KPMG CIO Advisory Limited

Directors' report and financial statements

Registered number 03906440

30 September 2017

Contents

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2017. In accordance with Section 414B of the Companies Act 2006, the company is entitled to the small companies' exemption in relation to the strategic report and hence no separate strategic report is presented.

Business review

The company

KPMG CIO Advisory Limited (the company) is a wholly owned subsidiary of KPMG Holdings Limited (see note 12). The company's ultimate controlling party is KPMG LLP (together with its subsidiary undertakings, the group).

Nature of the business

The company provides information technology consultancy services, particularly client-side advice across the IT lifecycle, including IT strategy, architecture, sourcing, change delivery and service management; services are provided through a sub-contracting agreement in place with KPMG LLP.

Strategy

The company's strategy reflects that of KPMG LLP. The purpose of 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 continues 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's business is a part). There were therefore no specific KPI's relating solely to the performance of the company.

Performance and development during the year

Revenue decreased during the year to £5,653,000 from £7,810,000 in 2016 reflecting the expected reduction in the level of work sub-contracted from KPMG LLP, the company's ultimate controlling party. Management expect this trend to continue.

After recoverable expenses and charges from fellow group entities, the company reported an operating profit of £893,000 (2016: £789,000). A dividend of £600,000 was paid in the current year (2016: £1,000,000).

Financial position at the end of the year

The company's financial position remains satisfactory with net assets of £1,919,000 at 30 September 2017 (2016: £1,797,000).

The company's main financial assets are amounts due from other UK group undertakings.

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 11 to the financial statements.

Relationships and resources

Relationships with clients

The company seeks to achieve excellent client relationships through the delivery of high quality services. Relationships with clients are monitored through the group's routine client service review.

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. Certain other individuals are authorised to enter engagements on behalf of the company and these include individuals who are separately members of KPMG LLP. They receive no remuneration from KPMG CIO Advisory Limited for services performed for the company.

Charges are received from KPMG UK Limited, a fellow group undertaking set up for staff employment purposes, for the provision of the services of employees working on the assignments of KPMG CIO Advisory Limited. Charges are also received from KPMG LLP in respect of services provided to the company by the members of KPMG LLP.

The group makes every effort 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 leadership of the group and the employees of KPMG UK Limited. This communication operates principally through regular meetings, newsletters and electronic mail bulletins.

Directors' report continued

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.

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 group are also relevant to the future development and performance of the company:

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

Each of these risk areas is considered by the board of KPMG LLP 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:

EN Barnicoat	Appointed 31 July 2017
SJ Collins	Resigned 31 July 2017
P Long	
MA McDonagh	Resigned 1 February 2017
SKG Willows	Appointed 1 February 2017

The directors in office at the end of the financial year had no direct interest in the shares of the company or any other members of the KPMG Holdings group (being KPMG Holdings Limited and its subsidiary undertakings) but, by virtue of their position as members of KPMG LLP, had an indirect interest in the entire share capital of the company. P Long retired as a member of KPMG LLP during the previous year and therefore has no residual interest in any of the share capital of the company.

The company secretary is J Dean.

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 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

J Dean
Company Secretary

15 Canada Square
London
E14 5GL

29 January 2018

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 (IFRSs) 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 IFRSs 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

Opinion
We have audited the financial statements of KPMG CIO Advisory Limited (the 'company') for the year ended 30 September 2017 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 notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:
- give a true and fair view of the state of the company's affairs as at 30 September 2017 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to
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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The directors are responsible for the other information. The other information comprises the information included in the director's report, set out on pages 1 to 2 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

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

London
29 January 2018

Grant Thornton

Income statement
For the year ended 30 September 2017

	Note	2017 £000	2016 £000
Revenue		**5,653**	7,810
Personnel costs	*4*	**(3,499)**	(4,199)
Other operating expenses	*3*	**(1,261)**	(2,822)
Operating profit		**893**	789
Financial income	*5*	**2**	1
Profit before taxation		**895**	790
Tax expense	*6*	**(173)**	(156)
Profit for the financial year		**722**	634

Statement of comprehensive income
For the year ended 30 September 2017

	2017 £000	2016 £000
Profit for the financial year	**722**	634
Total comprehensive income for the year	**722**	634

Statement of financial position
At 30 September 2017

	Note	2017 £000	2016 £000
Assets			
Current assets			
Trade and other receivables	*7*	**2,743**	4,869
Cash and cash equivalents	*8*	**674**	1,165
Total assets		**3,417**	6,034
Equity and liabilities			
Equity			
Share capital	*10*	**113**	113
Share premium account		**1,012**	1,012
Retained earnings		**794**	672
		1,919	1,797
Current liabilities			
Trade and other payables	*9*	**1,324**	4,079
Corporation tax		**174**	158
		1,498	4,237
Total equity and liabilities		**3,417**	6,034

These financial statements on pages 6 to 18 were approved by the board of directors on 29 January 2018 and were signed on its behalf by:

