

**KPMG CIO Advisory Limited**  
(formerly Xantus Limited)

**Directors' report and financial statements**

Registered number 03906440

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 15 months ended 30 September 2012

### **Business review**

#### **Nature of the business**

In October 2011, the entire issued share capital of the company was acquired by KPMG Holdings Limited (see note 15). Following the change of ownership, the company changed its name from Xantus Limited to KPMG CIO Advisory Limited.

The activity of KPMG CIO Advisory Limited is the provision of information technology consultancy services, particularly client-side advice across the IT lifecycle, including IT strategy, architecture, sourcing, change delivery and service management.

#### **Strategy**

KPMG CIO Advisory Limited's strategy reflects that of KPMG Europe LLP (ELLP), its ultimate controlling party at 30 September 2012 (see note 15). 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 CIO 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 Management Consulting practice (of which the company forms part). There were therefore no specific KPI's relating solely to the performance of the company.

#### **Change in year end and accounting convention**

The company has changed its accounting reference date from 30 June to 30 September to coincide with the rest of the group. These results therefore cover the 15 month period to 30 September 2012. The company has also adopted International Financial Reporting Standards as adopted by the European Union as its accounting convention. The change has had no impact on the company's reported results or assets and liabilities (see note 1).

#### **Performance and development during the period**

Revenue increased significantly as the benefits of integration into KPMG UK are realised. Profit levels in the period suffered from inefficiencies arising from the integration but are expected to improve in the current year. No dividends were paid in the current financial period (2011: £384,000).

#### **Financial position at the end of the period**

The company's financial position remains satisfactory with net assets of £5,883,000 at 30 September 2012 (2011: £4,247,000).

The level of unbilled amounts for client work increased in line with the increase in revenues, but the level of trade receivables decreased. 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 13 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 review.

##### ***Relationships with employees***

The employees of the company now comprise the directors, within the meaning of the Companies Act 2006 (as listed below) and the company secretary. The directors are separately members of KPMG LLP, the company's intermediate parent entity, and of ELLP. They receive no remuneration from KPMG CIO Advisory Limited for services performed for the company.

Following the change in ownership and integrating the company into KPMG UK, 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 working on assignments for KPMG CIO Advisory Limited. Charges are also received from KPMG LLP in respect of services provided to the company by members of KPMG LLP who are authorised to sign contracts and related material on behalf of the company.

## Directors' report continued

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.

Considerable emphasis is placed on open and effective communication between the company's 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 the current period (2011 charitable contributions £7,100).

### *Relationships with creditors*

Following the change in ownership, 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 period 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, and
- 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 period were as follows:

R Bennison	Appointed 1 October 2011, resigned 10 May 2012
A Cates	Appointed 1 October 2011, resigned 30 July 2012
S Collins	Appointed 30 July 2012
P Crozier	Resigned 1 October 2011
JG Griffith-Jones	Appointed 1 October 2011, resigned 30 July 2012
H Jackson	Resigned 1 October 2011
R Kerry	Resigned 1 October 2011
P Long	Appointed 1 October 2011
J Marsh	Appointed 30 July 2012
S Ross	Resigned 1 October 2011
S Watmough	Resigned 1 October 2011
D Yip	Resigned 1 October 2011

## Directors' report continued

The company is a wholly owned subsidiary of KPMG Holdings Limited, a company owned by KPMG LLP (see note 15). 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 or any other members of the KPMG Holdings group 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.

## Auditor

In accordance with Section 485 of the Companies Act 2006, Grant Thornton UK LLP were appointed as auditor of the company during the period. In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed 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

24 June 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 CIO Advisory Limited

We have audited the financial statements of KPMG CIO Advisory Limited for the 15 months 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 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 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](http://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 period 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 period 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

London  
27 June 2013



**Income statement**  
*for the 15 months ended 30 September 2012*

	<i>Note</i>	<b>2012</b> <b>£000</b>	<b>Year</b> <b>ended 30</b> <b>June</b> <b>2011</b> <b>£000</b>
<b>Revenue</b>		<b>25,512</b>	<b>15,993</b>
Personnel costs	4	(12,867)	(9,148)
Depreciation and amortisation	8	(118)	(202)
Other operating expenses	3	(11,218)	(4,990)
<b>Operating profit</b>		<b>1,309</b>	<b>1,653</b>
Financial income	6	77	8
Financial expense	6	(72)	-
<b>Net financial income</b>		<b>5</b>	<b>8</b>
<b>Profit before taxation</b>		<b>1,314</b>	<b>1,661</b>
Tax expense	7	(452)	(478)
<b>Profit for the financial period</b>		<b>862</b>	<b>1,183</b>

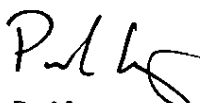
**Statement of comprehensive income**  
*for the 15 months ended 30 September 2012*

	<b>2012</b> <b>£000</b>	<b>Year</b> <b>ended 30</b> <b>June</b> <b>2011</b> <b>£000</b>
<b>Profit for the financial period</b>	<b>862</b>	<b>1,183</b>
<b>Total comprehensive income for the period</b>	<b>862</b>	<b>1,183</b>

**Statement of financial position**  
*at 30 September 2012*

	<i>Note</i>	<b>2012</b> <b>£000</b>	30 June 2011 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	-	370
		<hr/>	<hr/>
		-	370
		<hr/>	<hr/>
<b>Current assets</b>			
Trade and other receivables	10	11,058	6,052
Deferred tax	7	-	159
Cash and cash equivalents	9	1,294	2,135
		<hr/>	<hr/>
		12,352	8,346
		<hr/>	<hr/>
<b>Total assets</b>		<b>12,352</b>	<b>8,716</b>
		<hr/>	<hr/>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	12	113	96
Share premium account		1,012	255
Retained earnings		4,758	3,896
		<hr/>	<hr/>
		5,883	4,247
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	11	6,132	3,795
Corporation tax		337	674
		<hr/>	<hr/>
		6,469	4,469
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>12,352</b>	<b>8,716</b>
		<hr/>	<hr/>

These financial statements on pages 5 to 21 were approved by the board of directors on ~~24~~ June 2013 and were signed on its behalf by



**Paul Long**  
*Director*



**Statement of changes in equity**  
*for the 15 months ended 30 September 2012*

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 July 2010	95	224	2,527	2,846
Shares issued during the year	1	40	-	41
Purchase of shares	-	(9)	-	(9)
Total comprehensive income – profit for the financial year	-	-	1,183	1,183
Dividend paid during the year	-	-	(384)	(384)
Cost of employee share scheme	-	-	570	570
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2011	96	255	3,896	4,247
Shares issued during the period	17	757	-	774
Total comprehensive income – profit for the financial period	-	-	862	862
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 September 2012</b>	<b>113</b>	<b>1,012</b>	<b>4,758</b>	<b>5,883</b>
	<hr/>	<hr/>	<hr/>	<hr/>

**Statement of cash flows**  
 for the 15 months ended 30 September 2012

	<i>Note</i>	<b>2012</b> <b>£000</b>	<b>Year</b> <b>ended</b> <b>30 June</b> <b>2011</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
Profit for the financial period		<b>862</b>	1,183
<i>Adjustments for</i>			
Depreciation and amortisation	8	<b>118</b>	202
Property, plant and equipment written off	8	<b>252</b>	-
Financial income	6	<b>(77)</b>	(8)
Financial expense	6	<b>72</b>	-
Tax expense	7	<b>452</b>	478
Costs of employee share option scheme		<b>-</b>	570
		<b>1,679</b>	2,425
Increase in trade and other receivables		<b>(4,905)</b>	(2,794)
Increase in trade and other payables		<b>2,337</b>	722
		<b>(889)</b>	353
<b>Cash (absorbed by)/generated from operations</b>		<b>(889)</b>	353
Tax paid		<b>(736)</b>	(418)
		<b>(1,625)</b>	(65)
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		<b>-</b>	(254)
Interest received		<b>10</b>	8
		<b>10</b>	(246)
<b>Cash flows from financing activities</b>			
Dividends paid		<b>-</b>	(384)
Proceeds from issue of share capital		<b>774</b>	32
		<b>774</b>	(352)
<b>Net decrease in cash and cash equivalents</b>		<b>(841)</b>	(663)
Cash and cash equivalents at the beginning of the period		<b>2,135</b>	2,798
<b>Cash and cash equivalents at the end of the period</b>		<b>1,294</b>	2,135

## Notes

### *forming part of the financial statements*

#### **1 Accounting policies**

KPMG CIO 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 company is preparing its financial statements in accordance with adopted IFRSs for the first time as a result of being acquired by KPMG Europe LLP, an entity applying adopted IFRSs. The company's previous financial statements, for the year ended 30 June 2011, were prepared in accordance with UK accounting standards.

