement; and
- An understanding of KPMG's quality control policies and procedures.

As an additional control in Audit, the UK Audit Quality & Risk Management Partner oversees an annual review of risks facing the Audit function which involves the UK Head of Audit, the UK Audit Chief Operating Officer and each UK Business Unit Head of Audit. Each Business Unit Head of Audit (or their approved delegate) meets every audit engagement leader in their Business Unit to perform a review of their portfolio and workload (the Partner Portfolio Review process). The purpose of this process is to understand the risks being faced by the Audit function and ensure any remediation measures are put in place. As part of the individual engagement leader meetings the Business Unit Head of Audit will look at the complexity and risk of each audit against the backdrop of other factors relating to the individual and their workload, and will consider whether or not taken as a whole the specific engagement leader has the appropriate time, suitable experience and the right level of support to enable them to perform a high-quality audit for each client. This process takes into account the findings of internal and external reviews and the quality and risk metrics.

2.5 Commitment to technical excellence and quality service delivery

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

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

2.5.1 Technical training

In addition to personal development discussed at 2.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Our technical training curriculum covers all grades of staff with a core training programme for junior staff and periodic and appropriate ongoing training for qualified and experienced staff and Partners. In recognition of the continued focus on audit quality, we also run Audit Quality Workshops for engagement leaders (which is extended to all audit staff through Audit Quality Department Workshops) which covers key messages regarding quality, and actions in respect of the internal and external monitoring.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme 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 and common queries raised through internal consultation processes.

Delivery of training is through a blend of classroom, e-learning and virtual classroom. Certain training programmes also include a test that is required to be passed prior to completion of the training.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements (see 2.5.2). Non-attendance or the late completion of mandatory training is captured as one of the measures in the quality and risk metrics.

In addition to structured technical training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

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2.5.2 Accreditation and licensing

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services (including for US audit and accounting work, Transactions Services, Corporate Finance services and Reporting Accountant work) which ensure that only Partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

All Audit professionals are also required to maintain accreditation with their professional body and satisfy the Continuing Professional Development requirements of that body. Our policies and procedures are designed to ensure that those individuals who require a licence to undertake their work are appropriately licensed.

2.5.3 Access to specialist networks

Our engagement teams have access to a network of specialists (including, where necessary, in other KPMG member firms). Engagement leaders are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (for example, Information Technology, Tax, Treasury, Pensions, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process, as well as during the risk assessment and planning stage of each audit. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

2.5.4 Consultation

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances.

We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting and DPP Audit Support. These resources are crucial in terms of the support that 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 disseminates international guidance on International Financial Reporting Standards (IFRS) and ISAs (UK & Ireland).

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

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 appropriately qualified members of the Firm. In exceptional circumstances, a matter may be referred to the Head of Audit or an appropriately qualified delegate.

Technical support is also available through the International Standards Group (ISG) as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting Group based in London.

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

2.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAudIT. We, along with other KPMG member firms, provide specialist input into the development of global industry knowledge and deploy it via the use of eAudIT.

2.6 Performance of effective and efficient audits

How an audit is conducted is as important as the final result. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. These behaviours are discussed below.

KPMG audit process

As already described, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are:

- Timely partner and manager involvement;
- If relevant, appropriate and timely involvement of specialists;
- Critical assessment of audit evidence;
- Exercise professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate and timely involvement of the Engagement Quality Control reviewer (EQC reviewer);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

2.6.1 Timely partner and manager involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The Engagement Leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the Engagement Leader early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team 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.

2.6.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Professional Judgement Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

The KPMG Professional Judgement Framework

We have developed a Professional Judgement Framework that provides audit professionals with a structured approach to making judgements. Our Professional Judgement Framework has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, consider alternatives, critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information and document the rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

Professional judgement training is embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff. We continue to deliver training on professional judgement for senior staff and Partners as necessary.

2.6.3 Ongoing mentoring and on-the-job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit include:

- Engagement leader participation in planning discussions;
- Tracking the progress of the audit engagement;
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective monitoring, coaching and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

2.6.4 Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is usually not longer than 45 days from the date of the audit report.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- The nature, timing, and extent of audit procedures performed to comply with the ISAs;
- Applicable legal and regulatory requirements;
- The results of the procedures performed;
- The audit evidence obtained;
- Significant findings and issues arising during the audit and actions taken to address them (including additional audit evidence obtained); and
- The basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA rules as well as other applicable regulatory bodies' standards and regulations.

2.6.5 Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

Our EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the engagement team. They are experienced audit professionals who are independent of the engagement team and are required to be involved at crucial stages throughout the audit. They offer an objective review of the more critical and judgemental elements of the audit.

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An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Head of Quality & Risk Management or the UK Head of Audit. Accreditation to act as an EQC reviewer is granted to appropriate individuals by the UK Audit Quality & Risk Management Partner and the EQC reviewers for individual engagements are proposed by the regional Heads of Audit and ratified by the UK Audit Quality & Risk Management Partner. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and client communications;
- Appropriateness of the financial statements and related disclosures; and
- The significant judgements that the engagement team made and the conclusions it reached with respect to the audit.

The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this including:

- Issuing leading practice guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- Incorporating specific procedures into eAudIT to facilitate effective reviews;
- Releasing periodic mandatory e-learning modules covering EQC reviews; and
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review process (see Section 2.4.6 of this Appendix) to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

2.6.6 Clear reporting of significant findings

Auditing standards and the Companies Act 2006 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material respects.

Experienced audit engagement leaders arrive at all audit opinions based on the audit performed. In preparing audit reports, Engagement 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 part of commitment to restoring trust, we have a new approach to our audit reports which go beyond these minimum requirements. Our Firm has invited all our listed audit clients to include KPMG findings in the long form audit report following our field testing of the approach last year.

2.6.7 Insightful, open and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. Often the Audit Committee will be the body identified as being charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at Audit Committee or Board meetings and ongoing discussions with members of the Audit Committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our Audit Committee Institute (ACI) aims to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes. The ACI operates in the UK as well as many other KPMG member firms and provides Audit Committee members with authoritative guidance (such as the ACI Audit Committee Handbook); updates on issues like audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Today the ACI in the UK has more than 3,000 members across both the private and public sectors and membership of our FTSE 100 Audit Committee Chairs' Group includes representatives from 80% of the FTSE 100. We provided more than 40 seminars, workshops and roundtables for Audit Committee members, Risk Committee members and other Non-Executive Directors during 2015. We live in a world where a succession of governance mishaps have ensured the spotlight continues to shine on the role of the Audit Committee and the expectations placed upon the role continue to increase.