Paul Long
Director

KPMG CIO Advisory Limited: 03906440

Statement of changes in equity
For the year ended 30 September 2017

	Note	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 October 2015		113	1,012	1,038	2,163
Total comprehensive income					
Profit for the financial year		-	-	634	634
Transactions with owners of the company					
Dividend paid during the year	*12*	-	-	(1,000)	(1,000)
Balance at 30 September 2016		113	1,012	672	1,797
Total comprehensive income					
Profit for the financial year		-	-	722	722
Transactions with owners of the company					
Dividend paid during the year	*12*	-	-	(600)	(600)
Balance at 30 September 2017		**113**	**1,012**	**794**	**1,919**

Statement of cash flows
For the year ended 30 September 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the financial year		**722**	634
Adjustments for:			
Financial income	*5*	**(2)**	(1)
Tax expense	*6*	**173**	156
		893	789
Decrease in trade and other receivables		**2,125**	1,755
Decrease in trade and other payables		**(2,755)**	(338)
Cash generated by operations		**263**	2,206
Tax paid		**(156)**	(265)
Compensation payment paid to group undertakings		**-**	(5)
Net cash generated from operating activities		**107**	1,936
Cash flows from investing activities			
Interest received	*5*	**2**	1
Net cash flows from investing activities		**2**	1
Cash flows from financing activities			
Dividends paid	*12*	**(600)**	(1,000)
Net cash flows from financing activities		**(600)**	(1,000)
Net (decrease)/ increase in cash and cash equivalents		**(491)**	937
Cash and cash equivalents at the beginning of the year		**1,165**	228
Cash and cash equivalents at the end of the year		**674**	1,165

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 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union (adopted IFRSs) and have been approved by the directors.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Whilst there are a number of new standards, interpretations and amendments to adopted IFRSs, all of these have effective dates such that they do not yet fall to be applied by the company.

The company did not early adopt any IFRSs and related amendments in the year ended 30 September 2017. However, the company elected to early adopt the following IFRSs and related amendments in the year ended 30 September 2016:

- Improvements to IFRSs 2012- 2014 Cycle; effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 1: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2016.

These amendments had no impact on these financial statements.

There are no other standards, interpretations or amendments that required mandatory application or were available for early adoption at 30 September 2017 except for IFRS 9: 'Financial Instruments' and IFRS 15: 'Revenue from Contracts with Customers' (see below).

Future developments

There are a number of new standards, interpretations and amendments issued by the IASB that are effective for financial statements after this reporting period. The most relevant are:

- IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018 (endorsed 22 November 2016).
- IFRS 15: 'Revenue from Contracts with Customers'; effective for periods beginning on or after 1 January 2018 (endorsed 22 September 2016) and subsequent Clarifications to IFRS 15: 'Revenue from Contracts with Customers' (endorsed 31 October 2017).
- Amendments to IAS 7: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2017 (endorsed 6 November 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2017/1 January 2018.

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

Basis of preparation

The financial position of the company, its cash flows and liquidity position are discussed in the directors' report. 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.

The financial statements have been 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 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 currencies other than the company's functional currency are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are translated 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, either directly to the client or through the sub-contracting agreement in place with KPMG LLP, 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 the proportion of revenue recognised in the year equates to the proportion of cost incurred to total anticipated cost, 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. Costs incurred are carried within 'Unbilled amounts for client work' but appropriately provided until such a time as the contingency is removed. Expected losses are recognised as soon as they become probable based on latest estimates of revenue and costs.

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

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 year 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

Financial income comprises bank interest income. Interest income is recognised as it accrues, using the effective interest method.

Non-derivative financial instruments

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

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

Notes continued

1 Accounting policies continued

Non-derivative financial instruments continued

Trade and other receivables

Trade and other receivables are initially recognised at fair value, based upon discounted cash flows at prevailing interest rates for similar instruments or at their nominal amount if due in less than 12 months. Subsequent to initial recognition, trade and other receivables are recorded 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 initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost.

Impairment

The carrying amounts of the company's financial assets are reviewed at each year end to determine whether there is any objective evidence that there is an indication of impairment which includes default by a debtor or adverse changes in the payment status of debtors or issuers. If any such indication exists, the assets' recoverable amounts are estimated.

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

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

Insurance arrangements

Insurance cover is maintained by the group in respect of professional service 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 professional service 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 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.

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:

Claims

The company from time to time receives claims in respect of professional service matters. It defends such claims where appropriate but makes provision for the possible amounts considered likely to be payable, up to the deductible amount under related insurance arrangements. A different assessment of the likely outcome in 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 12). Amounts paid to the auditor in respect of the audit of these financial statements totalled £5,000 (2016: £5,000). The auditor provided no non-audit services during either year.

4 Personnel numbers and costs

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

	2017 Number	2016 Number
Statutory directors	**3**	3
Company secretary	**1**	1
	4	4

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

As explained in note 1, KPMG CIO 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 year was £3,499,000 (2016: £4,199,000).

