

KPMG IT Advisory Limited

Directors' report and financial statements

Registered number 02807962

30 September 2012

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Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2012

Business review

Nature of the business

The activity of KPMG IT Advisory Limited is the provision of specialist advisory services

Strategy

KPMG IT Advisory Limited's strategy reflects that of KPMG Europe LLP (ELLP), its ultimate controlling party at 30 September 2012 (see note 11). The purpose of the ELLP group (the group) is to turn knowledge into value for the benefit of its clients, its people and the capital markets. More specifically, the defined strategy for KPMG IT Advisory Limited is to focus on the quality and integrity of advisory services.

The group's business plan for the year ended 30 September 2012 continued to focus on people, client relationships, quality and reputation, and profitable growth. Performance of the group is monitored regularly throughout the year using a range of key performance indicators (KPIs) including matters relevant to the group's Risk Consulting practice (of which the company forms part). There were therefore no specific KPI's relating solely to the performance of the company.

Performance and development during the year

Despite the continuing difficult economic and trading environment, 2012 was a satisfactory year for KPMG IT Advisory Limited. Revenues decreased slightly by £46,000 over the prior year to £961,000. After recoverable expenses and charges from fellow group entities, the company reported an operating profit of £211,000 (2011: £45,000). No dividends were paid in either the current or prior year.

Financial position at the end of the year

The company's financial position is satisfactory with amounts due from clients and related unbilled work under control and a modest amount of cash being held. These assets are monitored regularly (particularly in the current economic circumstances) as part of the working capital management of the group.

Treasury policies

The company's treasury policies focus on ensuring that there are sufficient funds to finance the business. Full details of the impact for the company of these treasury policies and management of the associated risks are given in note 10 to the financial statements.

Relationships and resources

Relationships with clients

Fundamental to the company's strategy is strengthening existing, and building new, relationships, with growth based on a quality sales culture. Relationships with clients are monitored through the group's routine client service reviews.

Relationships with employees

The employees of the company comprise the directors, within the meaning of the Companies Act 2006 (as listed below and the company secretary. Most of the directors and 'product directors' (being individuals authorised to sign reports to clients on behalf of the company) are separately members of KPMG LLP, the company's intermediate parent entity, and of ELLP. They receive no remuneration from KPMG IT Advisory Limited for services performed for the company.

Charges are received from KPMG UK Limited, a company set up for staff employment purposes, in respect of the services it provides in respect of employees on assignments for KPMG IT Advisory Limited. Charges are also received from KPMG LLP in respect of services provided to the company by members of KPMG LLP.

Every effort is made to ensure that there is no discrimination, direct or indirect, against disabled persons in any human resources policies or actions, including recruitment. Employees who become disabled will, wherever possible, be retained in employment with the same opportunities for training and career development.

Directors' report continued

Considerable emphasis is placed on open and effective communication between the company's directors, product directors and the employees of KPMG UK Limited. This communication operates principally through regular meetings, newsletters and electronic mail bulletins.

Relationships with the community

All community support work of the group in the UK is channelled through KPMG LLP. Similarly, environmental matters in the UK are managed through KPMG LLP. The company made no political or charitable contributions in either the current or prior year.

Relationships with creditors

Services to the company are provided principally by KPMG LLP and its subsidiaries. Arrangements are in place to settle these accounts generally one month in arrears. Services provided by other suppliers are not material and no amounts were outstanding at the year end. The company does not follow a specific standard or code for payment, its policy is to agree terms of business with suppliers and to settle their accounts in accordance with such agreed terms.

Future development and performance

Risk management and internal control systems exist within the group to ensure that risks affecting the future development and performance of the group are mitigated. A number of risks generic to the accounting profession are also relevant to the future development and performance of the company.

- Regulatory changes – the ability of the company, and of the group, to react to future changes in regulation,
- Failure to win key clients – the ability of the company to win and maintain key client relationships,
- Failure to maintain service quality – the ability of the company to consistently deliver high standards of client service.

Each of these risk areas is considered by the board of ELLP as part of the overall risk management of the group.