This year, changes to the UK Corporate Governance Code and the audit reform agenda have added to Audit Committees' workload and as such the work of the ACI is more relevant than ever.

2.6.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group Audit Engagement 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, and the oversight of component auditor team structures and the evaluation of their work.

2.6.9 Client confidentiality, information security and data privacy

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties.

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

Our security requirements are set out in the Global Information Security Policies and Standards published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Protection Group.

As part of these Global requirements, the Firm has a National IT Security Officer (NITSO), with the necessary authority, skills and experience to lead the information security function. Our NITSO is in charge of our information security programme and works closely with Quality and Risk Management. The NITSO also reports to Global Chief Information Security Officer.

In addition, KPMG LLP is certified to ISO27001, the international standard for Information Security Management. The scope of our certification includes our IT processes, IT business assets, client data in core systems, offices and physical locations. Obtaining and maintaining ISO27001 is part of our commitment to information security. We are independently audited against the standard at six monthly intervals by an accredited external third party.

An Information Security Oversight Committee (ISOC) is in place to provide overall direction and monitoring on information security matters. This Committee is chaired by a senior member of the Quality & Risk Management team and has representatives from a number of departments including; IT Services (including our NITSO), HR, Facilities, Business Continuity and a representative from Forensic Technology. The ISOC reports to the Head of Quality & Risk Management.

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training.

Our personnel are required to comply with our Acceptable Use Policy – this policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG and client confidential information. Data privacy and Information Management policies are also in place governing the handling of personal and confidential information.

2.7 Commitment to continuous improvement

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

2.7.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms to assess the relevance, adequacy and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures and meets the ISQC1 monitoring requirements. The results and lessons from the programmes are communicated to all Partners and staff of the Firm, and the overall results and lessons from the programmes are considered and appropriate actions taken, within our group as well as at regional and global levels.
Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- Compliance with KPMG International's policies and procedures;
- The effectiveness of training and other professional development activities; and
- Compliance with applicable laws and regulations as well as our standards, policies, and procedures.

We use two formal inspection programmes conducted annually by each member firm across the Audit, Tax and Advisory functions, the Quality Performance Review (QPR) Programme and the Risk Compliance Programme (RCP). Both programmes are developed and administered by KPMG International.

Additionally, all KPMG member firms are covered once in a three-year cycle by cross-functional Global Compliance Reviews (GCRs) performed by reviewers in the Global Compliance Group who are independent of the member firm and report to Global Quality & Risk Management. These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network (see Appendix 1 for further details).

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

2.7.1.1 Quality Performance Reviews (QPRs)

The QPR Programme is the cornerstone of KPMG's efforts to monitor engagement quality and one of the primary means of ensuring that member firms collectively and consistently meet both KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at functional level, overseen by a Lead Reviewer from outside of KPMG UK, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and operating firm level. We disseminate our findings from the QPR Programme to our professionals through written communications, internal training tools and periodic Partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

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Overview of 2015 Quality Performance Review results

	Number of engagements reviewed (2014)	% of engagement leaders reviewed (2014)
Audit	**115 (116)**	**36% (36%)**
Tax	**164 (232)**	**40% (44%)**
Advisory	**210 (210)**	**36% (29%)**

Audit
KPMG International continues to refine and strengthen the Audit QPR programme in light of latest developments. Our ultimate aspiration is that as a result of this continual strengthening of our Audit QPR programme, external regulatory inspections do not identify incremental issues not previously identified by our own internal reviews.

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

A 'Performance Improvement Necessary' grading is attributed where the auditor's report is generally supported by the work performed, and is not incorrect in any material respect but where improvements are necessary in some areas, including with respect to the documentation of the work performed. An 'Unsatisfactory' grading is attributed where the engagement was not performed in accordance with the Firm's policies and professional standards in a significant area, in particular where there are significant deficiencies either in the financial statements themselves, the audit work paper documentation or the actual work undertaken.

In 2015, 82% of engagements reviewed were graded as 'Satisfactory' (2014: 83%), 12% of engagements were graded as 'Performance Improvement Necessary' (2014: 12%) and 6% of engagements were graded as 'Unsatisfactory' (2014: 5%). As noted in prior years, year-on-year comparisons should be viewed with some caution as the mix of engagements reviewed will vary year by year and furthermore as we extend the depth of these reviews.

The reviews showed a noticeable reduction in the occurrence of some of the generic issues or themes which we have sought to address following the QPR Programme in the prior year. Some recurrent themes remain and we have continued to address the root causes for these and have developed a set of actions, including working with engagement leaders in Audit Quality Workshops (see Appendix 2.5.1).

In terms of remedial actions, all engagement leaders receiving a 'Performance Improvement Necessary' grading are considered for further review either in the current year or in the following year and engagement leaders receiving an 'Unsatisfactory' rating will generally be subject to a review of another of their engagements in the current year and are also subject to review in the following year. In addition, the ratings from the annual QPR Programme are included in the annual quality and risk metrics issued for all engagement leaders for all functions (as described in Section 2.4.3).

Tax and Advisory
In Tax and Advisory, the functions follow a similar three-tier engagement grading system of 'Satisfactory', 'Performance Improvement Necessary' or 'Unsatisfactory'. In 2015, 92% of Tax engagements were graded as 'Satisfactory', 7% graded as 'Performance Improvement Necessary' and 1% of engagements were graded as 'Unsatisfactory'. This compares with comparative scores for the 2014 programme of 93% graded as 'Satisfactory', 7% graded as 'Performance Improvement Necessary' and 0% of engagements graded as 'Unsatisfactory'.

In 2015, 88% of Advisory engagements were graded as 'Satisfactory', 10% were graded ''Performance Improvement Necessary' and 2% of engagements were graded as 'Unsatisfactory'. This compares with scores for the 2014 programme of 86% graded as 'Satisfactory', 12% as 'Performance Improvement Necessary' and 2% as 'Unsatisfactory'.