In adopting IFRS for the first time, the company has applied IFRS 1. However, the transition to IFRS had no impact on either the income statement or statement of financial position as previously presented under UK GAAP. Accordingly, a statement of financial position as at 30 June 2010 required under IAS 1 is not presented. Similarly, notes reconciling equity and profit under both UK GAAP and IFRS, required by IFRS 1, are not relevant and so are not presented.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and in preparing an opening IFRS balance sheet at 1 July 2010 for the purposes of the transition to adopted IFRSs.

In applying adopted IFRSs, the company has applied improvements to IFRSs (issued by the IASB in May 2010). This amendment has 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.

The company has also adopted the following IFRSs and related amendments and interpretations:

- 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

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

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 disclosures.

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.

## Notes continued

### 1 Accounting policies continued

#### 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.

#### 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 period 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 period 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 period, 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.

#### Financial income and expense

Financial income and expense comprises bank interest and expenses and foreign exchange gains and losses. Interest income and expense is recognised as it accrues, using the effective interest method.

#### Property, plant and equipment

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

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

Office furniture, fittings and equipment	5-12 years
Computer and communications equipment	2-5 years

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

## Notes continued

### 1 Accounting policies continued

#### **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 and call deposits. The cash and cash equivalents are stated at their nominal value 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

#### **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 period 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

## Notes continued

### 1 Accounting policies continued

#### Staff costs

Staff costs represent charges for the 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, including those who are authorised signatories of the company. Direct staff costs arising prior to the change in ownership are also included within total staff costs.

#### Employee share option scheme

Prior to the change of ownership, when share options were awarded to employees, the fair value of the options at the date of grant was charged to the income statement over the vesting period. Non-market vesting conditions were taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period was based on the number of options that eventually vested. Market vesting conditions were factored into the fair value of the options granted. As long as all vesting conditions were satisfied, a charge was made.

Where the terms and conditions of options were modified before they vested, the increase in fair value of the options, measured immediately before and after the modification, was also charged to the income statement over the remaining vesting period.

All share options were redeemed at the date of the acquisition by KPMG Holdings Limited.

#### Pension costs

Until December 2011, the company contributed to directors' and employees' personal pension schemes. Contributions payable to the pension schemes are charged to the profit and loss account in the period to which they relate.

#### Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

### 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 £2,318,000 (2011: £5,907,000) 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 from time to time receives 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 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 15). Amounts paid to the auditors in respect of the audit of these financial statements totalled £18,000 (2011: £13,500). The auditors provided no non-audit services during the period (2011: £3,500).

**Notes continued**

**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

	15 months 2012 Number	12 months 2011 Number
Statutory directors	4	5
Administrative	4	8
Consultancy	30	63
Company secretary	1	1
	<u>39</u>	<u>77</u>

The aggregate employment costs (including directors' emoluments) of these persons were as follows

	15 months 2012 £000	12 months 2011 £000
Salaries (including bonuses)	6,213	7,538
Share based payments	-	570
Social security costs	454	759
Pension costs	157	281
	<u>6,824</u>	<u>9,148</u>

In addition, as explained in note 1, following its acquisition by KPMG, KPMG CIO Advisory Limited is charged for services provided by KPMG UK Limited and for the time of members of KPMG LLP who are authorised signatories of the company. The total amount charged to the company in respect of the period was £6,043,000 (2011: £nil)

**5 Directors' emoluments**

	15 months 2012 £000	12 months 2011 £000
Directors' emoluments	546	1,092
Company contributions to pension schemes	9	33
	<u>555</u>	<u>1,125</u>

Notes continued

6 Financial income and expense

	15 months 2012 £000	12 months 2011 £000
<b>Recognised in profit or loss:</b>		
Exchange gains	67	-
Bank interest income	10	8
	<u>77</u>	<u>8</u>
Financial income		
Exchange losses	(72)	-
	<u>(72)</u>	<u>-</u>
Financial expense		

The total interest arising from financial assets that were not classified as fair value through profit or loss was £10,000 (2011 £8,000)

7 Tax expense

Analysis of charge in the period

	15 months 2012 £000	12 months 2011 £000
Current period		
UK corporation tax on profits of the period at 25% (2011 27.5%)	471	637
Compensation payments receivable	(106)	-
Adjustments in respect of the prior year	(72)	(4)
Deferred tax expense	159	(155)
	<u>452</u>	<u>478</u>
Tax expense in income statement		
	<u>452</u>	<u>478</u>
	15 months 2012 £000	12 months 2011 £000
Current tax reconciliation		
Profit before taxation	1,314	1,661
	<u>329</u>	<u>457</u>
Profit, multiplied by the average standard rate of corporation tax in the UK of 25% (2011 27.5%)		
Impact of items not allowable and timing differences	36	180
Adjustment in respect of the prior year	(72)	(4)
UK corporation tax charge arising on transfer pricing adjustments	106	-
Compensation payments receivable relating to transfer pricing adjustments	(106)	-
Deferred tax expense	159	(155)
	<u>452</u>	<u>478</u>
Actual tax charge for the period, as above		



**Notes continued**

**7 Tax expense continued**

Following the change in ownership, deferred tax assets were reversed as all differences giving rise to the deferred tax asset were either written off or transferred from the company

The corporation tax charge in the current period in part results from the impact of UK transfer pricing legislation. However, a payment to compensate KPMG CIO Advisory Limited is made by the members of KPMG LLP and by other group undertakings where appropriate.

**8 Property, plant and equipment**

	<b>Office furniture, fittings and equipment £000</b>
<b>Cost</b>	
Balance at 1 July 2010	827
Additions	254
Disposals	(125)
	<hr/>
Balance at 30 June 2011	956
Write-off	(956)
	<hr/>
<b>Balance at 30 September 2012</b>	<b>-</b>
	<hr/>
<b>Depreciation</b>	
Balance at 1 July 2010	509
Charge for the year	202
Disposals	(125)
	<hr/>
Balance at 30 June 2011	586
Charge for the period	118
Write-off	(704)
	<hr/>
<b>Balance at 30 September 2012</b>	<b>-</b>
	<hr/>
<b>Net book value</b>	
At 1 July 2010	318
	<hr/>
At 30 June 2011	370
	<hr/>
<b>At 30 September 2012</b>	<b>-</b>
	<hr/>

Notes continued

9 Cash and cash equivalents

	2012 £000	30 June 2011 £000
Bank balances	1,294	2,135
Cash and cash equivalents in the statement of financial position	<u>1,294</u>	<u>2,135</u>

10 Trade and other receivables

	2012 £000	30 June 2011 £000
Trade receivables	1,657	5,559
Unbilled amounts for client work	661	348
Amounts due from other ELLP group undertakings	8,740	-
Prepayments	-	145
	<u>11,058</u>	<u>6,052</u>

Trade receivables are shown net of impairment losses amounting to £123,000 (2011: £nil), the movement for the period is recognised in 'Other operating expenses'. An analysis of overdue trade receivables is given in note 13. All receivables fall due within one year.

11 Trade and other payables

	2012 £000	30 June 2011 £000
Trade payables	-	662
Amounts billed on account	-	245
Amounts due to other ELLP group undertakings	6,024	-
Accruals	23	1,998
Other taxes and social security	69	890
Other payables	16	-
	<u>6,132</u>	<u>3,795</u>

Notes continued

12 Capital and reserves

Share capital

	2012	30 June 2011
	£000	£000
<i>Authorised</i>		
1,200,000 Ordinary shares of 10p each	120	120
	<hr/>	<hr/>
<i>Allotted</i>		
1,128,000 (2011 957,751) Ordinary shares of 10p each	113	96
	<hr/>	<hr/>

During the current period, the share capital of the company increased due to the exercise of call options over 170,249 shares (2011 15,438) of the company prior to the acquisition by KPMG Holdings Limited on 1 October 2011. The nominal value of these shares was £17,000 (2011 £1,500) and the consideration received was £774,000 (2011 £59,000).