Going concern

The financial position of the company, its cash flows and liquidity position are discussed above. The company has access to a broad range of business expertise within the group and as a consequence, the Board believes that the company is well placed to manage its business risks successfully. After making enquiries, the Board has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

Directors and directors' interests

The directors who held office during the year were as follows:

KIR Bannister	Resigned 30 July 2012
R Bennison	Resigned 10 May 2012
AG Cates	Resigned 30 July 2012
SJ Collins	Appointed 30 July 2012
JG Griffith-Jones	Resigned 30 July 2012
P Long	
JW Marsh	Appointed 30 July 2012

The company is a wholly owned subsidiary of KPMG LLP (see note 11). The company's ultimate controlling party is ELLP. The directors in office at the end of the financial year therefore had no direct interest in the shares of the company but, by virtue of their position as members of KPMG LLP and ELLP, had an indirect interest in the entire share capital of the company.

The company secretary is CG Cleaves.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' report continued

Auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Grant Thornton UK LLP will therefore continue in office

By order of the Board



CG Cleaves
Company Secretary

15 Canada Square
London
E14 5GL

30 April 2013

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of KPMG IT Advisory Limited

We have audited the financial statements of KPMG IT Advisory Limited for the year ended 30 September 2012, which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Mark Cardiff
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

30 Apr 2013 London



Income statement

for the year ended 30 September 2012

	<i>Note</i>	2012 £000	2011 £000
Revenue		961	1,007
Personnel costs	4	(216)	(108)
Other operating expenses	3	(534)	(854)
		<hr/>	<hr/>
Operating profit		211	45
		<hr/>	<hr/>
Profit before taxation		211	45
Tax expense	5	-	-
		<hr/>	<hr/>
Profit for the financial year		211	45
		<hr/> <hr/>	<hr/> <hr/>

Statement of comprehensive income

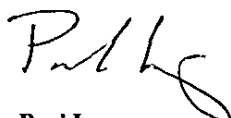
for the year ended 30 September 2012

	2012 £000	2011 £000
Profit for the financial year	211	45
	<hr/>	<hr/>
Total comprehensive income for the year	211	45
	<hr/> <hr/>	<hr/> <hr/>

Statement of financial position
at 30 September 2012

	<i>Note</i>	2012 £000	2011 £000
Assets			
Current assets			
Trade and other receivables	6	535	456
Cash and cash equivalents	7	47	12
		<hr/>	<hr/>
Total assets		582	468
		<hr/>	<hr/>
Equity and liabilities			
Equity			
Share capital	9	3,150	3,150
Share premium account		408	408
Profit and loss account		(3,282)	(3,493)
		<hr/>	<hr/>
		276	65
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	8	306	403
		<hr/>	<hr/>
Total equity and liabilities		582	468
		<hr/>	<hr/>

These financial statements on pages 5 to 18 were approved by the board of directors on 30 April 2013 and were signed on its behalf by



Paul Long
Director

KPMG IT Advisory Limited: 02807962

Statement of changes in equity
for the year ended 30 September 2012

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 October 2010	3,150	408	(3,538)	20
Total comprehensive income – profit for the financial year	-	-	45	45
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 September 2011	3,150	408	(3,493)	65
Total comprehensive income – profit for the financial year	-	-	211	211
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 September 2012	3,150	408	(3,282)	276
	<hr/>	<hr/>	<hr/>	<hr/>

Statement of cash flows
for the year ended 30 September 2012

	<i>Note</i>	2012 £000	2011 £000
Cash flows from operating activities			
Profit for the financial period		211	45
Increase in trade and other receivables		(79)	(171)
(Decrease)/increase in trade and other payables		(97)	80
		<hr/>	<hr/>
Net cash generated from/(absorbed by) operating activities, being the net movement in cash and cash equivalents		35	(46)
Cash and cash equivalents at the beginning of the year		12	58
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	7	47	12
		<hr/>	<hr/>

Notes

forming part of the financial statements

1 Accounting policies

KPMG IT Advisory Limited (the company) is a company incorporated in the United Kingdom