As in Audit, receiving an 'Unsatisfactory' or 'Red' grading does not necessarily mean that the advice issued was incorrect. In the majority of instances the 'less than satisfactory' ratings were in relation to internal compliance issues rather than underlying significant quality related matters.

2.7.1.2 Risk Compliance Programme (RCP)
In the RCP, member firms are required to self-assess their overall levels of compliance as 'Green', 'Yellow' or 'Red'.

A 'Green' grade indicates that the Firm is substantially compliant with KPMG's policies and procedures and where there are issues identified these are minor and isolated and are acted on promptly. A 'Yellow' grade also indicates that the Firm is substantially compliant with KPMG policies and procedures, but although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the Firm as a whole. A 'Red' grade indicates that there are serious deficiencies. The Firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs.

We have self-assessed our overall levels of compliance as 'Yellow' (2014: 'Green') indicating substantial compliance with KPMG's policies and procedures but where issues identified require attention in order to meet the highest standards to which we hold ourselves.

2.7.1.3 Global Compliance Review (GCR) programme
The GCRs focus on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the Firm's RCP Programme). In the event that a GCR identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate. The UK firm was subject to its GCR inspection in October 2015 which generally showed improvements on the previous inspection in 2013. The review identified a small number of opportunities for improvement including areas which were generally identified by the UK firm's own compliance and quality control processes.

2.7.2 External monitoring

2.7.2.1 Audit Quality Review (AQR)

In the UK, the Audit Quality Review team (part of the FRC's Conduct Division) has been carrying out independent inspections for a number of years. They completed their work on the 2014/15 inspection of the Firm in January 2015 and the Firm's audit registration was renewed in June 2015. The public report on the inspection was released in May 2015 and the report and our response, included within Appendix B of the report, are available on the FRC website.[1]

In its latest report, the AQR concluded that our Firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. It also identified certain areas where improvements are required to those policies and procedures which are set out below.

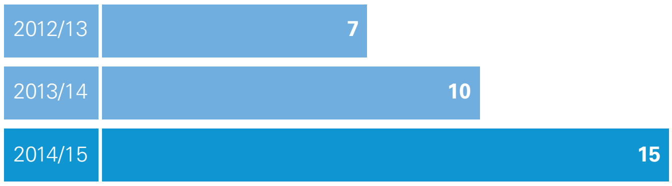
The AQR's key messages were that KPMG should:

- Take further action to ensure there is appropriate evidence of involvement by the engagement quality control reviewer on all relevant audits;
- Ensure audit teams use internal specialists where circumstances are complex or require particular expertise and that their work is more integrated into the audit process;
- Review and enhance the Firm's policies for the timely disposal of financial interests once a breach of Ethical Standards or the Firm's own requirements is identified;
- Take prompt action to review and revise the Firm's guidance on materiality in the light of our findings, and the thematic review report issued by the FRC on this area in December 2013, and assess, on a timely basis, the sufficiency of those actions;
- Ensure that the Firm's audit reports accurately describe the audit procedures performed to address the identified risks;
- Ensure adequate oversight of the internal monitoring procedures undertaken to assess offshore centres' compliance with the Firm's policies and procedures.

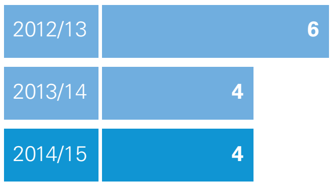
We have already taken action in all these areas and in the other areas where the AQR has made recommendations. We were pleased with the comments by the AQR in recognising that we had significantly enhanced our internal monitoring of firm-wide policies and procedures in the prior year and that it considers the effort taken in this area to be of particular benefit to the our quality control environment

AQR results

Good with limited improvements required



Improvements required



Significant improvements required

2.7.2.2 FRC Thematic Reviews

The AQR of the FRC also undertakes thematic reviews to supplement their annual programme of audit inspections of individuals firms. In a thematic review, firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed. In December 2014, the FRC published a report setting out the principal findings of the thematic inspection of the quality of bank and building society audits.

We were pleased by the comment that there has been an increase in the quality of the audit of loan loss provisions and related IT controls. For KPMG this reflected a number of additional initiatives and increased leadership focus which included additional benchmarking procedures, knowledge sharing sessions, peer reviews and increased use of Data & Analytics tools and techniques.

Three further thematic inspections in are scheduled for 2015/2016, covering audit sampling, the role of the engagement quality control reviewer, and firms' internal quality monitoring procedures. We will set out the results of these in next year's Annual Report.

1 FRC website: https://frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2015.aspx.

Appendices
continued

2.7.2.3 ICAEW Quality Assurance Department and Practice Assurance reviews
In addition, the Quality Assurance Department (QAD) of the ICAEW undertakes inspections of those audits which are outside the remit of the AQR team. The Firm receives a private annual report from the QAD documenting their findings.

The overall conclusion in their 2014/2015 report was that there is inconsistent quality of audit work on the files they reviewed. Eight of the 11 files were either satisfactory or generally acceptable. Two files reviewed required some improvement and one file reviewed required significant improvement. The reviews identified a number of areas for action (which we have plans in place to address).

2.7.2.4 Other
We are also required to be registered with the Jersey and Guernsey Financial Services Commissions in respect of Crown Dependency registered Market Traded Companies. As part of this registration the AQR is required to include in its annual inspection one or more of the audit engagements meeting these criteria.

We were notified that our re-registration with both the Jersey and Guernsey Financial Services Commissions was successful during 2015.

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

The PCAOB inspected KPMG Audit Plc during 2012 and issued its report in relation to that review on 10 November 2014 the findings of which were noted in our report last year.[2] A further inspection took place in summer 2015, but the results of that review have not yet been published. The 2015 inspection considered five audits, including three where KPMG UK was the principal auditor and two where it was not the principal auditor.

2.7.2.5 Regulatory investigations
During the year, the FRC commenced an investigation into the preparation, approval and audit of the financial statements of Quindell Plc for the period ended 31 December 2011 to the years ended 31 December 2013. KPMG LLP was the auditor of the 2013 financial statements. An investigation was also started during the year in relation to the role of KPMG Audit Plc in reporting to the FSA on BNY Mellon's compliance with the FSA's client asset rules for the years ended 31 December 2007 to 31 December 2011.