5 Financial income

Recognised in profit or loss:	**2017 £000**	2016 £000
Financial income : Bank interest	**2**	1

The total interest arising from financial assets that were not classified as fair value through profit or loss was £2,000 (2016: £1,000).

Notes continued

6 Tax expense

Analysis of expense in the year:

	2017 £000	2016 £000
Current year		
UK corporation tax on profits of the year at 19.5% (2016: 20%)	**175**	158
UK corporation tax adjustments in respect of the prior year	**(2)**	(2)
Tax expense in income statement	**173**	156

Profit before taxation	**895**	790
Profit, multiplied by the average standard rate of corporation tax in the UK of 19.5% (2016: 20%)	**175**	158
Adjustment in respect of the prior year	**(2)**	(2)
Actual tax expense for the year, as above	**173**	156

No deferred tax arose in either year.

Factors affecting the tax charge in future periods

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the company's future current tax charges accordingly.

7 Trade and other receivables

	2017 £000	2016 £000
Amounts due from other UK group undertakings	**2,743**	4,869
	2,743	4,869

All receivables fall due within 12 months.

Notes continued

8 Cash and cash equivalents

	2017	2016
	£000	£000
Bank balances	**674**	1,165
Cash and cash equivalents in the statement of financial position	**674**	1,165

9 Trade and other payables

	2017	2016
	£000	£000
Amounts due to other UK group undertakings	**1,324**	4,079
	1,324	4,079

10 Share capital

	2017	2016
	£000	£000
Authorised		
1,200,000 Ordinary shares of 10p each	**120**	120
Allotted, called up and fully paid		
1,128,000 Ordinary shares of 10p each	**113**	113

The share capital of the company is entirely owned by the group through KPMG Holdings Limited (see note 12). 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.

Notes continued

11 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 year under review, the policy of the company and the group 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 KPMG LLP 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) Accounting classifications and fair values

The estimated fair values of the company's financial assets and liabilities approximate their carrying values at 30 September 2017 and 30 September 2016, largely owing to their short maturity. The basis for determining fair values of financial assets and liabilities are disclosed in note 1. The following table shows the classification and carrying amounts of the company's financial assets and financial liabilities. The company has no financial instruments carried at fair value at either 30 September 2017 or 30 September 2016.

	Note	**2017**	2016
		£000	£000
Loans and receivables			
Amounts due from other UK group undertakings	*7*	**2,743**	4,869
Cash and cash equivalents	*8*	**674**	1,165
Total financial assets - loans and receivables		**3,417**	6,034
Non-derivative financial liabilities measured at amortised cost			
Amounts due to other UK group undertakings	*9*	**1,324**	4,079
Total net financial instruments		**2,093**	1,955

b) 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.

Notes continued

11 Financial instruments continued

b) Market risk continued

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 cash and cash equivalents which are variable rate instruments.

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 £9,000 (2016: £7,000). This analysis assumes that all other variables remain constant.

Exchange rate risk

The functional currency of the company is pound sterling. As all transactions of the company are now largely with other UK group undertakings, the directors do not consider there to be any significant currency risk.

c) 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.

As the company now has no direct client relationships and continues to operate only through the sub-contracting agreement in place with KPMG LLP, the directors do not consider there to be any credit risk.

d) 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 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 non-derivative financial liabilities as set out in the table in section a) on page 16. All of those financial liabilities are measured at amortised cost. 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 12 months.

12 Related parties

The company's immediate controlling party is KPMG Holdings Limited, a company incorporated and registered in England and Wales. KPMG Holdings Limited is wholly owned by KPMG LLP, a limited liability partnership registered in England and Wales. KPMG LLP is the company's ultimate controlling party.

The largest group in which the results of the company are consolidated for the year ended 30 September 2017 and 30 September 2016 is that of KPMG LLP and its subsidiaries. The group financial statements of KPMG LLP for the year ended 30 September 2017 and 30 September 2016 are available to the public at www.kpmg.com/uk.

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

Notes continued

12 Related parties continued

Transactions with other UK group undertakings

Transactions with other UK group undertakings during the year were as follows:

	2017 £000	2016 £000
KPMG LLP		
Sub-contracted revenues	**(5,653)**	(7,810)
Management charges – use of facilities and other services	**858**	2,063
Time of members of KPMG LLP	**116**	120
KPMG UK Limited		
Services of staff	**3,383**	4,079

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

A dividend of £600,000 was paid by the company to its parent entity during the year (2016: £1,000,000).

At the year end, balances with other UK group undertakings were as follows:

	2017 £000	2016 £000
Trade and other receivables		
Amounts due from other UK group undertakings	**2,743**	**4,869**
Trade and other payables		
Amounts due to other UK group undertakings	**1,324**	**4,079**

Transactions with key management personnel

The directors of the company at 30 September 2017 (with the exception of P Long) are all separately members of KPMG LLP 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 2017 or 30 September 2016.