KPMG
cutting through complexity

UK TRANSPARENCY REPORT 2013

KPMG LLP & KPMG AUDIT PLC

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THE KEY KPMG CORE VALUE: "ABOVE ALL, WE ACT WITH INTEGRITY."

1 FOREWORD FROM THE SENIOR PARTNER

"We are governed by only one standard, which is bound up in our public, professional and deep personal interest in providing audits of the highest quality."

Simon Collins
Chairman and Senior Partner

RESTORING TRUST

When I was appointed as Senior Partner last year, I set out a vision for our firm which was one that would see KPMG dominating professional services. So what did I mean by this? Well, at the heart of this vision were two simple words: 'relevance' and 'trust'. We want to be the most relevant firm for our clients, our people and for society. And to do that we must maintain and build further the trust that our stakeholders have in our ability to provide services of the highest possible quality.

SO WHAT IS KPMG DOING TO HELP RESTORE TRUST?

First and foremost – our culture as an audit firm, built over many decades, continues to pervade our firm, and rightly so. Whilst we branch out proudly into other areas, at its heart, our job is about providing statutory audits – we are governed by only one standard, which is bound up in our public, professional and deep personal interest in providing audits of the highest quality. It is at the very heartbeat of what we do. We know that building trust takes years and that if we lose it our brand will be killed in a trice. We are simply not prepared to see that happen – which is why, if ever there are failings at any companies where we are auditors, we continually challenge ourselves around what went wrong and whether as auditors there was more we could or should have done to help identify those issues which led to the failure.

Audit has of course been in the regulatory spotlight for some time now as policymakers try to ensure that the risks that led to the financial crisis, and which took so many by surprise, will not recur. The future has become more settled (certainly in the short term) in the UK now, following completion of the Competition Commission's inquiry and, in particular, its decision to introduce 10 year mandatory tendering for many listed audit clients. However, until the proposed European legislation in relation to the audit market is finalised there will continue to be uncertainty for the accounting profession as to what the medium term outlook will be. Despite this uncertainty, it remains important that our partners and people remain focused on the job in hand – which is that of delivering the best possible quality audit – so as not to undermine the trust that we have established.

But of course the question of trust goes much deeper than the quality of one firm's audits. Society's trust in big business is damaged – as the press never tires of telling us. As one of the major firms in the UK accounting profession we believe that we have a much wider role to play to help restore some of society's trust. I am therefore really proud of the Restoring Trust campaign being led by Tony Cates, our Head of Audit, which you can read more about in this report.

Whilst the requirement to produce an annual Transparency Report has been in place for a number of years, I believe that these reports play a very important role in helping us to communicate to all of our stakeholders on the measures that we take to help to ensure that we only deliver high quality audits. But a written report can never replace the additional insight that comes with discussion. As such I would encourage any of our clients, potential clients, audit committee chairs, investors or indeed any other stakeholder group who wishes to discuss any matter set out in this report not to hesitate to contact us to do so.

Simon Collins
December 2013

MESSAGE FROM THE HEAD OF AUDIT

The press is full of evidence of a breakdown in trust between business and society. High profile collapses during the financial crisis, concern over companies' approaches to tax planning, corporate profits while price increases put pressure on household budgets, stories of high-cost unregulated lenders, the perception of a widening gap between executive pay including bonuses and the wages of the workforce – the list goes on.

It is unsurprising that there exists a strained relationship between businesses and the stakeholders they seek to benefit.

Restoring that trust is essential. A strong UK Plc (both big and small businesses) is key to reinvigorating the economy and restoring growth and widening prosperity. But without sufficient trust those same businesses may not get access, at the right price, to the resources they need to deliver the necessary investment and jobs.

What can auditors do to help restore trust? What, more to the point, can KPMG do? This is a question we have been increasingly asking ourselves over the last year. Our conclusion is that we have a significant role to play – which goes beyond continuing to have an unwavering commitment to delivering high quality audits.

The statutory audit remains at the heart of the stewardship relationship between company and investor, enhancing trust between them, assuring annual financial statements and promoting more efficient access to capital. Although the work of our regulators continues to underline the fact that audit quality in the UK is high, we are absolutely convinced that simply continuing to focus on delivering high quality audits in their current guise simply will not do.

A key reason is that investors and other stakeholders are increasingly looking beyond historical financial statements. They want to better understand the operations and future prospects, including risks and opportunities, of the businesses they are valuing; or of whole sectors. At the same time, in a technology-driven world, traditional financial statements and the wider annual report must evolve if they are to remain relevant communication tools.

2 MESSAGE FROM THE HEAD OF AUDIT CONTINUED

As auditors we are in the privileged position of having unparalleled access to many aspects of corporate operations, well beyond the finance function. I believe that we are ideally placed to enhance the value of wider communications, contributing to the trust that is placed on them; perhaps by providing assurance on financial or non-financial KPIs, on the disclosure of risks (and opportunities) or on forward-looking information. Perhaps even on a real-time basis?

We are prepared to think boldly and to innovate to deliver this.

But any change must meet underlying demand. There have been many regulatory initiatives since the financial crisis unfolded and we believe that the time is right to find a consensus for change. Once more, we find ourselves in a privileged position: interacting with boards, audit committees and investors' representatives, as well as a wide range of other stakeholders including regulators, standard setters, analysts and public interest groups.

We are ideally placed and feel a responsibility to bring those stakeholders together, to provide a forum for the open exchange of ideas on what should change about corporate governance, financial and narrative reporting, audit and assurance, and related topics.

That is why, during 2013, we launched an initiative designed to create a forum for meaningful debate by tackling the big issues in relation to corporate reporting and auditing. Called Restoring Trust, it has already seen the publication of a number of discussion pieces, on which the press and public engagement has been positive.

There are many difficult questions to address: for example going concern, forward-looking information, assurance over KPIs, narrative reporting, and the extent to which Integrated Reporting can be part of the solution. But acknowledging that these are challenging issues is not enough: we need to decide on and actually take the next steps. Fortunately, I believe there is a growing commitment to change. I see inaction as a far greater risk.

At the beginning of 2014, we will be hosting a series of face to face meetings and discussions to maintain the momentum. We will seek wide representation so that alternative views can be explored and, as far as possible, reconciled. We want to achieve a clear mandate for action, based, where possible, on a consensus on how corporate reporting and audit should evolve to meet the needs of investors and other stakeholders.

We are determined that the end result should be some tangible and specific recommendations for change. It is too important to be merely a 'talking shop'. We therefore intend to work closely with regulators such as the Financial Reporting Council (FRC) and standard setters such as the IASB to create audit and corporate reporting models fit for the future. We intend to be active agents for positive change, whether that be gradual evolution or urgent revolution.

On the regulatory front, we have of course already seen a major landmark this year – the publication of the Competition Commission's final decisions on the statutory audit services for large companies. The introduction of mandatory audit tendering every 10 years struck a better balance, we believe, than some earlier proposals. Whilst we continue to believe that 'comply or explain' is the best basis for UK corporate governance, in other regards the Commission's remedies will complement recent FRC changes which have resulted in stronger audit committee engagement, increased audit tendering, and more detailed audit committee and auditor reporting.

With a clear will on many sides to improve the corporate reporting and auditing environment, I am confident that the market will undergo dynamic transformation in the coming years. And through all these changes, trust will be paramount. This is a journey that we at KPMG are absolutely committed to.

Tony Cates

WHO WE ARE

3.1 OUR BUSINESS

KPMG in the UK is a leading provider of professional services including Audit, Tax and Advisory. Our audit services are delivered by the UK Audit function through KPMG LLP and its subsidiary KPMG Audit Plc.

KPMG in the UK in the year to 30 September 2013 had on average 11,300 partners and staff working in 22 offices across Great Britain. In addition to our onshore teams we have over 1,000 junior staff in India who also support the delivery of our services.

KPMG LLP and KPMG Audit Plc follow identical processes for all areas covered by this transparency report. As a consequence a combined transparency report covering both legal entities has been prepared. Further details of our service offerings can be found on our website: www.kpmg.com/uk/en/services/Pages/default.aspx.

3.2 OUR VISION AND STRATEGY

Our vision is simple – it is to become the dominant professional services firm in the UK. We have defined "dominating professional services" as being the most relevant firm for our clients, our people and for society. To do that we must maintain and build further the trust those stakeholders have in our ability to provide assurance in the widest sense. Our strategy to achieve this is underpinned by four key pillars: (i) being an issues-led business – focusing relentlessly on the issues that keep our clients awake at night and that really matter to society, (ii) being market focused – going to market as one firm rather than simply promoting the technical expertise within our individual functions, (iii) maintaining culture and motivation – having a high performance culture where talented people can excel, and (iv) achieving operational excellence – being as efficient, agile and cost effective as we can be without compromising our unwavering commitment to quality.

Further details about our firm's strategy, how we have performed this year, together with analysis of the key risks that we face in our firm and how we seek to mitigate them, are provided in the 2013 KPMG LLP Annual Report which is available at the following link: www.kpmgannualreview.co.uk.

OUR STRUCTURE AND GOVERNANCE

4.1 LEGAL STRUCTURE

KPMG LLP is incorporated as a limited liability partnership under the Limited Liability Partnerships Act 2000. It is controlled by KPMG Europe LLP which, together with a wholly owned subsidiary, KPMG Europe Holdings Limited, holds all the voting rights in KPMG LLP. The capital in KPMG LLP is contributed by its non-voting members (partners) many of whom are also members of KPMG Europe LLP. KPMG Audit Plc, a public limited company registered in England and Wales, is wholly owned (through two intermediate holding companies) by KPMG LLP.

A list of the key entities owned by KPMG LLP (together with KPMG LLP, 'KPMG UK' or 'the Firm'), together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix 2.

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 8.

KPMG Europe LLP (our parent) is itself incorporated as a UK limited liability partnership under the Limited Liability Partnerships Act 2000. It is the holding entity for a number of KPMG member firms in Europe (together, the KPMG Europe LLP group). KPMG Europe LLP is wholly owned by its members (partners) all of whom work in KPMG member firms in specific countries. For regulatory or other reasons KPMG Europe LLP is not the legal owner of all of the operating companies in certain jurisdictions. Further information regarding KPMG Europe LLP is set out in its latest Transparency Report which is available at the following link www.kpmg.com/UK/en/about/AboutKPMG/Documents/kpmg-llp-transparency-report-2012.pdf.

4.2 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. The current Transparency Report for KPMG International is available at the following link www.kpmg.com/eu/en/about/Pages/default.aspx.

During the year to 30 September 2013, there was an average of 583 partners in KPMG LLP (2012: 602 partners).

4.3 GOVERNANCE STRUCTURE

Consistent with our aspiration to be the most relevant, trusted firm of choice, we apply high standards of corporate governance.

Our 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 annually. The current Senior Partner, Simon Collins, was appointed in August 2012 following a competitive election campaign and confidential vote (administered by the Electoral Reform Society) of the members.

The Board

The main governance body for KPMG UK (including KPMG LLP) is the UK Board, which is responsible for the long term growth and sustainability of the Firm. It provides leadership to the organisation, sets the Firm's strategy and oversees its implementation, monitoring performance against our business plan.

The UK Board consists of 16 members: 10 Executive Members and six Non-Executive members.

Following the appointment of the Senior Independent Non-Executive member by the Senior Partner, the remaining Non-Executive members were elected to the Board following a vote of the partners. The Non-Executive members of the Board will serve two and three year terms up to a maximum of six years. Appointments and re-election are subject to the agreement of individual members at the Annual General Meeting. Formally all members of the UK Board are appointed by KPMG Europe LLP as the controlling member. The UK Board met formally eight times in the year to 30 September 2013.

4 OUR STRUCTURE AND GOVERNANCE CONTINUED

The Executive Management Team

Management of the day-to-day activities is undertaken by the Executive Management Team, 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 LLP. The members of the Executive Management Team are appointed by the Senior Partner and during the year ended 30 September 2013, in addition to the Senior Partner, included the Chief Operating Officer & Head of People, the Head of Audit, the Head of Markets (Regions), the Head of Advisory, the Head of Markets (Financial Services), the Head of Tax & Pensions, the Head of Markets (Sectors), the Head of Corporate Affairs and the Head of Quality & Risk Management.

In the year to 30 September 2013 the Executive Management Team met formally 12 times supplemented by frequent additional telephone calls and ad hoc meetings.

The Audit & Risk Committee

The key responsibilities of the Audit & Risk Committee are to monitor the integrity of KPMG UK's financial reporting system, internal controls and risk management framework and to oversee the relationship with our Statutory Auditors (including recommending their appointment, removal and remuneration as well as monitoring their independence and effectiveness). During the year ended 30 September 2013, the Audit & Risk Committee consisted of three of the Non-Executive members of the Board, one of whom was appointed as Committee Chairman by (and for a term determined by) the Senior Partner with the approval of the Board. The Audit & Risk Committee met six times in the year to 30 September 2013.

A report on the activities of the Audit & Risk Committee in the year is provided in the 2013 UK Annual Report.

The Nomination and Remuneration Committee

The key responsibilities of the Nomination and Remuneration Committee are to establish a framework for nominating members to the UK Board, to review and monitor the implementation of the process for profit allocation and distribution for UK members and to make recommendations of the total remuneration of the UK Senior Partner and the Executive Management Team.

During the year ended 30 September 2013, the Nomination and Remuneration Committee consisted of three Non-Executive members of the Board, one of whom was appointed as Committee Chairman whose appointment as such is ratified by the Board. The Nomination and Remuneration Committee met formally eight times in the year to 30 September 2013.

Further details of the members of the UK Board, the UK Executive Management Team, the Audit & Risk Committee and the Nomination and Remuneration Committee including their background and meeting attendance are set out in Appendix 3 of this report.

The Public Interest Committee

On 1 October 2010, in accordance with the requirements of the UK Audit Firm Governance Code, our parent KPMG Europe LLP established a Public Interest Committee consisting of three external non-executives – Sir Steve Robson (Chair), Dr Alfred Tacke and Tom de Swaan – all of whom were appointed from outside of the KPMG Europe LLP group. During the year to 30 September 2013, the Committee, which was responsible for overseeing the public interest aspects of decision making of our group including the management of risks, met five times. A report from the chair of the Public Interest Committee on their activities in the year is provided in Appendix 1.

Consistent with the streamlined and more decentralised governance changes which have been recently introduced at our parent (further details of which are provided below) which will result in the key decisions around quality, risk and public interest being predominantly exercised at national level – it has been determined that the Public Interest Committee should no longer operate at group level, rather equivalent committees should be established nationally where there is a requirement to do so. As such, the KPMG Europe LLP Public Interest Committee ceased to operate on 1 November 2013 and a new UK Public Interest Committee with responsibility solely for KPMG UK was established on the same date. Sir Steve Robson has agreed to stay on to chair the UK Public Interest Committee. Details of the current members of the new Public Interest Committee (who include Philip Augar, Professor Laura Empson and David Pitt-Watson in addition to Sir Steve Robson) together with its terms of reference are available at the following link www.kpmg.com/UK/en/about/AboutKPMG/Pages/Leadership.aspx.

Communication with the members

The UK Senior Partner and Chief Operating Officer have primary responsibility for communication with the partners in the UK. They do this through a number of mechanisms including face to face quarterly partners meetings that are held at different locations throughout the year and to which all partners are invited. In addition, all members are invited to the annual general meeting which is held each December to discuss a range of topics including the results for the year and the business plan. Where there is an immediate need to communicate matters then an all partner voice mail message facility is used, or exceptionally town hall meetings convened. Finally, all members receive a monthly report from the Chief Operating Officer, setting out the key aspects of operational performance.

Governance arrangements in our parent

The main governing body of our parent KPMG Europe LLP is a unitary Board. It can exercise all the powers of KPMG Europe LLP except for a small number of matters principally affecting the structure and composition of the group, which require a vote of the members.

During the year to 30 September 2013, there were five main bodies that dealt with key aspects of governance within the KPMG Europe LLP group that report into the Board. These were:

- The Executive Committee;
- The Quality & Risk Committee;
- The Public Interest Committee;
- The Audit Committee; and
- The Nominations and Remuneration Committee.

As described in Section 8, all KPMG International member firms (including KPMG LLP and KPMG Europe LLP) belong to one of three regions – Asia Pacific (ASPAC), the Americas or Europe, Middle East and Africa (EMA). KPMG Europe LLP and its key operating firms all belong to the EMA region. In September 2013, the KPMG Europe LLP Board proposed and the members approved via a member vote a number of steps to adapt its governance and management structure to enable greater alignment with the broader EMA regional structure. This resulted in a more streamlined governance structure for KPMG Europe LLP which was effective from 1 October 2013.

Further details of these changes, together with additional details of the roles and responsibilities of the key governance bodies at our parent are set out in the 2013 KPMG Europe LLP Transparency Report which will be available in early 2014 at the following link www.kpmg.com/eu/en/about/Pages/default.aspx.

Audit Firm Governance Code

Since its introduction, the KPMG Europe LLP Board has adopted the provisions of the Audit Firm Governance Code (the 'Code') across the KPMG Europe LLP group. Accordingly, details of how we comply with the provisions of the Audit Firm Governance Code are set out in the latest KPMG Europe LLP Transparency Report. However, given the recent changes in governance described above, it has been determined that it is no longer appropriate to seek to adopt the Code at group level – as such with effect from 1 November 2013 KPMG LLP will comply with the provisions of the Code at national level.

4.4 LEADERSHIP RESPONSIBILITIES FOR QUALITY AND RISK MANAGEMENT

While we stress that all professionals are responsible for quality and risk management, the following individuals have leadership responsibilities for this.

Senior Partner

In accordance with the principles in International Standard on Quality Control 1 (ISQC1), our Senior Partner – Simon Collins – assumes ultimate responsibility for KPMG LLP's system of quality control. Details of some of the measures that he and the rest of the UK Board have taken to ensure that a culture of quality prevails within KPMG LLP are set out in Section 5.

Head of Quality & Risk Management

Operational responsibility for the system of quality control, risk management and compliance in KPMG LLP 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 the Executive Management Team of KPMG LLP which underlines the importance that our Firm places on risk and quality issues. The UK Head of Quality & Risk Management is David Matthews. He is supported directly by a team of partners and professionals (including partners with specific responsibility for each of the client service functions referred to in the following paragraph, all of whom are supported by a function risk team).

Heads of client service functions

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

Each function is committed to the principle of continuous improvement and this is embedded through a number of processes. In the case of the Audit function, the Audit leadership team meets on a monthly basis and these meetings include regular discussions (led by the Audit Quality & Risk Management Partner) about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams and other quality matters identified from a variety of sources. These are debated, other observations collected from client facing teams are considered and actions agreed. Typically most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to our global audit methodology or audit tools) these will be developed in conjunction with our Global Services Centre and International Standards Group.

In addition to these regular meetings, within the Audit function, we have established our Audit Quality Forum to consider matters relating to maintaining and improving quality in the UK Audit function. The Audit Quality Forum comprises the UK Head of Audit, the Audit Chief Operating Officer, the leaders of the Department of Professional Practice (DPP) Auditing and DPP Accounting & Reporting, the Audit Quality & Risk Management Partner and the UK Quality Performance Review Liaison Partner. The Audit Quality Forum met five times during the year ended 30 September 2013, and considered the detailed findings (and related actions) from external regulatory reviews, the internal Quality Performance Review (QPR) programme and other quality control programmes as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement. These included consideration of enhancements to how we monitor, assess and reward quality, the appointment and capacity of Engagement Quality Control Review Partners (see Section 5.6.1.5), trend analysis around the quality performance metrics for engagement leaders and managers and any lessons learned for our Audit function from failures at companies for whom we are auditors.

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.

5 SYSTEM OF QUALITY CONTROL

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 KPMG member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

KPMG UK implements KPMG International policies and procedures and adopts 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 (US PCAOB).

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations and professional standards.

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

While many KPMG quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relate to audit and the remainder of this section focuses on what we do to ensure the delivery of quality audits.

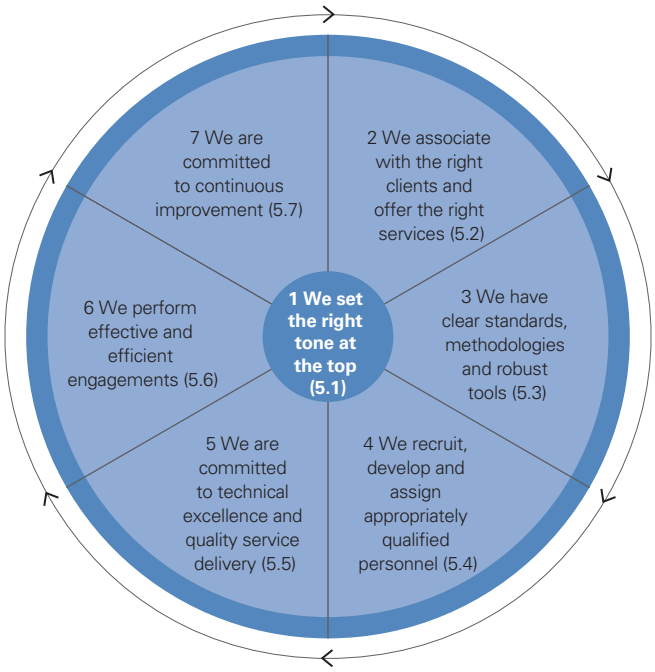
At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing 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.

Our Audit Quality Framework identifies seven drivers of audit quality:

- Tone at the Top;
- Association with the right clients;
- Clear standards and robust audit tools;
- Recruitment, development and assignment of appropriately qualified personnel;
- Commitment to technical excellence and quality service delivery;
- Performance of effective and efficient audits; and
- Commitment to continuous improvement.

AUDIT QUALITY FRAMEWORK



Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our firm. All of the other drivers are presented within a virtuous circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly.

Each of the seven drivers is described in more detail in the following sections of this report.

5.1 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 demonstrate and communicate their commitment to quality, ethics and integrity. Our Audit Matters publication is released every month to all partners and staff in the UK Audit function as well as, by request, to some others outside of the Audit function. In addition to Audit Matters, we issue regular technical bulletins addressed to all audit professionals to cover emerging issues, new developments and key technical and quality messages.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – "Above all, we act with integrity". For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to our clients and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices at KPMG. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to partner. Our Core Values are set out in Appendix 5.

Our Code of Conduct incorporates our Core Values, and defines the standards of ethical conduct that we require from our people. The Code of Conduct was 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 2013 12 matters which required investigation were reported to the UK hotline (2012: 10 cases reported). 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 2013 report concluded that all matters reported to the hotline were treated seriously and extensive investigations undertaken.

5.2 ASSOCIATION WITH THE RIGHT CLIENTS

5.2.1 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.

5.2.2 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.

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. Section 5.3.2 provides more information on our independence and conflict checking policies.

5.2.3 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).

5.3 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.

5.3.1 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.

5 SYSTEM OF QUALITY CONTROL CONTINUED

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, high-quality audits. eAudIT has been deployed to all audit professionals in KPMG UK and is regularly updated to add additional functionality to support the efficient and effective delivery of quality audit services. eAudIT's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to our stakeholders. The key activities within the eAudIT workflow are:

1 Engagement setup
- Perform engagement acceptance and scoping; and
- Determine team selection and timetable.

2 Risk assessment
- Understand the entity;
- Identify and assess risks;
- Plan for involvement of KPMG specialists and external experts, internal audit, service organisations and other auditors as required;
- Evaluate design and implementation of relevant controls;
- Conduct risk assessment and planning discussion; and
- Determine audit strategy and planned audit approach.

3 Testing
- Test operating effectiveness of selected controls; and
- Plan and perform substantive procedures.

4 Completion
- Update risk assessment;
- Perform completion procedures, including overall review of financial statements;
- Perform overall evaluation, including evaluation of significant findings and issues;
- Communicate with those charged with governance (for example the Audit Committee); and
- Form the audit opinion.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages the use of specialists when appropriate and also requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements. The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual that is applicable to all KPMG member firms, functions and personnel.

5.3.2 Independence, integrity, ethics and objectivity

5.3.2.1 Overview

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics and incorporate, as appropriate, the Securities & Exchange Commission (SEC), US PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with standards issued by the FRC's Audit & Assurance Council (formerly known as the Auditing Practices Board).

These policies and processes cover areas such as firm independence (covering for example treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation, and approval of audit and non-audit services. In the UK, the Head of Quality and Risk Management is designated as the Ethics Partner and in turn is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are set out on our intranet hosted Quality & Risk Management Manual, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk management communications.

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 (Section 5.4.3). 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.

5.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics 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 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 the system, which automatically notifies them if their investments subsequently become restricted. We monitor partner and manager compliance with this requirement as part of a programme of independence compliance audits of a sample of professionals. In 2013, 208 (2012: 224) of our people were subject to these audits (this included approximately 10% (2012: 12%) of our partners).

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.

5.3.2.3 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.

5.3.2.4 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 FRC Audit & Assurance Council's Ethical Standards (FRC's Ethical Standards) and the IESBA Code of Ethics (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.

5.3.2.5 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.

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.

5.3.2.6 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 of Ethics and also require our Firm to comply with any stricter applicable rotation requirements, which in the UK means we also comply with the FRC's Ethical Standards. We monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) 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.

5.3.2.7 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 FRC's Ethical Standards and the IESBA Code. 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.

5.3.2.8 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise if the total fees from an entity to whom we are auditor represent a large proportion of the total fees of the operating 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.

5.3.2.9 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.

5.3.2.10 Compliance with laws, regulations, and anti-bribery and corruption

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct to all client-facing partners and employees on joining the firm, and every two years thereafter. The same training is also provided to certain other non-client facing personnel (such as those who work in finance, procurement or sales and marketing). The most recent training took place in 2013.

We undertake regular risk assessments in line with best practice to satisfy ourselves that we have anti-bribery systems and controls in place which meet the requirements of the legislation.

5.4 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.

5 SYSTEM OF QUALITY CONTROL CONTINUED

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the client. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

We believe it is essential to attract and retain the best people. The staff turnover rate for our exceptional rated performers in the year ended 30 September 2013 for KPMG LLP remains low at 8.9% (2012: 7.4%).

5.4.1 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 2,300 new people in the year ended 30 September 2013 (2012: approximately 2,000).

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.

5.4.2 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 Section 5.5.1).

An international and UK partner development framework provides blended learning solutions via coaching, mentoring and senior level training programmes across the partnership. Partners are encouraged to make use of these development opportunities, and also to actively identify and manage talent and to act as role models for the development of other partners and staff.

All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. The Career Paths portal provides information about roles and career options across the Firm along with learning paths and tools to help individuals and their managers progress their careers. To support career and professional development there is a range of core skills programmes covering skills and behaviours that provide performance improvement and ensure that individuals reach their full potential. The Firm uses the 70/20/10 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 we provide training via online learning and virtual classrooms with the introduction of Learning Bites to provide just in time accessible learning to all our employees wherever they are based.

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.

5.4.3 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 currently 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 are awarded a grading based on how well they have performed in meeting their objectives. This grade directly 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 are awarded a grading based on how well they have performed in meeting their individual objectives. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics which are described in further detail below.

All engagement leaders are issued with standardised quality and risk metrics which are one of the inputs to the annual counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. As part of these metrics, an overall red, amber or green grading is awarded. The 2013 results indicate generally a good level of quality and risk compliance across our whole firm and are consistent with those arising in 2012 – in particular 95% of our engagement leaders were awarded a green metric, 4% amber and 1% red.

The action taken in respect of any partner with amber and red ('adverse') quality and risk metrics is dependent upon the cause of the adverse metric initially. The range of actions that can be taken includes remediation of the initial deficiency giving rise to the adverse metric, remedial training, one-to-one counselling with functional leadership and/or quality and risk partners on the issue arising, or ultimately the suspension of signing rights. As explained in Section 7 below, adverse risk metrics result in a reduction in the overall compensation paid to the partner concerned.

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.

5.4.4 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.

5.4.5 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. This procedure includes a business case and a personal case for the individual candidate. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality, and being an employer of choice. Anyone who is being considered for promotion to partner is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values. Similarly, attitude to quality and risk is explored for any external partner hires that we are considering.

In the year ended 30 September 2013, KPMG LLP recruited 9 new partners from the external market (2012: 25) and promoted 30 from within the Firm (2012: 28).

5.4.6 Assignment

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement on the basis of their skills, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience, accreditation and capacity based on the results of the annual partner portfolio review (see below) to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving local specialists or those from other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the audit engagement leader's considerations may include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory requirements;
- Appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgement; and
- An understanding of KPMG's quality control policies and procedures.

As an additional control in Audit, the UK Audit Quality & Risk Management Partner oversees an annual review of risks facing the Audit function which involves the UK Head of Audit, the UK Audit Chief Operating Officer and each UK regional Head of Audit. Each regional Head of Audit (or their approved delegate) meets every audit engagement leader in their region to perform a review of their portfolio and workload (the Partner Portfolio Review process). The purpose of this process is to understand the risks being faced by the Audit function and ensure any remediation measures are put in place. As part of the individual engagement leader meetings the regional Head of Audit will look at the complexity and risk of each audit against the backdrop of other factors relating to the individual and their workload, and will consider whether or not taken as a whole the specific engagement leader has the appropriate time, suitable experience and the right level of support to enable them to perform a high-quality audit for each client. This process takes into account the findings of internal and external reviews and the quality and risk metrics.

5.5 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.

5.5.1 Technical training

In addition to personal development discussed at 5.4.2, 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 annual update training for qualified and experienced staff and partners.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme.

The Audit Learning and Development team works with subject experts to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis. In developing training materials they have regard to emerging market developments, matters identified through internal and external reviews and common queries raised through internal consultation processes.

Delivery of training is through a blend of classroom, e-learning and virtual classroom. Certain training programmes also include a test that is required to be passed prior to completion of the training.

Audit training is mandatory and completion 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 5.5.2). 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.

5.5.2 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 and Corporate Finance services) 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.

5.5.3 Access to specialist networks

Our engagement teams have access to a network of local 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.

5.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting – this is crucial in terms of the support that it provides to the Audit function. It provides technical guidance to client service professionals on specific engagement-related matters, develops and disseminates specific topic-related guidance on emerging local technical and professional issues and disseminates international guidance on International Financial Reporting Standards (IFRS) and ISAs (UK & Ireland).

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists via a technical or client panel. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP Accounting & Reporting, Head of Quality & Risk Management or ultimately the national Senior Partner (or appropriate nationally qualified delegates).

Technical support is also available through the International Standards Group (ISG) as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting Group based in London.

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

5.5.5 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.

5.6 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.

5.6.1 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;
- 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.

5.6.1.1 Timely partner and manager involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgement and significant risks.

The engagement leader is responsible for the final audit opinion and reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities and in the day-to-day liaison with the client and team.

5.6.1.2 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. We continue to deliver training on professional judgement for senior staff and partners as necessary.

5.6.1.3 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.

5.6.1.4 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 judgments 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.

5.6.1.5 Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

Our EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the engagement team. They are experienced audit professionals who are independent of the engagement team and are required to be involved at crucial stages throughout the audit. They offer an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Head of Quality & Risk Management or the UK Head of Audit. Accreditation to act as an EQC reviewer is granted to appropriate individuals by the UK Audit Quality & Risk Management Partner and the EQC reviewers for individual engagements are proposed by the regional Heads of Audit and ratified by the UK Audit Quality & Risk Management Partner. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and client communications;
- Appropriateness of the financial statements and related disclosures; and
- The significant judgements that the engagement team made and the conclusions it reached with respect to the audit.

The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;
- Incorporating specific procedures into eAudIT to facilitate effective reviews;
- Releasing periodic mandatory e-learning modules covering EQC reviews (last released in November 2013); and
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review process (see Section 5.4.6) to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

5.6.1.6 Clear reporting of significant findings

Auditing standards and the Companies Act 2006 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced audit engagement leaders arrive at all audit opinions based on the audit performed.

In preparing audit reports, engagement partners have access to extensive reporting guidance and technical support through consultations with DPP Accounting & Reporting, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

5.6.1.7 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 on matters of interest to Audit Committees (such as the 2013 ACI Audit Committee Handbook) as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Today the ACI in the UK has more than 2,500 members across both the private and public sectors and provided around 40 seminars, workshops and roundtables for Audit Committee members, Risk Committee members and other Non-Executive directors during 2013. We now live in a world where the expectations on Audit Committees continue to increase; this year we have seen increased expectations placed on them by the FRC and the Competition Commission proposals to open up the audit market for FTSE 350 audits, and as such the work of the ACI is more relevant than ever.

5.6.1.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits e.g., emerging markets and business environments that may be subject to heightened fraud risks.

5.6.2 Client confidentiality, information security and data privacy

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties.

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training, and the annual independence/confirmation process, which all of our professionals are required to complete.

Our security requirements are set out in the Global Information Security Policies and Standards published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Risk and Security Office.

As part of these Global requirements, the Firm has a National IT Security Officer (NITSO), with the necessary authority, skills and experience to lead the information security function. Our NITSO is in charge of our information security programme and works closely with Quality and Risk Management. The NITSO also reports to IT Senior Management and also to the Global IT Security Officer and Global Head of Information Protection.

In addition KPMG LLP is certified to ISO27001, the international standard for Information Security Management. The scope of our certification includes our IT processes, IT business assets, client data in core systems, offices and physical locations. Obtaining and maintaining ISO27001 is part of our commitment to information security. We are independently audited against the standard at six monthly intervals by an accredited external third party.

An Information Security Oversight Committee (ISOC) is in place to provide overall direction and monitoring on information security matters. This Committee is chaired by a senior member of the Quality & Risk Management team and has representatives from a number of departments including; IT Services (including our NITSO), HR, Facilities, Business Continuity, and a representative from Forensic Technology. The Committee 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 Information Security Policy – this policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG, and client confidential information. Data privacy policies are also in place governing the handling of personal information.

5.7 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.

5.7.1 Monitoring

5.7.1.1 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'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 Section 8 for further details).

We also perform ongoing compliance testing, the results of which are now presented to the Executive Management Team and the Audit & Risk Committee on a six monthly basis.

Quality Performance Reviews (QPRs)

The QPR Programme is the cornerstone of KPMG's efforts to monitor engagement quality and one of the primary means of ensuring that member firms collectively and consistently meet both KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three year cycle. The reviews are tailored to the relevant function, performed at functional level, overseen by a Lead Reviewer from outside of the UK firm, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and operating firm level. We disseminate our findings from the QPR Programme to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

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 that our regulators will be sufficiently confident in the comparability of the two programmes that they will be able to rely on the results of our QPR programme and thereby reduce the number of independent reviews that they need to complete. In order to obtain greater visibility of how the process operates the Audit Quality Review (AQR) team monitored our Audit QPR process performed during the summer of 2013. We welcome their feedback on this key process.

Overview of 2013 Quality Performance Reviews Results

	Number of engagements reviewed (2012)	% of engagement leaders reviewed (2012)
Audit	124 (118)	39% (38.5%)
Tax	229 (205)	42% (37%)
Advisory	196 (256)	31% (32%)

Audit

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 all comply with our internal policies, applicable auditing standards and legal and regulatory requirements and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate.

A 'Performance Improvement Necessary' grading is attributed where the auditor's report is generally supported by the work performed, and is not incorrect in any material respect but where improvements are necessary in some areas including with respect to the documentation of the work performed. An 'Unsatisfactory' grading is attributed where the engagement was not performed in accordance with the Firm's policy and professional standards in a significant area, in particular where there are significant deficiencies either in the financial statements themselves, the audit work paper documentation or the actual work undertaken.

In our 2013 Audit QPR programme, 87% of engagements reviewed were graded as 'Satisfactory', 6% of engagements were graded as 'Performance Improvement Necessary' and 7% of engagements were graded as 'Unsatisfactory'. This compares with comparative scores for the 2012 programme of 93% 'Satisfactory', 5% 'Performance Improvement Necessary' and 2% 'Unsatisfactory' respectively. 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. We have considered carefully the trend suggested by these results and reviewed the root causes of the issues that impacted those engagements identified as less than satisfactory in some detail. Half of the increase in 'Unsatisfactory' graded engagements this year related to a similar issue affecting several engagements which has subsequently been addressed. In addition to engagement level steps we have developed a set of actions to address these root causes.

Despite the lower proportion of 'Satisfactory' engagements there was a general decrease this year in the absolute number of issues raised per engagement reviewed and some common recurring issues that were seen in previous years' QPR programmes were encountered less frequently in 2013.

In terms of remedial actions, all engagement leaders receiving a 'Performance Improvement Necessary' grading are considered for review either in the current year or in the following year and engagement leaders receiving an 'Unsatisfactory' rating will generally be subject to a review of another of their engagements in the current year and are subject to review in the following year. In addition, the ratings from the annual QPR exercise are included in the annual quality and risk metrics issued for all engagement leaders for all functions (as described in Section 5.4.3).

To accelerate feedback from the QPR process for 2014 we are performing approximately one third of the planned reviews much earlier in the cycle then we would have historically. This change allows us to feed back findings on a more timely basis thus driving continuous improvement. Group audit engagement leaders are notified of less than satisfactory engagement ratings on their respective cross border engagements. Additionally, group audit engagement leaders of parent companies/head offices are notified when a subsidiary/affiliate of their client group is audited by a KPMG member firm where significant quality issues have been identified during the Audit QPR programme.

Tax & Advisory

In Tax and Advisory, the functions follow a similar three-tier engagement grading system. In Tax, engagements are graded 'Satisfactory', 'Performance Improvement Necessary' or 'Unsatisfactory'. In 2013, 85% of Tax engagements were graded as 'Satisfactory', 14% graded as 'Performance Improvement Necessary' and 1% of engagements were graded as 'Unsatisfactory'. This compares with comparative scores for the 2012 programme of 85% graded as 'Satisfactory', 13% graded as 'Performance Improvement Necessary' and 2% of engagements graded as 'Unsatisfactory'. In the majority of instances the 'less than satisfactory' ratings arose due to issues with compliance with internal KPMG policy or process rather than any underlying significant quality related matters.

In Advisory, engagements are graded 'Green', 'Amber' or 'Red'. In 2013, 89% of Advisory engagements were graded as 'Green', 7% were graded 'Amber' and 4% of engagements were graded as 'Red'. This compares with scores for the 2012 programme of 89% graded as 'Green', 3% as 'Amber' and 8% as 'Red'.

As in Audit, receiving an 'Unsatisfactory' or 'Red' grading does not necessarily mean that the advice issued was incorrect. Indeed the majority of issues raised in Advisory that led to the red ratings were generally in relation to internal compliance issues rather than underlying significant quality related matters.

Risk Compliance Programme (RCP)

The RCP is a member firm's annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document firm-wide/cross functional compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

Member firms are required to self-assess their overall levels of compliance as 'Green', 'Yellow' or 'Red'. A 'Green' grade indicates that the firm is substantially compliant with KPMG's policies and procedures and where there are issues identified these are minor and isolated and are acted on promptly.

A 'Yellow' grade also indicates that the firm is substantially compliant with KPMG policies and procedures. Although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the firm as a whole. A 'Red' grade indicates that there are serious deficiencies.

The overall self-assessment grading also recognises any risk management compliance failings that were noted as part of the national functions' QPR programmes. In considering the impact of these on the overall firm-wide self-assessment grading, consideration will be given to how pervasive these failings were both within the function itself and also across the whole of the Firm.

In the 2013 programme, we tested some 150 controls of which we assessed 91% to be effective and some 9% to be only partially effective. Where the controls were assessed as partially effective, this was largely as a result of some instances of non-compliance with KPMG internal policies rather than external regulators' requirements. As a consequence, we have self-assessed our overall levels of compliance as 'Yellow' (2012: Green) to reflect that some improvement in compliance with certain areas of our internal standards was required (in particular in Tax and parts of Advisory).

Global Compliance Review Programmes (GCRs)

GCRs are performed by reviewers independent of the member firm led by the Global Compliance Group and are carried out once in a three-year cycle. These reviews 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 January 2013. The review identified a small number of opportunities for improvement, including some areas previously identified by the UK firm's own compliance and quality control processes. The most significant incremental comments related to the conduct and documentation of the firm's self assessment in the 2012 RCP, all of which have been addressed in the execution of the 2013 RCP.

5.7.2 External monitoring

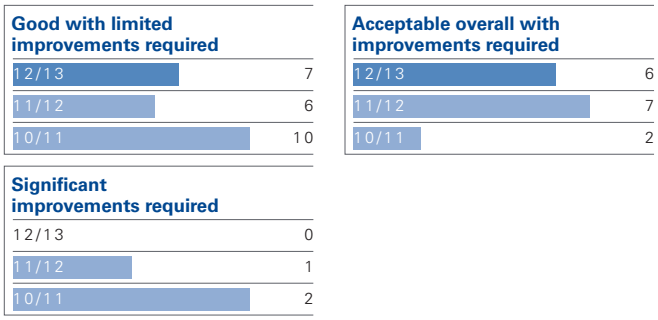
5.7.2.1 Audit Quality Review

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 2012/13 inspection of the Firm in January 2013 and the Firm's audit registration was renewed in June 2013. The public report on the inspection was released in May 2013 and the report and our response, included within Appendix B of the report, are available at www.kpmg.com/uk/en/services/audit/pages/default.aspx.

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 highlighted some key areas for action which are set out below.

The results from the engagement review inspections for the year were as follows:

EXTERNAL MONITORING



The AQR's key messages were that KPMG should:

- Undertake a detailed review of the firm's ethical policies, procedures, guidance and training and ensure that improvements are achieved in the awareness of and attention to ethical matters and in dealing with them in practice.
- Strengthen the testing of general IT controls, particularly for financial services entity audits, for example by undertaking additional work when control deficiencies are identified.
- Reinforce the firm's approach to the audit of specific and collective impairment provisions on financial service entity audits, ensuring that audit work is extended when issues are identified or when further supporting evidence should be sought.
- Provide clarification to audit teams regarding what work may be performed by off-shore staff and enhance the monitoring of their use.
- Review the firm's methodology for sampling for substantive testing purposes, particularly when "specific item testing" is undertaken, and issue further guidance to ensure audit teams undertake appropriate audit procedures over residual balances.
- Strengthen the firm's policies and procedures in relation to Engagement Quality Control Reviews.

We have already taken action in all these areas and in the other areas where the AQR has made recommendations, apart from a recommendation that our technical department formally signs off on all matters raised in their pre-issuance reviews. In respect of this matter we have responded formally to the AQR as to why we do not believe that this is appropriate.

5.7.2.2 FRC disciplinary proceedings

During the year, the FRC commenced disciplinary investigations in respect of two specific matters which predominantly gave rise to the AQR's recommendation that we undertake a review of our ethical practices. The first matter relates to the untimely disposal of a shareholding in a client entity by one of our partners. In this regard, it is noted that on becoming aware of the matter, the leadership of the Firm took action in relation to the partner concerned and initiated a review of procedures to ensure that lessons are learnt and applied. The second matter relates to the question as to whether or not a former partner of our firm joining an audit client was in the chain of command and therefore impaired our independence as auditors. In this regard, we believe that the partner concerned was not in the chain of command and therefore his acceptance of a role at the audit client did not impair our independence.

As announced on 6 March 2012, the FRC has an open investigation in relation to our audit of Equity Red Star Motor Syndicate 218 Report and Accounts for the years ended 31 December 2007, 2008 and 2009 with particular reference to technical provisions.

On 1 August 2013, the FRC announced that it had closed its investigation into audits and professional services advice provided by the Firm to BAE Systems plc and subsidiaries during the period 1997 to 2007.

5.7.2.3 ICAEW Quality Assurance Department and Practice Assurance reviews

In addition, the Quality Assurance Department (QAD) of the ICAEW undertakes inspections of those audits which sit outside the remit of the AQR team. The Firm receives a private annual report from the QAD documenting their findings.

The overall conclusion in this report was that the audit work on the files they reviewed was of an overall good standard. Eight of the 10 files were either satisfactory or generally acceptable. The other two files reviewed required some improvement. None of the files reviewed required significant improvement. The reviews identified a small number of areas for action (which we have plans in place to address) as well as noting some areas where improvements had been made since their last inspections.

5.7.2.4 Other

Our firm is also registered with the US PCAOB, the Japanese Financial Services Authority and the Canadian Public Accountability Board (CPAB). During the year, the PCAOB inspected KPMG Audit Plc. Whilst the PCAOB's field work is complete, we have not yet received a draft of the PCAOB's formal report from this inspection[1]

We are also required to be registered with the Jersey and Guernsey Financial Services Commissions in respect of Crown Dependency registered Market Traded Companies. As part of this registration the AQR are required to include in their annual inspection one or more of the audit engagements meeting these criteria.

In the 2012/13 inspection one such entity was subject to review and included within the AQR report referred to in Section 5.7.2.1 above.

We were notified that our re-registration with both the Jersey and Guernsey Financial Services Commissions was successful during 2013.

5.7.2.5 Client feedback

In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this programme is considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

During late 2012, a Client Council was established to both challenge and support the new UK Senior Partner and leadership ensuring that clients and quality of client service are at the heart of decision making. The work of the Client Council includes consideration of the client service reviews processes and continued innovation to anticipate and influence client issues.

5.7.2.6 Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received from clients relating to the quality of our work. These procedures are detailed on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Head of Quality & Risk Management.

5.7.2.7 Interaction with regulators

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

In respect of KPMG Europe LLP countries a forum has been established, referred to informally as the 'College of Regulators', which consists of representatives from the Regulators of many members of our group including from the UK. The College liaises with our group to increase mutual understanding of our key areas of focus.

In the UK, the Head of Audit and the Audit Quality & Risk Management Partner have regular meetings and ongoing dialogue with the AQR team of the FRC who are 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.

1 The report from the PCAOB inspection in the UK is not yet available but will be published at the following link: www.pcaobus.org/Inspections/Reports/Pages/Default.aspx.

6 FINANCIAL INFORMATION

FINANCIAL INFORMATION

TRANSPARENCY REPORT 2013

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.

The disclosures below meet both requirements. Segmental analysis is not included in the financial statements of either KPMG LLP or KPMG Audit Plc since neither entity is required to include such disclosures under International Financial Reporting Standards. The information below is extracted from KPMG financial reporting systems and is consistent with segmental analysis presented in the 2013 UK Annual Report, the group financial statements incorporating both KPMG LLP and KPMG Audit Plc.

2013 revenue

	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	189	255	2	446
Other assurance work	4	31	–	35
	193	286	2	481
Tax	–	378	(3)	375
Risk Consulting	1	254	9	264
Management Consulting	–	205	61	266
Transactions & Restructuring	6	372	18	396
	200	1,495	87	1,782
Operating profit				
Audit and directly related services	22	37	1	60

6 FINANCIAL INFORMATION CONTINUED

2012 revenue

	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments £m	Total £m
Audit and directly related services	195	235	1	431
Other assurance work	5	33	–	38
	200	268	1	469
Tax	–	383	(3)	380
Risk Consulting	–	242	8	250
Management Consulting	–	221	46	267
Transactions & Restructuring	6	392	10	408
	206	**1,506**	**62**	**1,774**
Operating profit				
Audit and directly related services	19	25	1	45

Certain activities were reclassified between Management Consulting and Transactions & Restructuring during the year and comparatives have therefore been restated accordingly.

Audit and directly related services are considered to meet the definition of 'reportable segment' as set out in the Voluntary Code.

The operating profit for the reportable segment 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.

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

	2013 £m	2012 £m
Audit and directly related services for audit clients	**446**	431
Non-audit services for audit clients	**276**	316
Non-audit services for non-audit clients	**1,060**	1,027
	1,782	1,774

PARTNER REMUNERATION

Remuneration

Partners are paid out of the distributable profits of the Firm (such profits being determined by the KPMG LLP Board) and are personally responsible for funding pensions and most other benefits.

During the year the partners of KPMG LLP approved revisions to the partner remuneration model. The revised 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 partners regarding their own remuneration and that of other partners at the start of the year.

A member's remuneration generally comprises two elements:

- Benchmark pay – this was communicated to partners in September 2013 and will in future be communicated early in the financial year and is determined in relation to an individual's medium term value to the Firm. Each partner'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 Firm. In the year to 30 September 2013, the benchmark pay component was approximately 82% of the profit allocation to individual partners.
- Profit share – This is communicated to partners shortly after the end of the financial year when the final performance of the Firm and all of its constituent parts is known. Each partner will receive the same percentage of benchmark pay as profit share, therefore re-enforcing our commitment and drive to delivering excellence to our clients through a one-firm approach. In the year to 30 September 2013, the profit share component was approximately 17% of the profit allocation to the partners in this category.

These two elements make up the annual total remuneration for 95% of the partners. The remaining 5% of partners were those who retired in the year, who received an additional profit share.

In addition to the above, a small number of partners receive a special award. This is a reward for exceptional in year behaviour or performance. In the year to 30 September 2013, special awards were given to 14 partners. This component was approximately 1% of the profit allocation to individual partners. In addition, a deduction is made from the benchmark pay for any partners if their behaviour or performance has fallen below the levels expected by the Firm, as indicated by adverse risk metrics (see Section 5.4.3 above).

After taking account of amounts withheld from the profit distribution, including amounts to allow investment into future growth areas and services, the average partner remuneration for the year totalled £712,500 (2012: £579,700).

The total remuneration for the year ended 30 September 2013 of the UK Board members was £22.0 million (2012: £15.1 million), the increase largely reflecting the change in UK Board structure implemented in July 2012. The total profit share payable to the highest paid partner is £2.4 million.

Drawings

During the year, members working within KPMG LLP received 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 cash requirements for operating and investing activities. All such drawings and profit distributions to members represent payments on account of current year profits and are reclaimable from members until profits have been allocated. Any over-distribution of profits during the year is also recoverable from members.

NETWORK ARRANGEMENTS

8.1 LEGAL STRUCTURE

The independent member firms of the KPMG network (including KPMG LLP) are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. The KPMG International network consists of approximately 155,000 professionals working in 155 countries. For the year ended 30 September 2013 the member firms comprising the network generated aggregate revenues of US$23 billion.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

The structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes, and facilitates the implementation and maintenance of, uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities.

8.2 RESPONSIBILITIES AND OBLIGATIONS OF MEMBER FIRMS

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

In these agreements, member firms commit themselves to a common set of KPMG Values. 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. This includes having a structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources, 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.

In accordance with the Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times. Compliance with key quality standards (including key aspects of methodologies, tools and management of risk) are specifically assessed as part of the International Review Programmes described in Section 5.7.1.

The results of these programmes are reported to various governance and management bodies within KPMG International which can, at its discretion, take a number of actions against the member firm concerned – including ultimately removal from the KPMG International network for any member firm which fails to meet the required quality standards.

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 (which is currently based on revenue) 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.

8.3 PROFESSIONAL INDEMNITY INSURANCE

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer through a programme that is available to all KPMG member firms.

In addition member firms may enter into local insurance arrangements in respect of the amount below the deductible under the insurance programme.

8.4 GOVERNANCE STRUCTURE

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Executive Team.

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 Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 54 member firms that are 'members' of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

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 Chairman's appointment of the Deputy Chairman and members of the Global Executive Team.

The Global Board includes the Chairman, the Deputy Chairman, the Chairmen 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. One of the Board members is elected as the 'lead director' by those Global Board members who are not also members of the Global Executive Team ('non-executive' members). A key role of the lead director is to act as liaison between the Chairman and the 'non-executive' Board members.

The Global Board is supported in its oversight and governance responsibilities by several committees, including a Governance Committee; an Audit, Finance, and Investments Committee; a Compensation and Nomination Committee; a Quality & Risk Management Committee; and a Professional Indemnity Insurance Committee. The lead director nominates the Chairs and members of Board committees for approval by the Global Board.

The Global Executive Team is the principal management body of KPMG International. The Global Executive Team drives the execution of the strategy approved by the Global Board and establishes processes to monitor and enforce policy compliance. It is led by the Chairman and includes the Deputy Chairman, the Chief Operating Officer, Global Function Heads, regional leaders, and a number of senior partners of member firms.

The Global Executive Team is supported by Global Steering Groups responsible for executing the approved strategy and business plan in their respective areas. In particular, in relation to quality the Global Quality & Risk Management Steering Group operates under delegated authority from the Global Executive Team.

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 implementation of KPMG International's policies and processes within the region.

Members of the Global Board and Global Executive Team are members of the various network firms. Such members perform these roles on behalf of KPMG International and in that capacity do not act for KPMG LLP or any entity within the KPMG Europe LLP group.

Further details about KPMG International including the governance arrangements, can be found in its latest Transparency Report which is available at: www.kpmg.com/EU/en/Documents/kpmg-ellp-transparency-report-2012-new.pdf.

8.5 AREA QUALITY & RISK MANAGEMENT LEADERS

KPMG International has a network of Area Quality & Risk Management Leaders (AQRMLs), reporting to the Global Vice Chair – Quality & Risk Management. The AQRMLs are members of the Global Quality & Risk Management Steering Group and each AQRML performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network's ability to proactively monitor quality and risk management across member firms.

9 STATEMENT BY THE BOARD OF KPMG LLP ON EFFECTIVENESS OF QUALITY CONTROLS AND INDEPENDENCE

EFFECTIVENESS OF QUALITY CONTROLS AND INDEPENDENCE

The measures and procedures that serve as the basis for the system of quality management for KPMG UK outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations.

The Board of KPMG LLP has considered:

- The design and operation of the quality management systems as described in this report;
- The findings from the various compliance programmes operated by our firm (including the KPMG International Compliance Programmes as described in Section 5.7.1 and our local compliance monitoring programmes); and
- Findings from regulatory inspections.

Taking all of this evidence together, the Board of KPMG LLP 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 2013.

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 2013.

APPENDIX 1 REPORT FROM THE CHAIR OF THE KPMG EUROPE LLP PUBLIC INTEREST COMMITTEE

REPORT FROM PUBLIC INTEREST COMMITTEE

The Public Interest Committee (PIC) with its three founding members has now been operational for three years, a sufficient time that we each now have a thorough understanding of the group, its risks and challenges.

As last year we met jointly on a quarterly basis for one day meetings with the Quality & Risk Committee with the chairmanship of the joint meetings rotating between the two committees' chairs. In addition, the PIC has continued to hold separate meetings (usually in advance of the joint committee meetings) to ensure that we have ample opportunity to debate matters privately. I consider that this approach works very well as it helps to ensure that we have robust but informed and balanced discussions. The framework for our work – which is aimed at ensuring that we provide oversight of the public interest aspects of the firm's decision making – has remained consistent with last year and is structured around the following five areas:

1 A sensible business strategy

Whilst the economic conditions have remained challenging across most of Europe this year, we are pleased to observe that quality remains an important focus for the group.
We noted in our report last year, that the group had started moving towards a more decentralised model of governance – this has continued throughout 2013. Notwithstanding this, we are pleased to note that during the year, the group has continued to have appropriate oversight of the quality of the work being performed in each of the countries. We have also observed through our discussions with members of local leadership teams in the countries that we have visited this year (Switzerland, UK and Netherlands) that there remains both a strong national focus on quality as well as a willingness to deal with any regulatory findings in a positive way.

In addition to challenging economic conditions, the profession is also facing turbulence in the form of regulatory reform both from the EU and also from certain national regulators. Within the last year we have seen the Netherlands introduce a system of mandatory audit firm rotation and the UK regulator announcing mandatory tendering (on a "comply or explain" basis) for large company audits. Within such an environment, where it is inevitable that significant senior time will be spent on trying to win new or retain existing audits, it is important that firms have appropriate monitoring processes in place to ensure that audit quality is not impaired. As such, we have recommended that the group consider whether or not there are any additional performance monitor indicators that it could introduce that may help in this regard. We have also suggested that within this environment, the group might also wish to consider reviewing its processes around partner investments to ensure that these are sufficiently robust to respond to the potential for more frequent changes in its audit client base.

2 An appropriate system of quality control and risk management

A significant amount of time at each of our meetings is spent considering quality and risk management related issues relevant to the group. For example at each meeting we discuss the results of any regulatory inspections that have taken place in the quarter, any significant risk judgements that have been made as well as developments in any material new or existing litigation. During the year, we have also discussed, jointly with the Chair of the Audit Committee the group's enterprise risk map. We are pleased to note that the approach to enterprise risk management has continued to evolve this year and that the resulting risk map is appropriately focused on the most important risks facing the group. Where we have made recommendations around the risk map (in particular in relation to some of the specific risks) these have been properly considered.

3 A sensible partner remuneration policy

In a number of aspects of our work we explore whether or not a sensible system of partner remuneration operates. As an example, at our last meeting in the UK, we discussed with the UK Head of Audit how quality and risk matters are reflected in audit partner pay and are pleased to note that the Firm is planning to improve the transparency between the impact of poor quality and risk metric results and overall partner remuneration in 2013. As part of our work, we also consider a summary by country and function of the overall quality and risk metrics (which are issued individually to all partners and directors in the group) and discuss what actions are being taken if any adverse ratings have been awarded.

4 A culture where adverse developments are discussed openly and dealt with properly by management

As part of our meetings, we discuss where things have either gone wrong or not quite to plan (which from time to time they inevitably do in a group the size and complexity of KPMG Europe). We continue to be impressed with the candour demonstrated by the Firm in their approach to these discussions.

In terms of its day to day operations, there are a number of routes through which the group encourages its people to raise adverse developments, ranging from discussing these issues with their line manager through to reporting them to their local whistle blowing hotline. These hotlines are in place across the whole of the group and operate in most countries under the oversight of an external ombudsman. Whilst these hotlines are used from time to time, we have encouraged the group to challenge itself on the numbers of reports made to these hotlines (which we believe are relatively modest for a group that has over 30,000 people) and in particular to consider if any actions are required to further increase confidence that it is both appropriate and safe to use these hotlines.

5 A culture of integrity and compliance

As we noted last year, a firm's culture can only really be assessed by understanding the views of the people that work there. As such, we consider the results of any staff surveys and focus group findings as well as considering whether or not there are any themes coming out of whistle blowing reports. In respect of compliance, we formally consider the level of compliance indicated by the group's six monthly compliance reports. In addition, once a year we discuss the findings from the group's own internal Quality Review Programme (QPR) and Risk Compliance Programme (RCP). Where any of these programmes or inspections indicates that there have been failures in compliance with the quality control or risk management system then we discuss with the group what they are doing to address this. These results suggest that integrity, quality and compliance are all recognised as being important areas within the group.

Stakeholder and investor observations

An important part of our remit is to engage in discussions with the investor community and other stakeholders about the measures that the firm is taking to ensure audit quality. During the year, Alfred and I together with our counterparts from the other major firms attended a meeting with the UK audit regulator. At this meeting we covered a variety of topics including clarifying the interaction between non-executives and the external regulator in respect of the specific findings from firm inspections.

In this regard, we agreed that each firms' non-executives would meet individually with the regulator each year to discuss our firms' public and private inspection reports. In this regard, Alfred, Tom and myself had a useful discussion with the FRC in early July to discuss the KPMG report. More broadly, and consistent with the trend we have noted in previous years, there continues to be little demand from the wider investor group to meet with us to discuss this topic.

Overall conclusions

As I reflect back over the three years of existence of the Public Interest Committee, I continue to be impressed with the professional nature with which the firm has approached our meetings, in particular the quality of information provided to us in advance of our meetings, the breadth and depth of our discussions as well as the open manner in which our meetings are conducted.

Whilst there are some signs of economic recovery in many European territories, the market place for the profession with pressure on pricing and the inevitable increase in audit tendering rotation that is already becoming apparent in many countries is likely to remain challenging. Given this, as well as the group's move towards a more decentralised model of governance, we have recommended to the Board that leadership in each country be set clear, specific and measurable targets which are publicised and to which national leadership teams are held to account through regular reporting to all partners for certain key areas in the business that have the ability to impact on quality and risk. We believe that such targets might include areas such as strategy, finance, client satisfaction and employee engagement.

One other consequence of decentralisation in the governance model is that inevitably going forward the key decisions around quality, risk and public interest will be predominantly exercised at a national level. In keeping with this, it has been determined that with effect from 1 November 2013 the Public Interest Committee should no longer operate at KPMG Europe LLP. Rather, the national leadership teams in each country will determine (based upon their size and current market practice) whether or not to establish an equivalent body in their national governance structures. In this regard, I will be joining a newly established Public Interest Committee for the UK member firm with effect from 1 November 2013.

Sir Steve Robson
30 September 2013

APPENDIX 2

KEY LEGAL ENTITIES

KEY LEGAL ENTITIES AND AREAS OF OPERATION

Name of entity	Legal structure	Regulatory status	Nature of business	Area of operation
KPMG Europe LLP	UK Limited Liability Partnership	UK Registered Auditor	Parent entity	N/A
KPMG LLP	UK Limited Liability Partnership	UK Registered Auditor	Audit, Tax & Advisory Services	Great Britain
KPMG Audit Plc	UK Public Limited Liability Company	UK Registered Auditor	Audit and Related services	Great Britain
KPMG UK Limited	UK Limited Liability Company	None	Employment services	Great Britain
KPMG United Kingdom Plc	UK Public Limited Liability Company	None	Advisory Services	Great Britain
KPMG Sourcing Limited	UK Limited Liability Company	None	Advisory Services	Great Britain
KPMG CIO Advisory Limited	UK Limited Liability Company	None	Advisory Services	Great Britain
Makinson Cowell Limited	UK Limited Liability Company	FCA Regulated	Advisory Services	Great Britain and USA
Queen Street Mutual Company PCC Limited[1]	Guernsey Protected Cell Company	Guernsey Insurer	Captive insurance company	Guernsey
KPMG Global Services Private Limited[2]	Indian Private Limited Company	Offshore resources for Tax & Advisory services	Provides offshore resources for Tax & Advisory services	India
KPMG Resource Centre Private Limited[3]	Indian Private Limited Company	None	Offshore resources to support Audit services	India

All of the above entities (excluding KPMG Europe LLP) are wholly owned except:

1 Queen Street Mutual Company PCC Limited – KPMG LLP has the right to control the Board and is entitled to benefit from future profits or existing retained reserves arising from UK related assets.

2 KPMG Global Services Private Limited – The UK firm owns 33% of this entity.

3 KPMG Resource Centre Private Limited – The UK firm owns 50% of this entity.

KEY LEGAL ENTITIES OVER WHICH KPMG UK HAS CALL OPTIONS BUT NO LEGAL OWNERSHIP

Name of entity	Legal structure	Regulatory status	Nature of business	Area of operation
KPMG Al Fozan & Al Sadhan[1]	Saudi Professional Partnership	Audit Regulated	Audit, Tax & Advisory Services	Saudi Arabia
KPMG Safi Al-Mutawa & Partners	Kuwaiti Sole Proprietorship	Audit Regulated	Audit Services	Kuwait
KPMG Advisory WLL	Kuwaiti Limited Liability Company	None	Advisory Services	Kuwait
KPMG Al-Kawasmy and Partners Co	Jordanian General Partnership	Audit Regulated	Audit, Tax & Advisory Services	Jordan

1 For accounting purposes, KPMG Al Fozan & Al Sadhan is treated as a consolidated subsidiary in the UK Annual Report. A separate Transparency Report for KPMG Al Fozan & Al Sadhan is available at the following link: www.kpmg.com/sa/en/pages/default.aspx.

APPENDIX 3

GOVERNANCE AT KPMG

DETAILS OF THOSE CHARGED WITH GOVERNANCE AT KPMG LLP

Members of KPMG LLP Board for the year ended 30 September 2013
As at 30 September 2013, the UK Board consists of 10 Executive directors, who are also the members of the Executive Management Team, and six Non-Executive directors.

SIMON COLLINS

Chairman and Senior Partner

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

JIM MARSH

COO & Head of People

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

MARIANNE FALLON

Head of Corporate Affairs

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

DAVID MATTHEWS

Head of Quality & Risk Management

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

TONY CATES

Head of Audit

Tony has been an audit partner for 15 years and joined the UK Board in June 2011.

JANE MCCORMICK

Head of Tax & Pensions

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

RICHARD FLEMING

Head of Advisory

Richard has been a KPMG partner for 10 years having previously been a partner with both Arthur Andersen and Ernst & Young.
Richard joined the UK Board on 30 July 2012.

JOE GALLAGHER

Head of Markets (Sectors)

Joe has been a partner for nine years and joined the UK Board on 30 July 2012.

APPENDIX 3 CONTINUED

IAIN MOFFATT

Head of Markets (Regions)

Iain has been a partner for 16 years and joined the UK Board on 30 July 2012. He is also the Chairman of KPMG's London and Eastern Counties region.

BILL MICHAEL

Head of Markets (Financial Services)

Bill has been a partner for 13 years and joined the UK Board on 30 July 2012.

RICHARD REID

Non-Executive member

Richard has been a partner for 22 years and joined the UK Board on 30 July 2012. He is also the London Chairman and is chair of the Nomination & Remuneration Committee.

KRU DESAI

Non-Executive member

Kru has been a partner for three years and joined the UK Board on 14 September 2012. She is also a member of the Audit & Risk Committee.

JONATHAN HURST

Non-Executive member

Jonathan has been a partner for 18 years and joined the UK Board on 14 September 2012. He is also the Chairman for KPMG's North region and a member of the Nomination & Remuneration Committee.

MELANIE RICHARDS

Non-Executive member

Melanie has been a partner for 11 years and joined the UK Board on 14 September 2012. She is also a member of the Nomination & Remuneration Committee.

DAVID SAYER

Non-Executive member

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

IAN STARKEY

Non-Executive member

Ian has been a partner for 18 years and joined the UK Board on 14 September 2012. Ian is also the chair of the UK and KPMG Europe LLP Audit & Risk Committees.

APPENDIX 3 CONTINUED

MEETING ATTENDANCE FOR THE YEAR ENDED 30 SEPTEMBER 2013

Name	Board (8 meetings)	Executive (12 meetings)	Audit & Risk (6 meetings)	Nomination & Remuneration (8 meetings)
Executive members				
Simon Collins	7	12	–	–
Jim Marsh	8	11	–	–
Tony Cates	7	12	–	–
Jane McCormick	6	10	–	–
Richard Fleming	6	11	–	–
David Matthews	8	11	–	–
Marianne Fallon	6	11	–	–
Joe Gallagher	8	12	–	–
Bill Michael	6	10	–	–
Iain Moffatt	8	11	–	–
Non-Executive members				
Richard Reid	7	–	–	8
Ian Starkey	6	–	6	–
Mel Richards	8	–	–	8
Kru Desai	6	–	6	–
David Sayer	7	–	6	–
Jonathan Hurst	6	–	–	8

APPENDIX 4

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 2013 is given below. The definition of a public interest entity for this purpose is that given under the provisions of the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board of the Financial Reporting Council, being an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of Section 1210 of the Companies Act 2006.

Entity Name

The 600 Group PLC
A.G. BARR plc
Aberdeen Asset Management Plc
Aberdeen New Dawn Investment Trust Plc
Aberdeen New Thai Investment Trust Plc
Aberdeen Smaller Companies High Income Trust plc
Aberdeen UK Tracker Trust plc
ABG Finance International Ltd
Admiral Group Plc
Advanced Computer Software plc
African Copper 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
Albemarle & Bond Holdings Plc
Alent plc
Alpha Credit Group plc
Altitude Group plc
Alumasc Group plc
Amati VCT plc
Andrews Sykes Group plc
Animalcare Group plc
Annes Gate Property Plc
Arbuthnot Banking Group plc
Ariana Resources PLC
Artemis Alpha Trust Plc
Artemis VCT plc
Aseana Properties Limited
Ashmore Group plc
Aspen Insurance Holdings Limited
Aspire Defence Finance plc
Associated British Foods plc
Aston Martin Capital Limited
AstraZeneca PLC
Autolink Concessionaires (M6) plc
Avacta Group Plc
Avanti Communications Group Plc
BAE Systems Plc
Bank of England
Barchester Healthcare Limited
Baronsmead VCT 2 Plc
Baronsmead VCT 3 Plc
Baronsmead VCT 4 Plc
Baronsmead VCT 5 plc
Baronsmead VCT Plc
Bellway PLC
Betfair Group plc
BHP Billiton Plc
Bluestone Securities plc
Booker Group plc
Bovis Homes Group Plc
Bowling Acquisitions Holdings Limited
Braemar Shipping Services plc
Brevan Howard US LLC
British Polythene Industries Plc
BroomCo 4146 Limited
BTG Plc
Bunzl Plc
BUPA Care Homes (CFG) plc
BUPA Finance plc
Business Mortgage Finance No 1 plc
Business Mortgage Finance No 2 plc
Business Mortgage Finance No 3 plc
Business Mortgage Finance No 4 plc
Business Mortgage Finance No 5 plc
Business Mortgage Finance No 6 plc
Business Mortgage Finance No 7 plc
By Chelmer plc
Cable & Wireless Communications plc
Caledonia Investments PLC
Caledonian Trust Plc
Cambria Automobiles plc
Camco Clean Energy Plc
The Capita Group Plc
Capital Hospitals Plc
Carclo Plc
Cardiff Property plc
Care UK Health & Social Care Plc
Care UK Health & Social Care Finance Limited
Carillion Plc
Catalyst Healthcare Manchester Financing plc
Catalyst Healthcare Romford Financing plc
Catalyst Healthcare Worcester plc
Catalyst Higher Education Sheffield plc
Central Nottinghamshire Hospital plc
Central Rand Gold Limited
Charles Stanley Group PLC
Chromalloy UK Holdings Limited
Cineworld Group plc
City Greenwich Lewisham Rail plc
City Natural Resources High Yield Trust Plc
Cohort plc
Computer Associates Holding Limited
Co-operative Bank PLC
Co-operative Group Limited
Cosalt Plc
Costain Group Plc
Coventry & Rugby Hospital Co plc
Crawshaw Group plc
Credit Suisse International
Crest Nicholson Holdings Plc
CTRL Section 1 Finance Plc
Cupid plc
Cycene Limited
Daejan Holdings Plc
Daniel Thwaites Plc
Darrowby No 1 plc
Darrowby No 2 plc
Dart Group Plc
De La Rue plc
De Montfort University
Dechra Pharmaceuticals Plc
Dee Valley Group plc
Derby Healthcare plc
DFS Furniture Holdings plc
Diageo Capital Plc
Diageo Finance plc
Diageo Investment Corporation
Diageo Plc
Dialight Plc
Discovery Education plc
Dunedin Enterprise Investment Trust plc
Dunedin Income Growth Investment Trust PLC

APPENDIX 4 CONTINUED

Entity Name continued

Dunedin Smaller Companies Investment Trust Plc
Dunelm Group plc
DX Finance Limited
Eckoh Plc
Edinburgh Dragon Trust Plc
Edinburgh Investment Trust Plc
Edinburgh Worldwide Investment Trust plc
Electric Word plc
Electrocomponents Plc
Electronic Data Processing Plc
Elementis Plc
Ellenbrook Developments plc
Essentra Plc
Esure Group Plc
e-therapeutics plc
European Islamic Investment Bank plc
Eversholt Funding plc
F&C Asset Management plc
Falkland Islands Holdings Plc
FastJet Plc
Fidessa Group plc
Filtronic Plc
Findel plc
Finsbury Food Group plc
Foresight 2 VCT plc
Foresight 3 VCT plc
Foresight 4 VCT plc
Foresight VCT plc
Forest Holidays Group Limited
French Connection Group Plc
Fulcrum Utility Services Limited
Fusion IP plc
G4S International Finance plc
G4S plc
Genghis Midco Limited
GESB plc
Goals Soccer Centres Plc
Goodwin Plc
Grafenia PLC
Greggs Plc
HACO Limited
Halcyon Midco Limited
Halfords Group plc
Hargreaves Services Plc
Havelock Europa Plc
Hawthorn Finance Ltd
Headlam Group Plc
Helphire plc
Heritage Oil Plc
Hidong Estate Plc
Hill & Smith Holdings Plc
HSBC Bank plc
HSBC Holdings Plc
ICICI Bank UK PLC
Imagination Technologies Group Plc
Impax Asset Management Group plc
Indigo Vision Plc
Infinis PLC
Innospec Inc
Inspired Education (South Lanarkshire) plc
Interactive Hotel Services Holdings plc
Intertek Group Plc
iO Adria Limited
Ipreo UK Holdings Limited
Irida plc
ITV PLC
James Cropper plc
James Fisher & Sons plc
JD Sports Fashion plc
Johnson Matthey Plc
Katanalotika plc
Kazakhmys PLC
Keller Group Plc
Kemble Water Eurobond plc
Kenrick No.1 Plc
Kier Group Plc
Kolar Gold Limited
LAB Investments plc
LAH Jersey Limited
LBBW Capital Markets Plc
LCR Finance Plc
Lend Lease Europe Finance plc
Lend Lease PFI/PPP Infrastructure Finance Limited
LGS Investments plc
Lighthouse Group plc
LMS Capital plc
The Local Shopping REIT plc
London Security plc
Lonmin plc
Lonrho plc
Low & Bonar Plc
M&C Saatchi plc
Macfarlane Group PLC
Marshalls Plc
Matchtech Group plc
Maven Income & Growth VCT5 plc
MBL Group plc
McKay Securities Plc
Metrix Funding No 1 plc
Metrix Securities plc
Midland Heart Capital plc
Millennium & Copthorne Hotels Plc
Mitsubishi UFJ Securities International plc
MJ Gleeson Group Plc
Molins Plc
Moneysupermarket.com Group plc
Montanaro UK Smaller Companies Investment Trust plc
Morgan Advanced Materials plc
Morrison (WM) Supermarkets plc
Murgitroyd Group Plc
Mwana Africa Plc
New City High Yield Fund Limited
New World Resources Plc
NewHospitals (St Helens and Knowsley) Finance PLC
NIS Holdings No 2 Ltd
The North American Income Trust plc
North Atlantic Smaller Companies Investment Trust
Northern 2 VCT Plc
Northern 3 VCT Plc
Northern Investors Company plc
Northern Petroleum plc
Northern Venture Trust Plc
Nottingham Building Society (PIBS)
Novae Group Plc
Ocean Wilsons Holdings Limited
Octagon Healthcare Funding plc
Odeon & UCI Finco Plc
Old Mutual Plc
OneSavings Bank Plc
Opera Finance (CSC3) plc
Opera Finance (Metrocentre) plc
Opsec Security Group plc
Oxford Instruments Plc
Pace plc
Pacific Assets Trust plc
PAM Subco Limited
Panmure Gordon & Co Plc
Parity Group PLC
Pendragon Plc
Persimmon Plc
Personal Group Holdings Plc
Petards Group plc
Phones4u Finance plc
Photo-Me International plc
Pisti plc
Places for People Capital Markets plc
Places for People Homes Limited
Plastics Capital plc

APPENDIX 4 CONTINUED

Entity Name continued

Proactis Group plc
Promethean World plc
ProPhotonix Limited
Prudential Plc
Punch Taverns plc
PuriCore plc
QinetiQ Group Plc
Quintain Estates and Development Plc
Quixant Plc
R&R Ice Cream plc
Rathbone Brothers plc
Redhall Group plc
Regenersis plc
Regus Plc
Renaissance US Growth & Income Trust Plc
Renew Holdings plc
Renishaw Plc
Rensburg AIM VCT plc
Rentokil Initial plc
Rightmove Plc
RM plc
Road Management Services (A13) plc
Rockhopper Exploration Plc
Rolls-Royce Holdings plc
Rolls-Royce PLC
Rotork Plc
RPC Group Plc
Sandwell Commercial Finance No 1 plc
Sandwell Commercial Finance No 2 plc
SciSys plc
Scottish American Investment Company Plc
Scottish Amicable Finance plc
Scottish Mortgage Investment Trust Plc
SDL plc
Secure Trust Bank plc
Secured Property Developments plc
Sheffield City Trust
Shires Income plc
Silence Therapeutics Plc
Silverdell plc
Skipton Building Society
Source BioScience plc
Spectris Plc
Speedy Hire Plc
Spirax-Sarco Engineering Plc
Spirit Pub Company PLC
SSE PLC
Standard Bank Plc
Standard Chartered Bank
Standard Chartered Plc
Stobart Group Limited
Sumitomo Corporation Capital Europe plc
Superglass Holdings plc
Surface Transforms Plc
Sutton & East Surrey Water Plc
Synectics plc
Synergy Health plc
Ted Baker Plc
Telit Communications plc
Tenterden Funding PLC
Tethys Petroleum Limited
Thames Water (Kemble) Finance Limited
Thames Water Utilities Cayman Finance Limited
Thames Water Utilities Finance Limited
Tikit Group plc
Tissue Regenix Plc
Top Right Group Limited
Tracsis plc
Transense Technologies plc
Transport for London (TFL)
Trifast Plc
TT Electronics plc
Turquoise Card Backed Securities plc
Ukraine Opportunity Trust plc
Unite Group Plc
United Utilities Group PLC
United Utilities PLC
United Utilities Water PLC
Utilico Emerging Markets Limited
Utilico Finance Limited
Utilico Investments Limited
Vancouver Midco 1 Limited
Vesuvius plc
Victrex Plc
Vitec Group Plc
Volga Gas Plc
VP Plc
Walsall Hospital Company plc
WANdisco Plc
Wessex Water Service Finance plc
West Bromwich Building Society
Wincanton plc
Wolfson Microelectronics Plc
Wynnstay Group Plc
Zanaga Iron Ore Company Limited

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