In February 2015, the FRC published decisions of tribunals held in December 2014 regarding two formal complaints made by the FRC against KPMG and two KPMG partners. KPMG and the partners accepted reprimands from the FRC in respect of these breaches which related to compliance with certain aspects of the Ethical Standards in 2010-2012. As explained in previous years, we have investigated the underlying reasons giving rise to the issues and taken steps to enhance our processes.

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

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

2.7.2.6 Client feedback
In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this programme is considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the Engagement Leader to ensure that concerns on quality are dealt with on a timely basis.

A Client Council has been established to both challenge and support the new UK Senior Partner and leadership ensuring that clients and quality of client service are at the heart of decision-making. The work of the Client Council includes consideration of the client service review processes and continued innovation to anticipate and influence client issues.

2.7.2.7 Monitoring of complaints
We have procedures in place for monitoring and addressing complaints received from clients relating to the quality of our work. These procedures are detailed on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Head of Quality & Risk Management.

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

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

2 The report from the PCAOB inspection in the UK is available at the following link: www.pcaobus.org/Inspections/Reports/Pages/Default.aspx.

Appendix 3

Public interest entities listing

The list of public interest entity audit clients for which KPMG LLP or KPMG Audit Plc has signed an audit opinion in the year ended 30 September 2015 is given below. The definition of a public interest entity for this purpose is that given under the provisions of the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board of the Financial Reporting Council, being an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of Section 1210 of the Companies Act 2006.

Entity name

A.G. Barr plc
Aberdeen Asset Management Plc
Aberdeen New Dawn Investment Trust Plc
Aberdeen New Thai Investment Trust Plc
Aberdeen Smaller Companies High Income Trust plc
Aberdeen UK Tracker Trust plc
Admiral Group Plc
Affinity Sutton Capital Markets PLC
Aghoco 1085 Limited
Air Berlin PLC
Al Noor Hospitals Group Plc
Alba 2005 – 1 plc
Alba 2006 – 1 plc
Alba 2006 – 2 plc
Alba 2007 – 1 plc
Alba 2011-RP1 Plc
Alba 2012-1 Plc
Aldermore Bank Plc
Aldermore Group Plc
Alent plc
Allied Minds plc
Alpha Credit Group plc
Alpha Schools (Highland) Project plc
Altitude Group plc
Alumasc Group plc
Amati VCT plc
Amdipharm Mercury Midco UK Limited
Amdipharm Mercury UK Limited
Andrews Sykes Group plc
Animalcare Group plc
Annes Gate Property Plc
Applied Graphene Materials plc
Arbuthnot Banking Group plc
Ariana Resources PLC
Arlington Securities Limited
Arrow Global Group PLC
Artemis Alpha Trust Plc
Artemis VCT plc
ASA Resource Group plc
Aseana Properties Limited
Ashmore Group plc
Aspen Insurance Holdings Limited
Aspen UK Holdings Limited
Aspire Defence Finance plc
Assessments Midco Limited
Associated British Foods plc
Aston Martin Capital Limited
AstraZeneca PLC
Atlas Mara Limited
Autolink Concessionaires (M6) plc
Avacta Group Plc
Avanti Communications Group Plc
AXIO Data Group Midco Limited
Bae Systems Plc
Bank of England
Bank of London and The Middle East PLC
Barchester Propco Jersey Limited
Barchester Propco Two Topco Limited
Baring Emerging Europe Plc
Baronsmead VCT 2 Plc
Baronsmead VCT 3 Plc
Baronsmead VCT 4 Plc
Baronsmead VCT 5 plc
Baronsmead VCT Plc
Bart Spices Holdings Limited
Bellway PLC
Berkeley Group Holdings Plc, The
Betfair Group plc
BHL (UK) Holdings Limited
BHP Billiton Plc
Bidvest Foodservice (Europe) Limited
Bifold Group Limited
Bloomsbury Publishing Plc
Bluestone Securities plc
Blur Group PLC
Booker Group plc
Bovis Homes Group Plc
Bowling Acquisitions Holdings Limited
BPHA Finance PLC
Braemar Shipping Services plc
British Polythene Industries Plc
BTG Plc
Bunzl Plc
BUPA Finance plc
Business Mortgage Finance No 3 plc
Business Mortgage Finance No 4 plc
Business Mortgage Finance No 5 plc
Business Mortgage Finance No 6 plc
Business Mortgage Finance No 7 plc
By Chelmer plc
Cable & Wireless Communications plc
Caledonia Investments PLC
Caledonian Trust Plc
Cambria Automobiles plc
Camco Clean Energy Plc
Capita PLC
Capital Hospitals (Issuer) Plc
Carclo Plc
Card Factory plc
Cardiff Property plc
Cardtronics Europe Limited
Care UK Health & Social Care Plc
Care UK Health and Social Care Finance Limited
Carewatch Bidco Limited
Carillion Plc
Case Topco Limited
Caspian Holdco Limited
Castle Street Investments plc
Catalyst Healthcare Manchester Financing plc
Catalyst Healthcare Romford Financing plc
Catalyst Healthcare Worcester plc
Catalyst Higher Education Sheffield plc
CC 2 (2011) Ltd
Central Nottinghamshire Hospital plc
Central Rand Gold Limited
Chambertin Finance Limited
Charles Stanley Group PLC
Cherry Midco 1 Limited
Chromalloy UK Holdings Limited
Cineworld Group plc
Circle Anglia Social Housing PLC
CIS General Insurance Limited
City Greenwich Lewisham Rail plc
City Natural Resources High Yield Trust Plc
Clarke Energy Operations Limited
Clarke Energy Topco Limited
Cohort plc