The company's financial statements have been prepared by the directors in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union (adopted IFRSs)

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. A number of amendments and interpretations to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have been endorsed by the European Union (adopted IFRS) with effective dates such that they fall to be applied by the company. The company early adopted the following adopted IFRSs and related amendments and interpretations in the year ended 30 September 2011

- Improvements to IFRSs (issued by the IASB in May 2010) various effective dates, some of which are for periods beginning on or after 1 July 2010, others for periods beginning on or after 1 January 2011
- Revised IAS 24 'Related Party Disclosures' effective for periods beginning on or after 1 January 2011
- Amendments to IFRS 7 Financial Instruments 'Disclosures – Transfers of Financial Assets' effective for periods beginning on or after 1 July 2011

There are no other adopted IFRSs, amendments or interpretations that require mandatory application. The following amendment was endorsed during the year ended 30 September 2012 and will be adopted by the company in future periods

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' effective for periods beginning on or after 1 July 2012

It is expected that this change will result in a small number of insignificant changes to disclosure

Since the period end, a number of other amendments and new IFRS standards have been endorsed and will be adopted by the company in future periods. It is expected that these changes will have an insignificant effect on these financial statements

Basis of preparation

These financial statements have been prepared in accordance with adopted IFRSs. The financial statements have been approved by the directors. The financial statements are prepared on the historical cost basis

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

The functional and presentation currency of the company is the pound sterling. The financial statements are presented in thousands of pounds (£000), unless stated otherwise

Foreign currency

Transactions in foreign currencies are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement within financial income or expense, as appropriate

Notes continued

1 Accounting policies continued

Revenue

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

Where the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent that the costs of providing the service are recoverable. No revenue is recognised where there are significant uncertainties regarding recovery of the consideration due or where the right to receive payment is contingent on events outside the control of the company. Expected losses are recognised as soon as they become probable based on latest estimates of revenue and costs.

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

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement or statement of comprehensive income under the relevant heading and related balances are carried as tax payable or receivable in the statement of financial position.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the period end, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

Notes continued

1 Accounting policies continued

Unbilled amounts for client work

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

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

Impairment

The carrying amounts of the company's assets are reviewed at each year end to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Insurance arrangements

A substantial level of insurance cover is maintained by the group in respect of professional claims. This cover is principally written through mutual insurance companies. Premiums are expensed as they fall due with prepayments or accruals being recognised accordingly.

Where appropriate, provision is made for the uninsured cost to the company of settling negligence claims. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the position of the company in any dispute with other parties.

Staff costs

Staff costs represent the charges for services provided by KPMG UK Limited, a company set up by KPMG LLP for staff employment purposes, and for the time of members of KPMG LLP.

Property, plant and equipment and depreciation

The company does not own or lease any property, plant and equipment. The property and equipment which it uses in the course of its business are provided by KPMG LLP. KPMG LLP renders charges to the company which include the use of such assets.

Notes continued

2 Accounting estimates and judgements

The directors of the company do not consider there to be any critical accounting judgements in applying the company's accounting policies. However, there are the following key sources of estimation uncertainty:

Revenue on service contracts

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

Trade and other receivables

The total carrying amount of trade receivables and unbilled amounts for client work is £508,000 (2011: £456,000) net of impairment losses on trade receivables and after giving consideration to the clients' willingness to pay those amounts accrued in respect of incomplete contracts. A different assessment of the recoverability of either balance may result in different values being determined.

Claims

The company may from time to time receive claims in respect of professional negligence. It defends such claims vigorously but makes provision for the possible amounts considered likely to be payable, up to the deductible under related insurance arrangements. A different assessment of the settlement prospects of each case or of the possible cost involved may result in a different provision and cost.

3 Other operating expenses

Other operating expenses include recoverable expenses incurred on client assignments and amounts paid to KPMG LLP for services rendered (see note 11). Amounts paid to the auditors in respect of the audit of these financial statements totalled £3,000 (2011: £4,500).

4 Personnel numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	2012 Number	2011 Number
Statutory directors	5	6
Company secretary	1	1
	<u>6</u>	<u>7</u>

Notes continued

4 Personnel numbers and costs continued

No payroll costs (including directors' emoluments) were payable by the company in either period, in respect of these persons. No pension contributions are payable by the company.

As explained in note 1, KPMG IT Advisory Limited is charged for the use of services provided by KPMG UK Limited and for the time of members of KPMG LLP. The total amount charged to the company in respect of the period was £216,000 (2011: £108,000).

5 Tax expense

Analysis of charge in the period

	2012 £000	2011 £000
Current year		
UK corporation tax on profits of the year at 25% (2011: 27%)	-	-
	<hr/>	<hr/>
Tax expense in income statement	-	-
	<hr/>	<hr/>
	2012 £000	2011 £000
Current tax reconciliation		
Profit before taxation	211	45
	<hr/>	<hr/>
Profit, multiplied by the average standard rate of corporation tax in the UK of 25% (2011: 27%)	53	12
Prior year UK corporation tax charge arising on transfer pricing adjustments	-	2
Utilisation of losses brought forward/unrelieved tax losses carried forward	(53)	(14)
	<hr/>	<hr/>
Actual tax charge for the period, as above	-	-
	<hr/>	<hr/>

Deferred tax assets have not been recognised, largely in respect of tax losses totalling £2,233,000 (2011: £2,286,000) because, in the opinion of the directors, there is insufficient evidence that these amounts will be recoverable against future taxable profits.

Notes continued

6 Trade and other receivables

	2012	2011
	£000	£000
Trade receivables	437	405
Unbilled amounts for client work	71	51
Amounts due from other KPMG International member firms	27	-
	<u>535</u>	<u>456</u>

There were no impairment provisions against trade receivables at 30 September 2012 or 30 September 2011. An analysis of overdue trade receivables is given in note 10. All receivables fall due within one year.

7 Cash and cash equivalents

	2012	2011
	£000	£000
Bank balances	47	12
Cash and cash equivalents in the statement of financial position	<u>47</u>	<u>12</u>

8 Trade and other payables

	2012	2011
	£000	£000
Amounts billed on account	31	38
Amounts due to other ELLP group undertakings	230	300
Other taxes and social security	43	65
Accruals	2	-
	<u>306</u>	<u>403</u>

Notes continued

9 Capital

Share capital

	2012 £	2011 £
<i>Authorised, allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	2	2
3,150,000 redeemable ordinary shares of £1 each	3,150,000	3,150,000
	<u>3,150,002</u>	<u>3,150,002</u>

The redeemable ordinary shares are redeemable at the company's option and otherwise bear the same rights as the ordinary shares

The share capital of the company is entirely owned by the KPMG LLP sub-group (see note 11). Capital requirements are considered by the group from time to time. The share capital of the company is considered to be the only capital to be managed, the objectives for managing capital being to ensure that the company remains solvent. There are no externally imposed capital requirements.

10 Financial instruments

Financial instruments held by the company arise directly from its operations. The main purpose of these financial instruments is to finance the operations of the company. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The company has exposure to market risk, credit risk and liquidity risk arising from its use of financial instruments. This note presents information about the company's exposure to each of the above risks. The company adheres to group objectives, policies and processes for measuring and managing risk.

The ELLP board has overall responsibility for the establishment and oversight of the group's risk management framework. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Further quantitative disclosures are included throughout these financial statements.

a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The company may use derivatives on a case by case basis in order to manage market risks. The company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The company faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations.

The financial assets and liabilities of the company are non interest bearing, with the exception of any bank balances which when available are variable rate instruments. Changes in interest rates would have had negligible impact on the company's results in either period.

Exchange rate risk

The functional currency of the company is the pound sterling. However, certain expenses may be denominated in other currencies and some fees may be rendered in other currencies where this is requested by the clients involved.

The company has access to group currency cash balances in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency.

Notes continued

10 Financial instruments continued

a) Market risk continued

As set out above, the company generally trades in its functional currency. The company had no material receivables, payables or cash balances denominated in currencies other than sterling at either 30 September 2012 or 30 September 2011.

b) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from clients.

Trade and other receivables

Exposure to credit risk is monitored on a routine basis and credit evaluations are performed on clients as appropriate. The company does not require security in respect of financial assets.

The company's exposure to credit risk is influenced mainly by the individual characteristics of each client. Credit risk is monitored frequently, with close contact with each client and by routine billing and cash collection for work done.

The company establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables. This allowance comprises a specific loss component that relates to individually significant items, and a collective loss component. This component is established for groups of similar assets in respect of losses that have been incurred but not yet identified and is determined from historical data of payment statistics for similar financial assets updated for current economic conditions.

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of the company's financial and other assets as set out in the table below.

	2012 £000	2011 £000
Loans and receivables		
Trade receivables	437	405
Amounts due from other KPMG International member firms	27	-
Bank balances	47	12
	<hr/>	<hr/>
Total financial assets	511	417
Unbilled amounts for client work	71	51
	<hr/>	<hr/>
	582	468
	<hr/>	<hr/>

Notes continued

10 Financial instruments continued

Impairment losses

The ageing of receivables that were overdue at the reporting date was

	Gross 2012 £000	Impairment 2012 £000	Gross 2011 £000	Impairment 2011 £000
Trade receivables				
Overdue 1-30 days	-	-	384	-
Overdue 31-180 days	-	-	-	-
More than 180 days	-	-	21	-
	<u>-</u>	<u>-</u>	<u>405</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>405</u>	<u>-</u>

No impairment losses were recognised in the year to 30 September 2012 or 30 September 2011

c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the group's reputation.

The focus of the group's treasury policy is to ensure that there are sufficient funds to finance the business. Surplus funds are normally invested according to the assessment of rates of return available through the money market.

The Treasury function monitors the company's cash position daily and it is the group's policy to use finance facilities or to invest surplus funds efficiently. Limits are maintained on amounts to be deposited with each banking counterpart and these are reviewed regularly in the light of market changes.

The company has the following non-derivative financial liabilities measured at amortised cost:

	2012 £000	2011 £000
Amounts due to other ELLP group undertakings	230	300
Accruals	2	-
	<u>232</u>	<u>300</u>
	<u>232</u>	<u>300</u>

None of the company's financial liabilities are interest bearing. Hence, the contractual cash flows in all cases equal the carrying amounts. All financial liabilities are repayable within one year.

d) Fair values

The estimated fair values of the company's financial assets and liabilities approximate their carrying values at 30 September 2012 and 2011, largely owing to their short maturity. The bases for determining fair values of current financial assets and liabilities are disclosed in note 1.

Notes continued

11 Related parties

The company's immediate controlling party is KPMG LLP, a limited liability partnership registered in England and Wales. KPMG LLP is controlled by ELLP and hence the company's ultimate controlling party is ELLP.

The largest group in which the results of the company were consolidated at 30 September 2012 was that of ELLP. The accounts of ELLP are available to the public and may be obtained from the principal place of business, The Square, Am Flughafen, 60549 Frankfurt am Main, Germany and at www.kpmg.eu/annualreport. No other group accounts include the results of the company.

The company has a related party relationship with its fellow ELLP group undertakings. The company also has a related party relationship with key management, considered to be the statutory directors of the company.

Transactions with ELLP group undertakings

Transactions with ELLP group undertakings during the year were as follows

	2012 £000	2011 £000
KPMG LLP		
Management charges – use of facilities and other services	133	128
	<hr/>	<hr/>
KPMG UK Limited		
Services of staff	216	108
	<hr/>	<hr/>

Such transactions reflect appropriate charges for the costs of shared services.

At the year end, balances with ELLP group undertakings were as follows

	2012 £000	2011 £000
Trade and other payables		
Amounts due to other ELLP group undertakings	230	300
	<hr/>	<hr/>

Transactions with key management personnel

The directors of the company are all separately members of ELLP and therefore have an interest in the transactions set out above.

Key management personnel receive no directors' emoluments for their services to the company. There are no other transactions with key management personnel. There were no balances due to or from key management at either 30 September 2012 or 30 September 2011.