At 30 September 2012, there were no remaining share options in issue (2011 170,249). Accordingly, the profit and loss reserve includes £nil (2011 £570,000) in respect of share based payments.

The share capital of the company is entirely owned by the KPMG LLP sub-group (see note 15). 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.

13 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 uses 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. Use of interest rate options or swaps is considered but no such derivatives were in fact entered into during the year.

The financial assets and liabilities of the company are non interest bearing, with the exception of bank balances which are variable rate instruments.

Notes continued

13 Financial instruments continued

a) Market risk continued

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates during the year would have increased or decreased profit by £16,700 (2011 £24,700). This analysis assumes that all other variables remain constant.

*Exchange rate risk*

The functional currency of the company is the pound sterling. However, certain expenses and charges from other KPMG International member firms or other international relationships are denominated in other currencies. In addition, some fees are 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.

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 June 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.

	30 September 2012 £000	30 June 2011 £000
<b>Loans and receivables</b>		
Trade receivables	1,657	5,559
Bank balances	1,294	2,135
Amounts due from other ELLP group undertakings	8,740	-
	<hr/>	<hr/>
<b>Total financial assets</b>	11,691	7,694
Unbilled amounts for client work	661	348
	<hr/>	<hr/>
	12,352	8,042
	<hr/>	<hr/>

**Notes continued**

**13 Financial instruments continued**

**b) Credit risk continued**

**Impairment losses**

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

	<b>Gross 30 September 2012 £000</b>	<b>Impairment 30 September 2012 £000</b>	<b>Gross 30 June 2011 £000</b>	<b>Impairment 30 June 2011 £000</b>
Overdue 1-30 days	346	-	2,088	-
Overdue 31-180 days	192	-	772	-
More than 180 days	393	123	-	-
	<u>931</u>	<u>123</u>	<u>2,860</u>	<u>-</u>

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

	<b>2012 £000</b>	<b>30 June 2011 £000</b>
Balance at 1 July	-	-
Impairment loss recognised	123	-
	<u>123</u>	<u>-</u>
Balance at 30 September	<u>123</u>	<u>-</u>

There were no impairment provisions against other financial assets at either period end

**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.

**Notes continued**

**13 Financial instruments continued**

**c) Liquidity risk continued**

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

	2012 £000	30 June 2011 £000
Amounts due to other ELLP group undertakings	6,024	-
Accruals	23	1,998
Trade payables	-	662
Other payables	16	-
	<u>6,063</u>	<u>2,660</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 30 June 2011, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1.

**14 Operating leases**

The company's total commitments under non-cancellable operating leases are as follows:

**Non-cancellable operating lease rentals**

	2012 £000	30 June 2011 £000
<b>Operating leases which expire</b>		
Less than one year	-	-
Between one and five years	-	180
	<u>228</u>	<u>197</u>
Operating lease cost for the period in 'Other operating expenses'		
	<u>228</u>	<u>197</u>

**15 Related parties**

Following its acquisition on 1 October 2011, the company's immediate controlling party became KPMG Holdings Limited, a company registered in England and Wales.

KPMG Holdings Limited is itself wholly owned by KPMG LLP, a limited liability partnership registered in England and Wales, which in turn is controlled by 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](http://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.

Notes continued

15 Related parties continued

*Transactions with ELLP group undertakings*

Transactions with ELLP group undertakings during the period were as follows

	15 months ended 30 September 2012 £000	Year ended 30 June 2011 £000
<b>KPMG LLP</b>		
Management charges – use of facilities and other services	5,356	-
Time of members of KPMG LLP	96	-
Corporation tax compensation payments – current period	(183)	-
	<hr/>	<hr/>
<b>KPMG UK Limited</b>		
Services of staff	5,947	-
Corporation tax compensation payments – current period	77	-
	<hr/>	<hr/>

Such transactions reflect appropriate charges for the costs of shared services

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

	30 September 2012 £000	30 June 2011 £000
<b>Trade and other receivables</b>		
Amounts due from other ELLP group undertakings	8,740	-
	<hr/>	<hr/>
<b>Trade and other payables</b>		
Amounts due to other ELLP group undertakings	6,024	-
	<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 in the current period, as set out in note 5. 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 June 2011.