Appendices
continued

Entity name continued

Compass Group plc
Computer Associates Holding Limited
Coms PLC
Consort Healthcare (Blackburn) Funding PLC
Consort Healthcare (Salford) plc
Consort Healthcare (Tameside) plc
Co-operative Group Limited
Costain Group Plc
Coventry & Rugby Hospital Co plc
Crawshaw Group plc
Credit Suisse International
Crest Nicholson Holdings Plc
Crisps Midco 2 Limited
Cross London Trains Finance Company Limited
CTRL Section 1 Finance Plc
Cuba Midco Limited
Daejan Holdings Plc
Daniel Thwaites Plc
Darrowby No 1 plc
Darrowby No 2 plc
Darrowby No 3 plc
Dart Group Plc
De La Rue plc
Dechra Pharmaceuticals Plc
Derby Healthcare plc
DFS Furniture plc
Diageo Capital Plc
Diageo Finance plc
Diageo Investment Corporation
Diageo Plc
Dialight Plc
Diamond Bidco Limited
Digital Globe Services Ltd
Dnata Catering Services Limited
Dome Holdings Ltd
Dunedin Enterprise Investment Trust plc
Dunedin Income Growth Investment Trust PLC
Dunedin Smaller Companies Investment Trust Plc
DX (Group) plc
E2v Technologies PLC
Eckoh Plc
Edinburgh Dragon Trust Plc
Edinburgh Investment Trust Plc
Edinburgh Worldwide Investment Trust Plc
EDU UK Bondco Plc
EDU UK Topco Limited
Electric Word plc
Electronic Data Processing Plc
Elementis Plc
Ellenbrook Developments plc
Elli Finance (UK) Plc
Elli Investments Limited
Emerald 2 Limited
EMH Treasury PLC
EMIS Group plc
Emporiki Group Finance PLC
Endell Properties Ltd
ENSCO PLC
Epihiro PLC
Epwin Group PLC
Essentra Plc
Esure Group Plc
Eurohome UK Mortgages 2007-1 plc
Eurohome UK Mortgages 2007-2 plc
European Investments (GFP) Ltd
European Investments (Moron) 2 Limited
European Investments (Olivenza) 2 Limited
Eversholt Funding plc
F&C Asset Management plc
F&C Finance PLC
FAIRFX Group plc
Falkland Islands Holdings Plc
fastjet Plc
Fidessa Group plc
Filtronic Plc
Findel plc
Finsbury Food Group plc
Foresight 2 VCT plc
Foresight 3 VCT plc
Foresight 4 VCT plc
Foresight Solar Fund Ltd
Foresight Solar VCT plc
Foresight VCT plc
Forest Holidays Group Limited
FPE Global (Holdings) Limited
Frank Recruitment Group Limited
French Connection Group Plc
Fulcrum Utility Services Limited
G4S International Finance plc
G4S plc
Gardner Group Limited
Gear4Music (Holdings) Plc
Genfinance II Limited
Genghis Midco Ltd
GESB plc
GLH Hotels Ltd
Global Graphics SE
Global Resources Investment Trust Plc
Goals Soccer Centres Plc
Goodwin Plc
Gosforth Funding 2012-1 plc
Gosforth Funding 2012-2 plc
Gosforth Funding 2014-1 plc
Gosforth Fundings 2011-1 plc
Grafenia PLC
Greggs Plc
Haco Limited
Halcyon Midco Limited
Halfords Group plc
Halliburton Global Holdings Limited
Hargreaves Services Plc
Hastings Insurance Group (Finance) Plc
Hastoe Capital Plc
Havelock Europa Plc
Hawthorn Finance Ltd
Headlam Group Plc
Hidong Estate Plc
Hill & Smith Holdings Plc
Hiscox Holdings Limited
HSBC Bank plc
HSBC Holdings Plc
Hydrasun Group Finance Limited
Hydrodec Group plc
ICBC Standard Bank plc
ICICI Bank UK PLC
IHC Merwede UK Limited
Imagination Technologies Group Plc
Impax Asset Management Group plc
IndigoVision Group plc
Infinis Energy Plc
Infinis PLC
InfraRed Infrastructure Yield Holdings Ltd
Innospec Inc
Inspired Education (South Lanarkshire) plc
Intelligent Energy Holdings plc
Interactive Hotel Services Holdings plc
Intertek Group Plc
Intrinsic Technology Group Limited
Investis Midco Limited
iO Adria Limited
IP Group plc
Ipreo UK Holdings Limited
Ipswich Building Society
Irida plc
ITV PLC
Jaeger Limited
James Cropper plc
James Fisher & Sons plc

Entity name continued

JD Sports Fashion plc
Jewel UK TopCo Limited
Jimmy Choo plc
Johnson Matthey Plc
Just Retirement Group plc
Jones Lang LaSalle Capital Investments Limited
Kalibrate Technologies plc
Karma Communications Debtco Limited
Katanalotika plc
Kaz Minerals plc
Keller Group Plc
Kemble Water Eurobond plc
Kenrick No.1 Plc
Kestrel Acquisitions Limited
Kodak Alaris Holdings Limited
Kolar Gold Limited
LAB Investments plc
LCR Finance Plc
Lend Lease Europe Finance plc
Lend Lease PFI/PPP Infrastructure Finance Limited
LGS Investments plc
Liberty Global plc
Lighthouse Group plc
Limecay Limited
L-J Finco Limited
LMS Capital plc
London and Quadrant Housing Trust
London Security plc
Lonmin plc
Low & Bonar Plc
Lowell Group Financing plc
M&C Saatchi plc
Macfarlane Group PLC
Manchester Airport Group Funding Plc
Marks & Spencer Financial Services Plc
Marshalls Plc
Matalan Finance plc
Matchtech Group plc
Maven Income & Growth VCT5 plc
MBL Group plc
McKay Securities Plc
MedicX Fund Limited
Merlin Entertainments PLC
Metrix Funding No 1 plc
Metrix Securities plc
Midland Heart Capital plc
Milan Midco Limited
Millennium & Copthorne Hotels Plc
Mitsubishi UFJ Securities International plc
Moat Homes Finance Plc
Molins Plc
Moneysupermarket.com Group plc
Montanaro UK Smaller Companies Investment Trust plc
Moody's Group Holdings Limited
Moody's Group Holdings Limited
Moody's Group UK Limited
Moody's Group UK Limited
Moorgate Funding 2014-1 Plc
Morecambe Leisure 2 Limited
Morgan Advanced Materials plc
Murgitroyd Group Plc
Nando's Group Limited
Nasstar plc
Nationwide Accident Repair Services plc
Nemus II (Ardea) plc
Nemus II Peco Holder Limited
Neptune Midco 1 Limited
New World Resources Plc
NewDay Partnership Funding 2015-1 PLC
NewHospitals (St Helens and Knowsley) Finance PLC
Nexus Intermediate Holdings Limited
North Atlantic Smaller Companies Investment Trust plc
Northern 2 VCT Plc
Northern 3 VCT Plc
Northern Investors Company plc
Northern Petroleum plc
Northern Venture Trust Plc
Nottingham Building Society
Novae Group Plc
Oak No 1 Plc
Ocean Wilsons Holdings Limited
Octagon Healthcare Funding plc
Odeon & UCI Finco Plc
Old Mutual Plc
Omnicom Europe Limited
On the Beach Bidco Limited
OneSavings Bank Plc
Opsec Security Group plc
Optare Plc
Oxford Instruments Plc
Pace plc
Pacific Assets Trust plc
PAM Subco Ltd
Panmure Gordon & Co Plc
Parity Group PLC
PD Parks Limited
Pendragon Plc
Pension Insurance Corporation plc
Persimmon Plc
Personal Group Holdings Plc
Petards Group plc
Pets at Home Group Plc
Photo-Me International plc
Pisti 2010-1 Plc
Places for People Capital Markets plc
Places for People Homes Limited
Plastics Capital plc
PMAC 05-1 PLC
Poplar Harca Capital PLC
Prestmade Limited
Proactis Holdings plc
Project Lennon (Bidco) Limited
Promethean World plc
ProPhotonix Limited
Prudential Plc
Punch Taverns Finance PLC
Punch Taverns plc
Punjab National Bank (International) Limited
PuriCore plc
QED Finance Plc
QinetiQ Group Plc
Quadrant Housing Finance Limited
Quantum Pharma plc
Quattro Bidco Limited
Quindell PLC
Quintain Estates and Development Plc
Quixant Plc
QVC UK Holdings Limited
R&R Ice Cream plc
R&R PIK plc
Rathbone Brothers plc
Rathmount 2006-1 plc
Rathmount 2006-2 plc
Red Midco Ltd
Redde PLC
Redhall Group plc
Regenersis plc
Renew Holdings plc
Renishaw Plc
Rensburg AIM VCT plc
Rentokil Initial plc
Revolution Bars Group plc
Rightmove Plc
Riverside Finance PLC
Riviera Acquisitions Limited
RM plc
RMAC 2003 – NS1 plc

Appendices
continued

Entity name continued

RMAC 2003 – NS2 plc
RMAC 2003 – NS3 plc
RMAC 2003 – NS4 plc
RMAC 2004 – NS1 plc
RMAC 2004 – NSP2 plc
RMAC 2004 – NSP4 plc
RMAC 2005 – NS1 plc
RMAC 2005 – NS3 plc
RMAC 2005 – NS4 plc
RMAC 2005 – NSP2 plc
RMAC Securities No.1 PLC
RMPA Services plc
Road Management Services (A13) plc
Rochester Financing No 1 Plc
Rockhopper Exploration Plc
Rolls-Royce Holdings plc
Rolls-Royce PLC
Rose Petroleum plc
Rotork Plc
RPC Group Plc
RSA Insurance Group Plc
Safestyle UK plc
Sanctuary Capital plc
Sanctuary Housing Association
Sandwell Commercial Finance No 1 plc
Sandwell Commercial Finance No 2 plc
Satellite Financing Plc
SciSys plc
Scottish American Investment Company Plc
Scottish Amicable Finance plc
Scottish Mortgage Investment Trust Plc
SDL plc
Secure Trust Bank plc
Secured Property Developments plc
Shawbrook Group plc
Sheffield City Trust
Ship Midco Limited
Shires Income plc
Signet UK Finance PLC
Silence Therapeutics Plc
Skipton Building Society
Source BioScience plc
Sovereign Housing Capital Plc
Spectris Plc
Speedy Hire Plc
Spirit Issuer plc
Spirit Pub Company PLC
SSE PLC
SSP Group PLC
Standard Chartered Bank
Standard Chartered Plc
Starstone Finance Limited
Stobart Group Limited
Stonegate Pub Company Financing Plc
Stonewater Funding plc
Sumitomo Corporation Capital Europe plc
Sumo Digital Group Limited
Superglass Holdings plc
Superior Energy Services (UK) Ltd
Surface Transforms Plc
Surgical Innovations Group plc
Sutton & East Surrey Water Plc
Synectics plc
Synergy Health plc
Synexus Clinical Research Finance Limited
Synexus Clinical Research Midco No 3 Limited
Tangguh Hiri Operating Limited
Tangguh Sago Operating Limited
Ted Baker Plc
Telecom Plus PLC
Tethys Petroleum Limited
TGH Investments Ltd
Thames Water (Kemble) Finance PLC
Thames Water Utilities Cayman Finance Limited
Thames Water Utilities Finance Limited
The 600 Group PLC
The Local Shopping REIT plc
The North American Income Trust plc
Thrones 2013-1 plc
Thrones 2014-1 plc
Tissue Regenix Plc
Top Right Group Ltd
Towergate Finance Plc
Tracsis plc
Transense Technologies plc
Transform Schools (North Lanarkshire) Funding Plc
Transport for London (TFL)
Trifast Plc
TT Electronics plc
Turquoise Card Backed Securities plc
Tyson Midco Ltd
UK WIG II Limited
Ukraine Opportunity Trust plc
Unilever PLC
Unite (USAF) II PLC
Unite Group Plc
United Utilities Group PLC
United Utilities PLC
United Utilities Water PLC
U-POL Finco Limited
Utilico Emerging Markets Limited
Utilico Finance Limited
Utilico Investments Limited
Vancouver Midco 1 Limited
Verdant Leisure Holdings Limited
Vesuvius plc
Victrex Plc
Virgil Mortgage No.1 PLC
Virgin Media Finance PLC
Virgin Money Holdings (UK) PLC
Virgin Money plc
Vitec Group Plc
Volga Gas Plc
Walsall Hospital Company plc
WANdisco Plc
Weatherford Eurasia Limited
Wescot Acquisitions Limited
Wessex Water Service Finance plc
West Bromwich Building Society
WHL 2013 Limited
Williams Grand Prix Holdings PLC
Wincanton plc
Wynnstay Group Plc
Xeros Technology Group Plc
Zanaga Iron Ore Company
Zelda Acquisitions Limited

Appendix 4

Disclosure and Audit Firm Governance Code requirements

Under The Statutory Auditors (Transparency) Instrument 2008 we are required to disclose certain information. The table below shows where these disclosures may be found in this Annual Report.

	Provision of the Instrument	How KPMG LLP and Audit Plc comply with the Instrument
1	A description of the legal structure and ownership of the transparency reporting auditor.	A description of our legal structure and ownership is set out in Appendix 1.1.
2	Where the transparency reporting auditor belongs to a network, a description of the network and the legal and structural arrangements of the network.	A description the network and the legal and structural arrangements of the network are set out in Appendix 1.2.
3	A description of the governance structure of the transparency reporting auditor.	A description of our governance structure is set out on pages 52 and 53 and Appendix 1.1.
4	A description of the internal quality control system of the transparency reporting auditor and a statement by the administrative or management body on the effectiveness of its functioning.	A description of our internal quality control systems is set out on pages 61 to 63 and in Appendix 2. The statement by the Board on the effectiveness of internal controls is included on page 66.
5	A statement of when the last monitoring of the performance by the transparency reporting auditor of statutory audit functions within the meaning of paragraph 13 of Schedule 10 to the Act (as amended by regulation 23 of the Statutory Auditors and Third Country Auditors Regulations 2007 (S.I. 2007/3494)) took place.	A description of the external monitoring process is set out in Appendix 2 and the statement at 2.7.2.1.
6	A list of public interest entities in respect of which an audit report has been made by the transparency reporting auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list.	A list of relevant public interest entities is set out in Appendix 3.
7	A description of the transparency reporting auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted.	A description of our independence procedures is set out in Appendix 2 at section 2.3.2 and the confirmation in relation to the review of independence practices by the Board is included on page 66.
8	A statement on the policies and practices of the transparency reporting auditor designed to ensure that persons eligible for appointment as a statutory auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.	A statement of the policies and practices applied is included on page 126 and are described in Appendix 2.
9	Financial information for the financial year of the transparency reporting auditor to which the report relates, including the showing of the importance of the transparency reporting auditor's statutory audit work.	Financial information is included within this Annual Report in the financial statements including the importance of statutory audit work in note 3 to the financial statements.
10	Information about the basis for the remuneration of Partners.	A description of the basis for Partner remuneration is set out in note 5 of the financial statements.

Appendices
continued

The Audit Firm Governance Code consists of 20 principles and 31 provisions. These principles and provisions are organised into six areas and we have set out in the table below where you can find how we comply with these principles and provisions:

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
A – Leadership	A.1: Owner accountability principle – The management of a firm should be accountable to the Firm's owners and no individual should have unfettered powers of decision. A.1.1: The Firm should establish Board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team. A.1.2: The Firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take. A.1.3: The Firm should state in its transparency report the names and job titles of all members of the Firm's governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details. A.1.4: The Firm's governance structures and management team and their members should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	A.1.1 and A.1.2: Details of our governance structures and management team are set out on pages 52 and 53 and Appendix 1. A.1.3: Biographical details of those members of our governance bodies are set out on pages 54 to 56. A.1.4: The appointment process for Executive and Non-Executive roles is set out on pages 52 and 53 and Appendix 1.
	A.2: Management principle – A Firm should have effective management which has responsibility and clear authority for running the Firm. A.2.1: The management team should have terms of reference that include clear authority over the whole Firm, including its non-audit businesses and these should be disclosed on the Firm's website.	A.2.1: The summary terms of reference for the Executive Management Team are available on our internet site[3] and elsewhere during the year and are summarised in this report.
B – Values	B.1: Professionalism principle – A Firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration. B.1.1: The Firm's governance structures and management team should set an appropriate tone at the top through its policies and practices and by publicly committing themselves and the whole Firm to quality work, the public interest and professional judgement and values. B.1.2: The Firm should have a Code of Conduct which it discloses on its website and requires everyone in the firm to apply.	B.1.1: Quality is one of our key strategic priorities. Our Global Audit Quality Framework (which is described in Appendix 2) provides a solid framework by which we can uphold the values of integrity, objectivity, professional competence and ethics and is fully endorsed by our leadership team. B.1.2: Our Code of Conduct (which incorporates the relevant key principles of the Code) is available on our internet site at the following link[4] and is summarised in Appendix 2.1.
	B.2: Governance principle – A Firm should publicly commit itself to this Audit Firm Governance Code. B.2.1: The Firm should incorporate the principles of this Audit Firm Governance Code into an internal Code of Conduct.	B.2.1: Our Code of Conduct incorporates the relevant principles of the Code.
	B.3: Openness principle – A Firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	B.3: One of our seven core values is "We are open and honest in our communication" (see Appendix 5). We openly encourage our people to share information, insight and advice frequently and constructively and to manage tough situations with courage and candour. Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged (refer to Appendix 2.5.4).

3 Executive Management Team Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/terms-of-reference-for-EXCO.pdf
4 Code of Conduct: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/KPMGUKCodeofConduct.aspx

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
C – Independent Non-Executives	C.1: Involvement of independent Non-Executives principle – A Firm should appoint independent Non-Executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the Firm's decision-making, stakeholder dialogue and management of reputational risks including those in the Firm's businesses that are not otherwise effectively addressed by regulation. C.1.1: Independent Non-Executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the Firm. They should also meet as a separate group to discuss matters relating to their remit. C.1.2: The Firm should disclose on its website information about the appointment, retirement and resignation of independent Non-Executives, their duties and the arrangements by which they discharge those duties and the obligations of the Firm to support them. The Firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent Non-Executives.	C.1, C.1.1 and C.2: See page 56 and Appendix 1 section 1.1.3.7 for details of our Public Interest Committee membership. C.1.2, C.3, C.3.3 and C.3.4: The summary terms of reference for the Public Interest Committee, and other details, are available on our internet site[5] at the following link and are summarised in this report. Further details of the Non-Executives are provided in this Report at page 56 Appendix 1 section 1.1.3.7. C.2.1: This is covered in Appendix 1 section 1.1.3.7. C.3.1: Each independent Non-Executive has a contract. C.3.2: Our Firm has appropriate indemnity insurance in place for our Non-Executives.
	C.2: Characteristics of independent Non-Executives principle – The independent Non-Executives' duty of care is to the Firm. They should command the respect of the Firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. C.2.1: The Firm should state in its transparency report its criteria for assessing the impact of independent Non-Executives on the Firm's independence as auditors and their independence from the Firm and its owners. C.3: Rights of independent Non-Executives principle – Independent Non-Executives of a Firm should have rights consistent with their role, including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the Firm to its owners and, where ultimately this cannot be resolved and the independent Non-Executive resigns, to report this resignation publicly. C.3.1: Each independent Non-Executive should have a contract for services setting out their rights and duties. C.3.2: The Firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent Non-Executive. C.3.3: The Firm should provide each independent Non-Executive with sufficient resources to undertake their duties including having access to independent professional advice at the Firm's expense where an independent Non-Executive judges such advice necessary to discharge their duties. C.3.4: The Firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent Non-Executives and members of the Firm's management team and/or governance structures.	

5 Public Interest Committee Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/terms-of-reference-uk-public-interest-committee.pdf

Appendices
continued

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations	D.1: Compliance principle – A Firm should comply with professional standards and applicable legal and regulatory requirements. D.1.1: The Firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence. D.1.2: The Firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits, including reliance on other auditors whether from the same network or otherwise. D.1.3: The Firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest. D.1.4: The Firm should take action to address areas of concern identified by audit regulators in relation to the Firm's audit work.	Our operational Firms comply with professional standards and applicable legal and regulatory requirements in their country. D.1.1, D.1.2 and D.1.3: Appendix 2 of this Report discusses our policies and procedures in this area including in respect of internal control and internal quality control systems in detail with reference to KPMG Audit Manual (KAM) and the Global Quality & Risk Management Manual. D.1.4: Appendix 2.7.2 sets out the main findings from the most recent publicly available regulators' reports. The regulatory findings are monitored and a summary of key issues arising and the associated action plans was presented at the Board.
	D.2: Risk management principle – A Firm should maintain a sound system of internal control and risk management over the operations of the Firm as a whole to safeguard the owners' investment and the Firm's assets. D.2.1: The Firm should, at least annually, conduct a review of the effectiveness of the Firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems. D.2.2: The Firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary. D.2.3: In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the Firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.	D.2.1, D.2.2 and D.2.3: Details of the internal controls review are set out in Appendix 2 of this Report and the confirmation by the Board is included on page 66.
	D.3: People management principle – A Firm should apply policies and procedures for managing people across the whole Firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code. D.3.1: The Firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement. D.3.2: Independent Non-Executives should be involved in reviewing people management policies and procedures.	D.3.1: Appendix 2.4 covers disclosures in this area. D.3.2: The Public Interest Committee have been involved in a number of areas with regard to people management.

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
D – Operations continued	D.4: Whistle-blowing principle – A Firm should establish and apply confidential whistle-blowing policies and procedures across the Firm which enable people to report, without fear, concerns about the Firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. D.4.1: The Firm should report to independent Non-Executives on issues raised under its whistle-blowing policies and procedures and disclose those policies and procedures on its website.	D.4.1: We operate a whistle-blowing hotline. Quarterly reports were made to our Audit & Risk Committees on new reports in the period. (Refer to Appendix 2.1)
E – Reporting	E.1: Internal reporting principle – The management team of a Firm should ensure that members of its governance structures, including Owners and independent Non-Executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	E.1: Our key governance bodies (including the Public Interest Committee) received timely and relevant information to enable them to discharge their duties.
	E.2: Financial statements principle – A Firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP. E.2.1: The Firm should explain who is responsible for preparing the financial statements and the Firm's auditors should make a statement about their reporting responsibilities. E.2.2: The Firm should report that it is a going concern, with supporting assumptions or qualifications as necessary. E.3: Management commentary principle – The management of a Firm should publish on an annual basis a balanced and understandable commentary on the Firm's financial performance, position and prospects. E.3.1: The Firm should include in its management commentary its principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.	E.2: KPMG LLP publishes audited financial statements prepared in accordance with IFRS, which are included within this Report. E.2.1, E.2.2, E.3 and E.3.1: These disclosures are all included in, or referenced from, pages 72 and 73 of this Report.
	E.4: Governance reporting principle – A Firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance. E.4.1: The Firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.	E.4: This Appendix sets out the required disclosure in this area. E.4.1: All disclosures are included in this Report and will be available on our internet site www.kpmg.co.uk
	E.5: Reporting quality principle – A Firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the Firm's auditors. E.5.1: The Firm should establish an Audit Committee and disclose on its website information on the Committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the Firm's auditors. On an annual basis, the Firm should publish a description of the work of the Committee in discharging its duties.	E.5 and E.5.1: A report on the activities of the Audit & Risk Committee covering the requirements in this area is set out on page 58. Information on the Audit & Risk Committee, including its terms of reference, were on our internet site www.kpmg.co.uk at the following link[6] during the year and are summarised in this Report in Appendix 1 section 1.1.3.4.

6 Audit & Risk Committee Terms of Reference: http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/About/audit-risk-terms-of-reference.pdf

Appendices
continued

	Provision of the Code	How KPMG LLP and Audit Plc comply with the Code
F – Dialogue	F.1: Firm dialogue principle – A Firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns. F.1.1: The Firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of independent Non-Executives in such dialogue.	F.1 and F.1.1: Details on the dialogue our independent Non-Executives have had this year with key stakeholders is summarised in the report from the chair of the Public Interest Committee on pages 67 and 68. Contact details for dialogue about matters covered by the Audit Firm Governance Code was provided on our external website during the year.
	F.2: Shareholder dialogue principle – Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	Not applicable for Auditing firms.
	F.3: Informed voting principle – Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	Not applicable for Auditing firms.

Appendix 5

KPMG's Values

We lead by example	At all levels we act in a way that exemplifies what we expect of each other and our clients
We work together	We bring out the best in each other and create strong and successful working relationships
We respect the individual	We respect people for who they are and for their knowledge, skills and experience as individuals and team members
We seek the facts and provide insight	By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers
We are open and honest in our communication	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour
We are committed to our communities	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities
Above all, we act with integrity	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence