



*cutting through complexity™*

KPMG Europe LLP

# Transparency Report 2010



# KPMG Europe LLP

## 2010 Transparency Report



The Joint Chairmen,  
**John Griffith-Jones (left)**  
**Rolf Nonnenmacher (right)**

Welcome to the 2010 KPMG Europe LLP Transparency Report. This is the third year that we have voluntarily produced a report. We continue to do this as we believe that it is vitally important that the external world understands the measures that we take to ensure that we deliver the highest quality of service to all of our clients. Quality is important in all of our services (as it underpins our very reputation). It is however arguably most important of all for our statutory audit business as investors and the wider capital market need to be able to have confidence in our work. It is for this reason that our strategy continues to be underpinned by a commitment to quality.

During the course of this year, there has been much debate on the role that audit firms played in the financial crisis. In particular this has questioned why financial reporting did not forewarn investors of the impending crisis. Most recently the EU has issued a paper on the role of auditors which has questioned whether or not additional measures, such as tightening auditor independence standards, introducing mandatory audit firm rotation or requiring joint audits are necessary.

We understand why this debate is taking place and are greatly supportive of any measures that help improve the quality and usefulness of financial statements. We continue to believe that the quality of financial statement audits was not an issue in the financial crisis. Indeed the UK Treasury Select Committee Report<sup>1</sup> into the banking crisis found that there was, "...very little evidence that auditors

failed to fulfil their duties as currently stipulated". In other words audit firms audited accounts in accordance with prevailing auditing standards and those accounts were prepared in accordance with prevailing accounting standards.

That said, we recognise that change is required as the financial reporting of banks clearly did not provide sufficient warnings to investors and other stakeholders of the potential impending balance sheet valuation issues. Whilst we believe that financial statements can never forecast unanticipated macro-economic dislocations, nonetheless some reform of corporate reporting is required to make financial statements more transparent in these sorts of areas – especially around risks and prospective issues. Once the extent of this reform has been decided, then the issue of what external assurance or audit is required can be addressed.

<sup>1</sup> House of Commons Treasury Committee – Banking Crisis-reforming corporate governance and pay in the City – Ninth report of Session 2008–09 (12 May 2009).

## KPMG Europe LLP

### 2010 Transparency Report continued

We support any measures that are put in place to help sustain the confidence of our stakeholders. As such we welcome the added independent scrutiny and challenge into our operations through the appointment of external non-executives as required by the UK Code on Audit Firm Governance. We believe that this is a positive step for both the audit profession and the wider capital market and as such we have decided that the role of these external non-executives should extend across all of our operations.

We hope that you find this report useful in helping to explain how we ensure the quality of our work and would be happy to discuss any questions that you may have.



**John Griffith-Jones**  
**Rolf Nonnenmacher**

15 December 2010



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# Section 1

## Who we are

### 1.1 Our business

KPMG Europe LLP was created in October 2007 through the merger of our German and UK firms. Since that time we have been joined by KPMG firms operating in many other territories. KPMG Europe LLP itself together with those operating firms that had joined as at 30 September 2010 are referred to throughout this report as the 'group'.

The group, a cross-border professional services group, delivers audit, tax and

advisory services to help its national and international clients negotiate risks and thrive in the varied environments in which they do business. Further details of our service offerings can be found on our website at the following link <http://www.kpmg.com/EU/en/WhatWeDo/Pages/default.aspx>.

The following diagram depicts how the key elements in our system of quality control fit together.

### 1.2 Tone at the top

The critical components for an effective tone at the top that provides a clear focus on quality include:

- **culture, Values and Code of Conduct:** clearly stated and demonstrated in the way we work
- **focused and well articulated strategy:** incorporating quality at all levels; and
- **governance structure and leadership responsibility for quality:** skilled and experienced people in the right positions to influence the quality agenda.

#### Culture, Values and Code of Conduct

KPMG is committed to doing the right thing in the right way for our people, our clients and the capital markets we serve.

We have clearly stated Values and a Code of Conduct against which an expected level of performance and behaviour is understood.

Our Values also help shape the culture of our group by creating a sense of shared identity. Our final, and key, Value is that 'above all we act with integrity'. For us integrity means constantly striving to uphold the highest professional standards in our work, providing sound good quality advice to our clients and rigorously maintaining our independence.

### Key elements in our system of quality control



At the centre of our system of quality control is the tone at the top of our organisation (which promotes quality and strong and unequivocal ethical values at all times). All of the other key aspects of our system of

quality control then operate within a virtuous circle, with each element of the model reinforcing the others. Each of these key elements of our quality control system is described in more detail throughout the report.

## Section 1

### Who we are continued

Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices at KPMG. For example, they are reflected in the performance appraisal process that our people follow, and adherence to these Values is also reviewed when our people are considered for more senior promotions (including promotion to partner).

Our Code of Conduct defines the standards of ethical conduct that we require from our firms and our people. The Code sets out KPMG's ethical principles, and helps partners and employees to understand and uphold those principles. The Code emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. It has provisions that require KPMG people to:

- comply with all applicable laws, regulations and KPMG policies
- report any illegal acts whether committed by KPMG personnel, clients or other third parties
- report breaches of risk management policies by KPMG firms or people
- uphold the highest levels of client confidentiality; and
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

We understand that trustworthiness is a critical characteristic that stakeholders expect and rely upon. It is this commitment that underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities.

Our group has established a whistle-blowing hotline to ensure that anyone who has concerns about how others are behaving (either internally at KPMG or externally) can raise the issue – even when it is difficult. The whistle-blowing hotline (which is currently available in CIS, Germany, the Netherlands, Spain, Switzerland, Turkey and the UK) allows people to report their concerns (via telephone, secure internet line or surface mail) to a third-party organisation. Our people can raise matters anonymously and without fear of retaliation.

Matters reported to this hotline are investigated under the supervision of independent ombudsmen (who where the law permits are external to KPMG). The ombudsmen prepare a report on the hotline for the Quality & Risk Committee and going forward to the new Public Interest Committee. This report covers the matters reported to the hotlines, how the investigations were conducted, the findings from the investigations and the implications for our policies and procedures.

#### **Our strategy**

Our overall ambition remains to be the number one multi-disciplinary professional services firm in Europe.

The Board has determined that a commitment to quality is one of the most important priorities in our strategy. We recognise that if we do not get the quality of our service and deliverables right then each and every one of the other objectives in our business plan may be jeopardised. Each of the priorities in our strategy is underpinned by an enabling programme – including a dedicated project (which is being sponsored by two of our Board members) to look at how we continually reinforce the importance of quality across our group.

Further details of how our business is performing can be found in our 2010 Annual Report [www.kpmg.eu/annualreport](http://www.kpmg.eu/annualreport).

#### **Our governance structure and leadership responsibility for quality**

Our governance structure is set out in detail in section 2.1 and those within our leadership who have a responsibility for quality are described in section 3.2.

## Section 2

### Group structure and governance

#### 2.1 Group structure and governance

##### Legal structure and ownership

KPMG Europe LLP's operating firms are affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Section 7.

KPMG Europe LLP itself is incorporated as a UK limited liability partnership under the Limited Liability Partnerships Act 2000. It is the holding entity for a number of KPMG firms in Europe. During the year to 30 September 2010, KPMG Europe LLP's firms operated in the UK, Germany, Switzerland, Spain, Belgium, the Netherlands, Luxembourg, the CIS<sup>1</sup>, and Turkey. Interests were acquired in the KPMG entities operating in Turkey on 1 October 2009, in Luxembourg on 6 November 2009, the Netherlands on 28 October 2009 and in the CIS on 4 February 2010. KPMG Europe LLP is wholly owned by its members (partners) all of whom work in KPMG firms in specific countries<sup>2</sup>. For regulatory or other reasons KPMG Europe LLP is not the legal owner of all of the operating companies in certain jurisdictions.

Although KPMG Europe LLP is a registered audit firm in the UK, it does not provide services to clients; all client work is performed by the various operating firms that are part of the group.

All members of KPMG Europe LLP as at 30 September 2010 are either full or affiliate members of the Institute of Chartered Accountants of England and Wales (ICAEW) or are full members of one of the other three British or Irish Institutes. During the year ended 30 September 2010 there was an average of 1,362 members of KPMG Europe LLP.

From 1 October 2010, the partners based in the KPMG firms in Norway and Saudi Arabia are in the process of becoming members of KPMG Europe LLP.

A list of the key entities that are currently part of our group, together with details of their legal structure, regulatory status, nature of their business and area of operation, is set out in Appendix 1.

##### Governance

As a major international organisation, our group applies high standards of corporate governance. The governance structure for our parent entity, KPMG Europe LLP, therefore mirrors to a large extent that followed by our major clients.

We are totally committed to ensuring that we stay at the forefront of good governance. In that respect, as previously noted KPMG Europe LLP has adopted the new UK Audit Firm Governance Code at group level (which has included the establishment of a Public Interest Committee comprised of three external non-executives). Further details about the UK Audit Firm Governance Code can be accessed at the following link <http://www.frc.org.uk/about/auditfirm.cfm>.

##### The Board

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

The KPMG Europe LLP Board is responsible for ensuring that the group is run in the interests of the members as a whole and in a manner which is in keeping with the standing and reputation of the group. The Board's responsibilities include setting the strategy, overseeing its implementation by the Executive Committee and considering the group's overall financial performance and solvency.

During the year, the Board comprised the two Joint Chairmen, eight additional officers (being the Chief Operating Officer, and the Heads of Audit, Tax, Advisory<sup>3</sup>, Markets, Finance & Infrastructure, Human Resources and Quality & Risk (formerly known as the Head of Risk & Compliance)) and a number of KPMG partners who held non-executive roles for the group. As at 30 September 2010, there were a total of 26 partners on the Board.

The Joint Chairmen are responsible for leading the group, one of them chairing the Board and the other the Executive Committee. Whilst they are both formally appointed by the Board their appointment must be ratified by an ordinary resolution of the members. They have both served three years of their initial five-year term of office (which is renewable for an additional three years). Either Joint Chairman can be removed from office at any time by an extraordinary resolution of the members.

The eight additional officer roles (10 from 1 October 2010) are appointed by the Board after considering the recommendations of the Joint Chairmen and the Nominations Committee. They are elected for a term of three years, renewable for such a period as the Board sees fit. The KPMG partners who hold a non-executive role on the Board are recommended for appointment by the Nominations Committee in consultation with the Joint Chairmen. Their appointment is subject to ratification by an ordinary resolution of the members; they are elected for a term of three years and can serve for two terms (or in the case where the non-executive members are senior partners of one of our operating firms they may be appointed for the period that they hold that office).

<sup>1</sup> Commonwealth of Independent States includes Russia, Ukraine, Armenia, Georgia, Kazakhstan and Kyrgyzstan.

<sup>2</sup> In the case of the Netherlands, each partner's interest in KPMG Europe LLP is owned through a personal holding company wholly owned by the partners.

<sup>3</sup> From 1 October 2010, the Head of Advisory board position was split into three new positions being: Head of Performance & Technology (P&T), Head of Transactions & Restructuring (T&R) and Head of Risk & Compliance (R&C).

## Section 2

### Group structure and governance continued

The UK Audit Regulations require a majority of the Board to have attained an appropriate accounting professional qualification from one of the EU member states. At present 15 members (accounting for approximately 58 percent) of the Board hold this qualification.

The Board met nine times in the year to 30 September 2010 including a full day meeting in March 2010 to consider the group's strategic plan.

Underneath the Board are five main bodies that deal with key aspects of governance within the group. These are:

- the Executive Committee
- the Quality & Risk Committee
- the Audit Committee
- the Nominations Committee; and
- the Remuneration Committee.

In addition, as recommended by the ICAEW Audit Firm Governance Code with effect from 1 October 2010, a new Public Interest Committee was formed.

Details about the role and responsibilities and composition of each of these key bodies are set out below. Full details of those holding positions on each of these bodies, including their biographies and the number of board meetings and sub-committee meetings that they attended in the year and how long they have served are set out in Appendix 2.

#### The Executive Committee

The Executive Committee is responsible for recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the group (including the operating and financial performance, budgets, new business proposals, marketing,

technology development, recruitment, and retention and general remuneration).

The Executive Committee includes one of the Joint Chairmen and those Board members responsible for Audit, Tax, Advisory<sup>1</sup>, Markets, Human Resources and Finance & Infrastructure, and the Chief Operating Officer. The other Joint Chairman and the Head of Quality & Risk receive all Executive Committee papers and have the right to attend meetings.

The Executive aims to meet at least monthly and it met 14 times either face-to-face or via video link/conference call during the year to 30 September 2010.

#### The Quality & Risk Committee

The Quality & Risk Committee (formerly the Risk & Compliance Committee) was formed to further enhance the governance over quality matters, professional risk management, ethics and independence and compliance within KPMG Europe LLP. The decision to rename the Committee (which was taken by the Board during the year) was made to better describe the role that the Committee fulfils for the Board in providing oversight, in particular around quality matters across the group.

The principal role of this Committee is to ensure that a culture of quality and integrity is maintained within the group and, where required, to act as a sounding board to the Head of Quality & Risk on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions.

During the year ended 30 September 2010, the Quality & Risk Committee consisted of four KPMG partners who held a non-executive role on the Board

and who are appointed to the committee by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Quality & Risk Committee met six times in the year to 30 September 2010. This included holding a meeting with the Chairman of the Audit Committee to discuss the process for identifying all key risks (both professional and enterprise) currently facing the Group.

#### The Audit Committee

The Audit Committee is responsible for reviewing the annual financial statements of the legal group, considering accounting issues arising in respect of the legal group's affairs, receiving and considering reports from the internal and external auditors as well as reviewing the effectiveness of the operational and financial controls within the group.

The Audit Committee comprised at least three KPMG partners who hold a non-executive role on the Board and who are appointed to the Committee by (and for a term determined by) the Joint Chairmen with the approval of the Board. The Audit Committee met three times in the year to 30 September 2010.

#### The Nominations Committee

The Nominations Committee is responsible for consulting with the members to help identify suitable candidates within the group for appointment to the Board and other key appointments and making recommendations to the Board and Joint Chairmen as appropriate. The Nominations Committee met four times in the year to 30 September 2010. The members of the Nominations Committee are appointed by the Board, for a non-renewable term of three years. As at 30 September 2010 there were five members on the committee, being the two non-executive board members and three non-board members.

<sup>1</sup> In April 2010, the Head of Advisory retired from the Executive. From 1 October 2010, the Heads of P&T, R&C and T&R were appointed to the Executive.

## Section 2

### Group structure and governance continued

#### The Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Joint Chairmen and officers and making recommendations on policies for partners' remuneration. It is also responsible for approving the process for determining partner remuneration used by the Executive Committee and hearing appeals from partners regarding their remuneration.

As part of its activities, the Remuneration Committee receives and considers a report from the Head of Quality & Risk on (i) the approach to ensuring that quality issues are appropriately considered in partner counselling and (ii) whether or not there are any quality concerns about specific partners. In addition, it receives detailed quality and risk compliance metrics for the KPMG Europe LLP Board members, Executive Committee members, KPMG Europe LLP sector leads, country operating team members and the lead partners for the top accounts, for whom it has a responsibility to monitor pay.

The Remuneration Committee comprises eight KPMG partners who hold a non-executive role on the Board and who are appointed to the Committee by (and for a term determined by) the Joint Chairmen with the Board's approval following consultation with the Nominations Committee. The Remuneration Committee met five times in the year ended 30 September 2010 and has held three meetings to discuss 2010 partner pay.

Further information regarding partner remuneration is set out in Section 5.

#### The Public Interest Committee – effective from 1 October 2010

As required by the UK Code on Audit Firm Governance, with effect from 1 October 2010, KPMG Europe LLP has formed a new Public Interest Committee. The Committee is responsible for overseeing the Public

Interest aspects of decision making of our group including the management of reputational risks. Acting in the public interest in this context involves having regard to the legitimate interests of clients, governments, financial institutions, employees, investors and the wider business and financial community and others relying on the objectivity and the integrity of the accounting profession to support the propriety and orderly functioning of commerce. The Public Interest Committee will also be responsible for engaging in a dialogue with external stakeholders.

In view of the commonality of interests, it is envisaged that the Public Interest Committee will normally meet jointly with the Board's Quality & Risk Committee – albeit that the two Committees would form their own conclusions on the matters discussed and may adjourn for private deliberations as necessary.

The Public Interest Committee comprises three external non-executives appointed from outside of our group. Sir Steve Robson, Dr. Alfred Tacke and Tom de Swaan have been appointed as the first members of this Committee. Further details of the background of the external non-executives is given in Appendix 2.

The group has considered the UK Audit Firm Governance Code and the Ethical Standards for Auditors in drawing up criteria for appointment of the members of the Public Interest Committee. These criteria recognise the need for the non-executives to maintain appropriate independence from the group and its partners and have due regard to the impact of any financial and business relationships held by the non-executives on the group's independence of its audit clients. The group does not consider that the non-executives are part of the chain of command for the purposes of auditor independence requirements. Prior to appointment all non-executives confirm that they will at all times comply with the overriding principles of ethical and professional conduct as set out in the group's Ethics and Independence Manual.

They are required to declare to the Joint Chairmen any directorships and other employments they hold and to notify any substantial changes in advance of acceptance of any such change. They are also required to disclose to the Head of Ethics and Independence any matters which might constitute a potential conflict of interest as soon as they become aware of them.

The terms of reference for the Public Interest Committee can be found on our website at the following link [www.kpmg.eu/governance](http://www.kpmg.eu/governance).

#### Communication with the members

The Joint Chairmen and Chief Operating Officer communicate regularly with the senior partners of our operating firms as well as from time to time directly with all of the members of KPMG Europe LLP on any matters of importance for the whole group. During July 2010 there was a one day partner conference in Frankfurt where over 1,000 partners from across KPMG Europe LLP came together to discuss a range of topics including the group's strategy and business plan.

The country senior partners have primary responsibility for communication with the partners in the relevant country – they use a variety of media for this purpose including regular meetings of members in the various geographies, functions and service lines, e-mails and facilitated webex sessions.

### 2.2 Operating firms – structure and governance

The various operating firms in our group have governance structures appropriate to meet their national laws and regulations. These are described in more detail in the relevant national transparency reports (see Appendix 3 for further details on the national transparency reports).

## Section 3

# Our system of quality control

### 3.1 Overview

KPMG Europe LLP has policies of quality control that apply to all operating firms. These are designed as a minimum standard and encompass the standards issued by the International Federation of Accountants (IFAC), including International Standard on Quality Control 1 (ISQC1), relevant to firms that perform statutory audits and assurance engagements. These policies and associated procedures are designed to assist our firms in complying with relevant expert standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Individual firms implement KPMG International policies and procedures and adopt additional systems of quality control that are also designed to meet the rules and standards issued by their own national regulator and other regulators such as the US Public Company Accounting Oversight Board (US PCAOB).

At engagement level, risk management and quality control are ultimately the responsibility of each and every partner and employee. This responsibility requires them to understand our policies and associated procedures in carrying out their day-to-day activities. These policies reflect individual quality control elements to help our partners and employees act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations and professional standards.

The system of quality controls applicable across the group for all of our services encompasses the following key elements:

- leadership responsibilities for quality
- high ethical standards
- strong people management
- rigorous procedures for acceptance and continuance of clients and engagements

- processes which deliver effective engagement performance; and
- monitoring activities.

The above six elements of our system of quality control generally operate in broadly the same manner across all of our services with the exception of the processes that deliver engagement performance – which will vary depending upon the specific service being delivered. As the requirement to produce a transparency report relates to statutory audit services, the descriptions provided in section 3.6 are restricted to processes which deliver an effective statutory audit.

### 3.2 Leadership responsibilities for quality

#### The Board and Joint Chairmen

In accordance with the principles in ISQC1, the Board has assumed ultimate responsibility for KPMG Europe LLP's system of quality control. Details of some of the measures that the Board has taken to ensure that a culture of quality prevails within KPMG Europe LLP are set out in section 1.2.

#### The Head of Quality & Risk

Operational responsibility for the system of quality control and risk management in KPMG Europe LLP has been delegated to the Head of Quality & Risk.

He is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the group. He has a seat on the Board and has a direct reporting line to the Joint Chairmen. The fact that this role is a Board position, and the seniority of the reporting lines, underlines the importance that the group places on risk and quality issues. The Head of Quality & Risk also meets quarterly with the Quality & Risk Committee (and from October 2010 with the new Public Interest Committee) to ensure that appropriate senior focus is given to these important matters.

The Head of Quality & Risk is supported by a team of partners at both KPMG Europe LLP and country level. The latter have been given operational responsibility for these matters at national level.

#### Function Heads

The five group heads of the client service functions (Audit, Tax and the three Advisory service lines) are accountable to the KPMG Europe LLP Board for the quality of service delivered in their respective functions. Between them, they therefore determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Head of Quality & Risk. These procedures all make it clear though that at engagement level risk management and quality control is ultimately the responsibility of each and every partner and employee.

#### Operating firms

Each operating firm in the group has similarly allocated responsibility for quality to the national function heads and Quality & Risk partners. Whilst such individuals have reporting lines to the equivalent group roles, engagement quality and performance is controlled primarily, and in the case of audit where subject to national regulation, exclusively, at the national level.

### 3.3 High ethical standards

As already stated, KPMG's key Value is that 'above all we act with integrity'. In keeping with this Value, we are committed to achieving a high standard of ethical behaviour in everything that we do. Our firms maintain compliance with legal, ethical and professional requirements through a number of mechanisms, including adopting clear policies and procedures in this area and promulgating a Code of Conduct (see section 1.2). We also fully comply with all relevant ethics and independence policies – further details of which are set out in section 4.

## Section 3

### Our system of quality control continued

#### 3.4 Strong people management

One of the key drivers of quality is ensuring that our firms have the right engagement leaders and staff members assigned to an engagement. Our people management system encompasses the following core areas:

- recruiting and hiring
- development and training
- accreditation and licensing
- engagement assignment
- supervision
- performance evaluation and compensation; and
- partner admissions and promotions.

##### Recruiting and hiring

All candidates for professional positions submit application forms, are interviewed, and certain information in their application (such as their professional qualifications) is verified through independent sources. Upon joining the firm, personnel are also required to complete training programmes on a number of areas including ethics and independence in addition to any job-related modules.

##### Development and training

Our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

With regard to continuous learning, we provide opportunities to help our professionals meet their continuing professional development requirements as well as their own personal development goals. Technical training is provided in combination with skills training where appropriate.

In the Audit function the technical training is mandatory and is delivered through annual courses, eLearning and briefings that reinforce the need for quality throughout our audits. An online system helps professionals monitor compliance with their ongoing professional development requirements and with KPMG's accreditation requirements (see below). The contents of the courses are regularly reviewed and updated to reflect the ongoing technical competency needs of the professionals and the feedback received from course participants. In addition to structured training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

##### Accreditation and licensing

KPMG Europe LLP firms have accreditation requirements for many of our services (including for International Financial Reporting Standards, US audit and accounting work, Transactions Services and Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary. Our operating firms require that all client service professionals maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies.

##### Engagement assignment

Professionals are assigned to engagements based on a number of factors including their skill set, relevant professional and industry experience, and the nature of the assignment or engagement. The function heads are responsible for the process for allocating particular engagement leaders to clients. Engagement leaders are responsible for ensuring that their engagement teams have appropriate resources and skills.

As an additional control in Audit (where the services are of more of a recurring nature than across much of the rest of our group), the national Head of Audit together with a Quality & Risk Partner performs an annual review of the portfolio of all audit engagement leaders. The purpose of this review is to look at the complexity and risk of each audit and then to consider whether or not taken as a whole the specific engagement leader has the appropriate time and the right support to enable him or her to perform a high quality audit for each client in their portfolio.

The need for any specialists (eg tax, treasury, pensions, forensic etc.) to be assigned to a specific engagement is specifically considered as part of the engagement acceptance/continuance process (see 3.5 below).

##### Performance evaluation and compensation

All partners and staff undergo annual goal-setting and performance evaluations conducted by performance managers/partners who are familiar with the individual's performance. Each individual is evaluated on his or her attainment of agreed-upon goals, demonstration of skills/behaviours, and adherence to the group's Values.

Skills/behaviours evaluated include quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning, and relationship building and the ability to sell services (although audit partners are not permitted to have goals relating to, or be rewarded for, selling non-audit services to their audit clients).

## Section 3

### Our system of quality control continued

All engagement leaders within KPMG Europe LLP are issued with standardised quality and risk metrics which are fed into their annual counselling process. These metrics include a number of parameters, including the results of external regulatory reviews; timely completion of training; and the outcome of internal monitoring programmes.

The result of their annual performance evaluation directly affects the compensation of our partners and staff and in some cases their continued association with KPMG.

#### Partner admissions and promotions

Our process for admission to membership of KPMG Europe LLP is rigorous and thorough, involving appropriate members of the group's leadership. The procedure includes a business case and a personal case for the individual candidate. We currently have a common approach for assessing and admitting new partners in Germany, the Netherlands, Spain, Switzerland and the UK. Rigorous and thorough national partner admission processes also were used in Belgium, Luxembourg and CIS with similar elements to the KPMG Europe LLP process. Turkey did not promote any equity partners this year. All recommendations for admission to membership of KPMG Europe LLP need to be approved by the Board.

#### 3.5 Rigorous procedures for acceptance and continuance of clients and engagements

Rigorous client acceptance and continuance policies are vitally important to the group's ability to provide high-quality professional services. With every potential new client, the partner responsible for the relationship conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a standard questionnaire that assesses the risk profile. These

evaluations include an assessment of a number of external factors that have the potential to impact on the quality of our audits such as the adequacy of the internal governance processes at the client, the robustness of their financial systems and controls, the reputation of the client and the integrity of its owners. Where issues are noted, then these should be appropriately considered as part of the audit planning process. For higher risk clients and engagements, approval is required from local Quality & Risk professionals.

We re-evaluate our association with all clients (including audit clients) at least annually and whenever a client undergoes significant change in their business, financial position or ownership structure. This is conducted by the partner responsible for the client with formal approvals from Quality & Risk for higher risk clients.

This re-evaluation serves two purposes. Firstly we will decline to act for any client where we are unable to deliver to our expected level of quality or if we would not wish to be associated with the client. Secondly we use the re-evaluation to consider formally whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this would include the need to involve additional specialists on the audit where appropriate).

Over the course of the last two years our group has invested significantly in the development of an SAP-enabled IT platform for KPMG Europe LLP which has automated our client and engagement acceptance process. The system (which is currently operational in Germany and UK and is due to be deployed next in Spain in 2011) brings a number of benefits including even greater consistency, visibility and compliance around the application of these key client and engagement acceptance processes within our group.

#### 3.6 Processes which deliver effective engagement performance

Fundamental to our professional services are the quality controls which are embedded throughout the group's standard engagement processes. These quality controls include policies and guidance to help ensure that the work performed by engagement personnel meets applicable regulatory requirements, professional standards and internal standards on quality. However, the engagement leader is ultimately responsible for quality on his or her engagements.

In the following sections we provide more detail specifically as regards statutory audit services.

#### Audit methodology

Our audit methodology, developed by KPMG International's Global Services Centre, is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in our KPMG Audit Manual (KAM). This is adapted to take account of additional requirements that go beyond the ISAs where KPMG believes these enhance the quality of our audits. Each country will also adapt KAM to take account of local legislation and standards. Such methodology serves as the foundation of the financial statement audit. In 2010 KAM has been completely re-written to incorporate the requirements of the clarified ISAs (which KPMG International is adopting for December 2010 year end audits).

Leveraging technology to further improve the audit experience for our clients and our people is a key component of KPMG International's global audit IT strategy. The global rollout of KPMG's eAudit application has significantly enhanced existing audit electronic functionality. The tool promotes robust documentation, consistent implementation of the audit process and drives audit quality. eAudit is being progressively deployed to all audit professionals in 2010.

## Section 3

### Our system of quality control continued

eAuditIT enables KPMG to deliver a highly technically enabled audit and can be customised to suit all audit engagements, from major international groups to small or medium enterprises. It is an activity-based workflow and electronic audit file that integrates our methodology, auditing standards and industry knowledge with the tools needed to manage the whole audit process. Information, including industry knowledge and the requirements of the auditing standards, provided at the right time in the audit, reduces the risk of human error and helps our teams deliver valued insights. Leading technical and industry thinkers in KPMG member firms worldwide regularly update eAuditIT to reflect industry best practice. The following key activities are included in eAuditIT:

#### Planning and risk assessment

- perform risk assessment procedures to identify risks
- understand and evaluate the overall control environment; and
- determine planned audit approach.

#### Testing

- test operating effectiveness of selected controls
- assess risk of misstatement at significant account level
- plan and perform substantive procedures; and
- consider if audit evidence is sufficient and appropriate.

#### Completion

- perform completion procedures
- perform overall evaluation
- form an audit opinion; and
- report to management and the Board/Audit Committee.

The KPMG International Audit Methodology addresses both manual and automated controls and requires use of information technology professionals and other specialists in the core audit engagement team when appropriate. The methodology also includes procedures aimed at detecting and responding to the risk of material misstatement resulting from fraud. Communications relating to the engagement team's exercise of professional scepticism with respect to key audit judgements have recently been reinforced and enhanced.

The audit process is structured to require significant involvement and leadership from the audit engagement partner. He or she is responsible for ensuring that the engagement is appropriately planned; that all significant risks are identified; and that appropriate judgements and conclusions have been reached. This will involve leading the planning meetings; reviewing key audit documentation, especially audit work papers that cover significant risks and key audit judgements; and being responsible for the final audit report.

#### Supervision, review, and support for the engagement team

Lead audit engagement partners will advise key audit team members as to the objectives of their work, their responsibilities and the responsibilities of the other partners involved in the engagement. Discussions informing the team of the nature of the entity's business, risks and possible issues, and the detailed audit approach will also take place. This is communicated through planning meetings and a risk assessment and planning discussion with the team. Supervision includes tracking the progress of the engagement and assessing whether the team has the time to carry out their work, understands the work that they are being asked to perform and are performing their work correctly in accordance with the audit plan. A key part of supervision is timely review of the work performed so that significant matters are identified and addressed, through consideration by more senior team

members or consultation outside the team if necessary, and appropriate conclusions are reached.

KAM is structured to require appropriate leadership from the audit engagement partners from the planning stage (for example, through leading the planning meetings and reviewing planning and other documentation) through review to the completion of the audit.

#### Consultation and differences of opinion

Internal consultation with others is encouraged and in certain circumstances is required to address difficult or contentious matters. The role of Department of Professional Practice (DPP) is crucial in terms of the support that it provides to the Audit function. It provides technical guidance to client service professionals on specific engagement-related matters, develops and disseminates specific topic guidance on emerging local technical and professional issues and disseminates international guidance on IFRSs and ISAs.

In addition, technical support is available to our operating firms from KPMG's International Financial Reporting Group and International Standards on Auditing Group, as well as for work on SEC foreign registrants, from specialist SEC Appendix K reviewing partners.

Our operating firms have established protocols for consultation regarding documentation of significant accounting and auditing matters, including procedures to resolve differences of opinion on audit engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances a matter may be referred to the Head of Audit, Head of DPP, Head of Quality & Risk (or appropriate nationally qualified delegates) or ultimately the national senior partner (or appropriate qualified delegate).

## Section 3

### Our system of quality control continued

#### Engagement quality control review

An engagement quality control reviewer (EQCR) is required to be appointed for the audits of all listed entities and of other entities of significant public interest as well as engagements identified as high risk. Reviewers are senior and experienced partners who are independent of the engagement teams, having no responsibility for the engagement other than those relating to an objective review of the financial statements and selected audit documentation. These partners are appointed by either the national function heads or the national Quality & Risk Partner. Their role is to review selected audit documentation and client communications, the appropriateness of the financial statements and related disclosures, and the key conclusions of the audit engagement team with respect to the audit. Their review must be completed and all significant questions that they raise must be resolved satisfactorily before the audit opinion can be issued.

We are continually seeking to improve the role that the EQCR plays on our audits as we see it as a fundamental part of our system of audit quality control. In addition, a number of our regulators have made comments on the need to further enhance what we do in this area. We have therefore taken a number of actions over the last year to reinforce this, including:

- on-line training for managers and above on the role of the EQCR (including what activities a partner should be doing to perform a good engagement quality control review)
- guidance issued to national audit leadership on improving the engagement quality control review process – including the allocation of EQCR portfolios to individual partners and the importance of their EQCR activities featuring in the performance evaluation process
- a briefing on the role that everyone has to play in ensuring that an effective engagement quality control review process takes place; and
- the development of an EQCR checklist.

#### Reporting to clients

Reporting to audit clients is the key deliverable that underpins the quality of our operating firms' audit work. There are two main elements to this: (i) the formal audit report and (ii) communications with those charged with governance.

##### (i) Formal audit report

The format and content of the audit report is dictated largely by auditing standards and local legislation and will include a statement on the truth and fairness of the financial statements.

All audit reports are arrived at by experienced audit engagement partners, after involvement in, and reviewing, the work performed by the audit team. All audit reports on the financial statements of listed and other public interest entities are required to be agreed with an engagement quality control review partner. The importance of ensuring that any uncertainties are clarified before signing the audit report is emphasised in training.

We note that one of the factors that can impact on the quality of audit reports is the client's own reporting deadlines. It is the responsibility of the engagement leader to ensure that even where the client's reporting deadlines are aggressive, the audit team has performed sufficient audit procedures before a formal audit report is issued.

##### (ii) Communications with those charged with governance

Formal communications to those charged with governance of all major clients is another key aspect of reporting. We stress, in our guidance, the importance of keeping them informed at all the crucial stages of the audit of the issues arising, and provide templates for communications at planning, interim and final stages of the audit.

Whilst the content of these reports is largely driven by the requirements of auditing and ethical standards, they also act as the key mechanism for our partners to provide those charged with governance with their view of the financial statements, the key audit judgements and the company's control environment and independence matters.

In recognition of the demanding and important role that audit committees play for the capital markets and also the challenges that they face in meeting their responsibilities, the KPMG Audit Committee Institute (ACI) was created in 2002 to help audit committee members enhance their awareness, commitment and ability to implement effective audit committee processes.

The Institute, which currently operates in many KPMG Europe LLP countries (including Belgium, Germany, the Netherlands, Spain and the UK) provides audit committee members with authoritative guidance on matters of interest to audit committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

## Section 3

### Our system of quality control continued

#### 3.7 Monitoring activities

##### Internal monitoring

We meet ISQC1's monitoring requirements through the implementation of an internal inspection programme, the Quality Performance and Compliance Programme, which involves a review of a sample of engagements (from all services) as well as a review of our firm-wide risk management and independence practices. This programme is designed to help us assess compliance with ISAs (for statutory audit work), our internal risk management and compliance policies and procedures (including adherence to independence standards) and to provide reasonable assurance that our system of quality control is relevant, adequate, operating effectively and complied with in practice. This programme is designed by KPMG International and participation in it is a condition of ongoing membership of the KPMG network (see section 7 for further details). The programme has three distinct but related components:

1. Quality Performance Reviews (QPRs) are annual reviews of individual engagements conducted by teams led by senior professionals with relevant industry and technical knowledge from locations other than the office under review, including experienced partners within the global network of member firms outside of KPMG Europe LLP. Each engagement leader is selected for review at least once every three years. Engagements subject to QPR are graded as satisfactory, needing improvement or unsatisfactory. All engagement leaders receiving a 'needing improvement' rating are subject to a review in the following year and all engagement leaders receiving an 'unsatisfactory' rating will be subject to a review of another of their engagements in the current year. The rankings from the annual QPR exercise are included in the annual Quality & Risk metrics issued for all engagement leaders (as described in Section 3.4).

In 2010 our QPR programme covered the following engagements across our group:

	Number of engagements reviewed	Number/% of engagement leaders reviewed
Audit	449	337 (36%)
Tax	526	225 (44%)
Advisory	380	227 (28%)

Nearly all of the engagements reviewed in this programme were concluded to have been performed to a satisfactory standard. Overall the 2010 results were very similar to those arising in the 2009 QPR programme. Like most companies with quality review programmes we identify areas for continuous improvement from our quality review programmes. We disseminate our findings in the QPR programme to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

2. Risk Compliance Programme is an annual programme which is a formal self review by the member firm of the design, implementation and effectiveness of its core risk management and independence processes and procedures. It comprises a self assessment of these three elements as well as detailed testing and the creation of a formal action plan. At the end of the assessment an overall green, amber or red rating is awarded.
3. Global Compliance Review Programmes are undertaken at all KPMG member firms once every three years. This is an in-depth review by a team of totally independent professionals on certain risk management, independence and finance processes (including an assessment of the robustness of the firm's Risk Compliance Programme).

The results of all of these reviews are presented to country leadership and group functional leadership and ultimately the Board's Quality & Risk Committee. For all three reviews, detailed action plans are required to be put in place to address all significant issues arising.

##### External monitoring by audit regulators

In each country our local audit practices are also subject to review by their local external regulatory body. We believe that the existence of external regulation has positively impacted overall audit quality and as such believe that the external regulators play an increasingly important role in this regard. As with our internal monitoring programmes regulators also identify areas where they recommend further improvement in our controls. Whilst the majority of regulators do not publicise the results of their inspections, the regulators in the Netherlands and in the UK do publicise certain results. In respect of those two countries we are able to report as follows:

**Netherlands** – In the Netherlands, the Dutch regulator has raised concerns relating to the effectiveness of our EQCR role. In particular, whilst it has concluded that our policies and procedures in this area have been adequately designed and implemented, it has noted that the operating effectiveness of the EQCR role could be improved. As stated on page 13, we recognise that the role that the EQCR plays in our audits is a fundamental part of our system of quality control and as such are continually seeking ways to further improve this. Since the regulator first raised this concern, a number of measures have been taken in the Netherlands to improve the role of the EQCR and more are planned and/or are in progress.

## Section 3

### Our system of quality control continued

**UK** – The public report on the UK regulator’s last inspection of KPMG was issued in September 2010 and both it and our response are available on the UK website at [www.kpmg.co.uk](http://www.kpmg.co.uk).

In summary, the regulator concluded that the UK firm has appropriate policies and procedures in place for its size and the nature of its client base in the relevant areas which are subject to review and were generally satisfied with the basis on which significant audit judgments were made on the 15 audits they reviewed. Nevertheless, the regulator identified certain areas where they noted improvements were required to our procedures. We are committed to taking the appropriate action in relation to these areas. So for example, in respect of the point that they raised around ensuring that all audit procedures have been completed before we sign our audit reports, we have taken measures to reinforce this message with our engagement leaders (which included covering this topic at a series of road-shows that we ran across the country).

None of our external inspections has identified any issues which we believe have a material impact on our statutory audit business.

#### **Client feedback**

In addition to internal and external monitoring of quality, we operate a formal programme across the group where we actively solicit feedback from clients on the quality of specific services that our operating firms have provided to them. The feedback that we receive from this programme is formally considered by our firms and individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the designated engagement leader to ensure that any concerns on quality are dealt with on a timely basis.

#### **Monitoring of complaints**

All of our operating firms have robust procedures in place for handling complaints received from clients relating to the quality of our work. These procedures are generally either detailed on our operating firms’ websites or are included in their general terms of business.

## Section 4

# Independence practices and procedures

### 4.1 Overview

To ensure independence, our partners and the people assigned to each engagement must be free from prohibited financial interests in, and prohibited relationships with, our audit clients, their management, directors, and significant owners, as must the contracting firm and the network of firms.

Our operating firms have adopted the KPMG Global Independence Policies which are derived from the IFAC Code of Ethics and incorporate, as appropriate, SEC, US PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with any standards issued by their relevant national regulatory body. These policies and processes cover areas such as firm independence (covering for example treasury and procurement functions), personal independence, post-employment relationships, partner rotation, and approval of audit and non-audit services. Each operating firm has a designated Ethics and Independence partner supported by a core team of specialists. These teams are led by the Head of Ethics and Independence for KPMG Europe LLP – whose goal is to help ensure that our group applies robust and consistent independence policies, processes and tools. Ethics and independence policies are communicated through the issue of a KPMG Europe LLP Ethics and Independence manual and an annual training programme. If applicable, amendments to the ethics and independence policies in the course of the year are communicated through

a variety of methods such as e-mail practice alerts or are incorporated in regular risk and quality communications. An online version of the manual is also maintained on an up-to-date basis.

In the event of failure to comply with the firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of partners, are reflected in individual quality and risk metrics compiled annually.

### 4.2 Personal independence

Professionals are responsible for making appropriate enquiries to ensure that they do not have any personal financial interests which are prohibited. In common with other member firms of KPMG International we use a web-based independence tracking system to assist professionals in their compliance with our investment policies. This system contains an inventory of publicly listed entities and the securities they have issued. All partners and all managers providing professional services are required to use this system prior to entering into a financial transaction to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies professionals if their investments subsequently become restricted. Our operating firms undertake audits of a sample of their partners and managers to monitor compliance with this and other requirements.

In accordance with KPMG International's rules, all partners are prohibited from owning securities in an audit client of any KPMG International member firm worldwide.

In addition, any professional providing services to an audit client is required to notify their operating firm's Ethics and Independence partner. They intend to enter into employment negotiations with an audit client.

### 4.3 Training and confirmations

All partners and client service professionals are required to take periodic independence training.

A confirmation affirming their independence is signed by all partners and client service professionals upon commencement of employment at the firm and every year thereafter. In addition, the confirmation is used to evidence the individual's compliance with and understanding of the firm's independence policies.

### 4.4 Audit partner rotation

All audit partners are subject to rotation requirements that limit the number of years that they may provide audit services to a listed company or other public interest entity.

Our system of monitoring audit partners' length of service also aids in the development of timely transition plans that help our firms in delivering consistent quality service to their clients. The rotation monitoring system is subject to compliance testing in the Quality Performance Review Programme.

## Section 4

### Independence practices and procedures continued

#### 4.5 Non-audit services

We have policies and procedures to restrict the scope of services that can be provided to audit clients. These require consideration by the audit engagement partner of whether the proposed services are permitted under the relevant regulatory regime and, if applicable, of the threats arising from the provision of non-audit services and the safeguards available to address those threats. KPMG International's proprietary system, Sentinel, facilitates compliance with these policies, enabling audit engagement partners to review and approve, or deny, any proposed service for certain audit clients and their affiliates by any KPMG International member firm based on independence or client requirements, thus preventing the provision of non-permitted services to audit clients and ensuring that permitted services are properly pre-approved by the clients' audit committee where required.

In accordance with KPMG International's rules, no audit partner is evaluated or compensated for his or her success in selling non-audit services to his or her audit client.

#### 4.6 Managing potential conflicts of interest

Conflicts of interest may preclude our operating firms from accepting a client or an engagement. Sentinel is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Any potential conflict issues identified are resolved through consultation, and the resolution of all matters is documented. Any potential conflict matters that raise important points of principle for our group are referred to the Head of Quality & Risk for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

#### 4.7 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. Accordingly, our policies require that in the event that the audit client was a public interest entity and the total fees from the audit client and its related entities represented more than 10% of the total fees received by the operating firm for two consecutive years:

- this would be disclosed to those charged with governance at the audit client; and
- a senior partner from another operating firm would be appointed as the engagement quality control reviewer.

No one audit client accounted for more than 10% of the total fees received by any of our operating firms in the last two years.

#### 4.8 Business relationships/suppliers

We have policies and procedures in all of our operating firms that are designed to ensure that business relationships are maintained in accordance with applicable independence requirements. Detailed guidance is maintained covering a range of topics including business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation with ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an audit client or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

## Section 5

### Partner remuneration

The structure of partners' remuneration depends largely on the legal structure of the KPMG Europe LLP firm concerned.

Those partners working in Belgium, Germany, Switzerland, Liechtenstein, Spain, CIS, Luxembourg, the Netherlands and Turkey are employed or contracted by corporate entities and part of their remuneration comprises a base salary and associated benefits as for other employees. With the exception of Turkey, they receive an additional variable element to their pay which is established once the profits for the year have been determined. Those partners working in the UK are non-voting members of a limited liability partnership and do not, therefore, have employment contracts other than in respect of audit partners who derive part of their income from KPMG Audit Plc. They receive a base salary which is mainly paid during the course of the year (including a proportion from KPMG Audit Plc) and an allocation of profits once these have been determined.

Partners in Belgium, CIS, Germany, Netherlands, Spain, Turkey and the UK currently make their own provision for retirement (although some German and Dutch partners remain entitled to benefits from former pension schemes of their respective national practices that are now closed). In Luxembourg, partners contribute to a common pension scheme operated for all employees meeting certain predefined seniority criteria for the firm (employee funded only). In Switzerland and Liechtenstein, partners are members of the pension scheme operated for all employees (partners and staff). Both employer and employee are required to contribute to this scheme.

Each partner's remuneration is paid almost exclusively from the relevant operating firm's profits. Whilst there is the capacity to allocate profit from KPMG Europe LLP it is not intended that this entity should generate significant profits. As a consequence, only KPMG Europe LLP Board members were allocated small profit payments from KPMG Europe LLP for the year to 30 September 2010; these payments were taken into account when determining the overall remuneration paid to them.

The total pay (including termination payment) for the year ended 30 September 2010 for the members of the Board of KPMG Europe LLP was €51 million (2009: €39million).

The final allocation of all variable elements of partners' remuneration and hence overall remuneration is determined by the Executive Committee, in conjunction with local country operating teams, after assessing each partner's contribution for the year in line with the process followed for all KPMG personnel. KPMG Europe LLP's policies for the variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partners are explicitly not rewarded for non-audit services sold to their audit clients.

The Board's Remuneration Committee makes recommendations on policies for partners' remuneration, approves the process used by the Executive Committee, and determines the remuneration for the Joint Chairmen, Executive Committee and Head of Quality & Risk. The Committee also reviews the remuneration of a selection of partners across the firm on an individual basis, specifically considering their quality and risk compliance metrics.

Further detail about the remuneration paid to partners is provided in the national transparency reports that are published for each of our operating firms.

## Section 6

### Financial information

#### 6.1 Segmental reporting

The EU 8th Directive requires disclosure of financial information that shows the importance of statutory audit work to the overall audit firms' results. An extract from the segmental analysis shown in the KPMG Europe LLP Annual Report for the year ended 30 September 2010 is as follows:

<b>Segmental reporting 2010</b>	Audit €m	Tax €m	T&R €m	R&C €m	P&T €m	Total €m
Gross revenue (as reported internally)	1,899	968	732	464	458	4,521
Entities not controlled by ELLP						(371)
Impact of foreign exchange						42
Other financial statements adjustments						(127)
<b>Total group revenue</b>						<b>4,065</b>
Segmental results (as reported internally)	696	380	304	150	129	1,659
Entities not controlled by ELLP						(123)
Impact of foreign exchange						17
Members' remuneration adjustments						(26)
Central costs						(1,014)
Net financial expense						(10)
Negative goodwill arising in the year						9
<b>Total group profit before taxation</b>						<b>512</b>
<b>Segmental reporting 2009 (restated)</b>						
	Audit €m	Tax €m	T&R €m	R&C €m	P&T €m	Total €m
Gross revenue (as reported internally)	1,758	902	714	453	394	4,221
Entities not controlled by ELLP						(736)
Impact of foreign exchange						(7)
Other financial statements adjustments						17
<b>Total group revenue</b>						<b>3,495</b>
Segmental results (as reported internally)	636	320	274	146	120	1,496
Entities not controlled by ELLP						(251)
Impact of foreign exchange						(3)
Members' remuneration adjustments						60
Central costs						(858)
Net financial income						8
<b>Total group profit before taxation</b>						<b>452</b>

## Section 6

### Financial information continued

The information reported internally for gross revenue and profits includes data for various entities which are not controlled by ELLP within the definition of IAS 27 'Consolidated and Separate Financial Statements'. Additionally, for entities whose functional currency is not the euro, a fixed exchange rate from their local currency to euros is set at the beginning of each financial year and this rate is used in reporting actual, budget and prior year data, thus eliminating the impact of exchange rate movements: this approach does not comply with IAS 21 'The Effects of Changes in Foreign Exchange Rates' and a foreign exchange adjustment is required to reconcile to the financial statements.

In addition, certain other adjustments are made to revenue reported in the financial statements compared to that reported internally and certain judgements taken in respect of revenue on incomplete contracts may differ for financial statements purposes.

Members in certain countries receive remuneration under employment or service contracts whilst members working within the UK firm have no contractual right to remuneration until profits are allocated to them. Internally, reported data therefore applies a notional charge for UK members, intended to equate to a salary equivalent, whilst members' remuneration in other countries reflected in internal reporting excludes payments for the variable element of partners' remuneration.

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

The reflection of entities not controlled by ELLP and the impact of foreign exchange adjustments, the move to five segments and certain revisions to the allocation of costs between segments and central costs all represent changes to the internal presentation of segmental information compared to that applying in 2009. Comparative figures have been restated accordingly.

#### 6.2 Analysis of audit revenue

In addition, the following analysis shows that revenue from work within the audit function is derived predominantly from statutory audit work.

Service	Revenue 2010 €m	Revenue 2009 €m
Statutory audit of annual and consolidated accounts <sup>1</sup>	<b>1,643</b>	1,605
Other assurance work	<b>256</b>	153
	<b>1,899</b>	1,758

<sup>1</sup> Excludes financial accounts' adjustments so is prepared on the same basis as the gross revenue figures included in the first table above (ie as reported internally).

## Section 7

# Network arrangements

### 7.1 Legal structure

The independent member firms of the KPMG network (including KPMG Europe LLP's operating firms) are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. The KPMG network consists of approximately 140,000 professionals working in 146 countries. For the year ended 30 September 2009 the member firms comprising the network generated aggregate revenues of US\$20.11 billion.

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

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

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

### 7.2 Responsibilities and obligations of member firms

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

In these agreements, member firms commit themselves to a common set of KPMG values. Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients. This includes having a structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources, service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

In accordance with the global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times. Compliance with key quality standards (including key aspects of methodologies, tools and management of risk) are specifically assessed as part of the International Review Programmes described on page 14. The results of these programmes are reported to various governance and management bodies within KPMG International which can, at its discretion, take a number of actions against the firm concerned – including ultimately removal from the KPMG network for any firm which fails to meet the required quality standards.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts (which is currently based on revenue) is approved by the Global Board and consistently applied to the member firms.

A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

## Section 7

### Network arrangements continued

#### 7.3 Professional Indemnity Insurance

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

#### 7.4 Governance structure

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

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and therefore, only has members, not shareholders). Among other things, the Global Council elects the Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 54 member firms (including certain KPMG Europe LLP firms) which are 'members' of KPMG International as a matter of Swiss law.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International and approving policies and regulations. It also admits member firms and ratifies the Chairman's appointment of members of the Global Executive Team.

The Board is supported in its oversight and governance responsibilities by several committees, including a Governance Committee; an Audit, Finance and Investments Committee; a Compensation and Nomination Committee; a Quality & Risk Committee; a Professional Indemnity Insurance Committee; and a Board Process and Evaluation Committee.

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

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

Further details about KPMG International, including the governance arrangements, can be found in its Transparency Report, which is available at: <http://kpmg.com/Global/en/WhoWeAre/Documents/Transparency-Report.pdf>.

## Section 8

### Statement by the Board on effectiveness of quality controls and independence

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

The Board has considered:

- the design, implementation and effectiveness of the quality management systems as described in this report
- the findings from the various compliance programmes operated by the group (including the KPMG International Review Programmes as described in section 3.7 and various local compliance monitoring programmes)
- findings from regulatory inspections and the associated action plans
- the report made by the Quality & Risk Committee on how it had discharged its terms of reference in the year; and
- the conclusions reached by national leadership as detailed in the national transparency reports on the effectiveness of national quality controls.

Taking all of this evidence together, the Board confirms with a reasonable level of assurance that the systems of quality control within our group have operated effectively in the year to 30 September 2010.

Further, the Board confirms that an internal review of independence compliance within our group has been conducted in the year to 30 September 2010.

# Appendix 1

## Key legal entities

### Key legal entities that were part of the group as at 30 September 2010

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Europe LLP	UK Limited Liability Partnership	UK Registered Auditor	Parent entity	N/A
KPMG LLP	UK Limited Liability Partnership	UK Registered Auditor	Audit, Tax & Advisory Services	Great Britain
KPMG Audit Plc	UK Public Limited Liability Company	UK Registered Auditor	Audit & Related services	Great Britain
KPMG UK Limited	UK Limited Liability Company	None	Employment services to the UK	Great Britain
KPMG United Kingdom Plc	UK Public Limited Liability Company	None	Advisory Services	Great Britain
Queen Street Mutual Company PCC Limited	Guernsey Protected Cell Company	Guernsey Insurer	Captive insurance company	Guernsey
KPMG AG Wirtschaftsprüfungsgesellschaft	German Stock Corporation	German Registered Auditor	Audit, Tax & Advisory Services	Germany
KPMG Bayerische Treuhandgesellschaft AG	German Stock Corporation	German Registered Auditor and Tax advisor	Audit & Tax Services	Germany
Dr. Wennekers und Partner GmbH	German Limited Liability Company	German Registered Auditor	Audit & Tax Services	Germany
HHS Hellinger Hahnemann Schulte-Gross GmbH	Germany Limited Liability Company	German Registered Auditor	Audit & Tax Services	Germany
EUREVISIO GmbH	Germany Limited Liability Company	German Registered Auditor and Tax advisor	Audit & Tax Services	Germany
KPMG IT Service GmbH	Germany Limited Liability Company	None	Infrastructure services to the group	Germany
KPMG Hartkopf & Rentrop Treuhand KG	German Limited Partnership	German Registered Auditor	Audit Services	Germany
KPMG Prüfungs- und Beratungsgesellschaft für den Öffentlichen Sektor AG Wirtschaftsprüfungsgesellschaft	German Stock Corporation	German Registered Auditor	Audit & Tax Services	Germany
ATH Allgemeine Treuhandgesellschaft mbH	German Limited Liability Company	German Registered Auditor	Audit & Tax Services	Germany
KPMG AG	Swiss Limited Liability Company	Swiss Licensed Auditor Expert under State Oversight	Audit, Tax & Advisory Services	Switzerland (Advisory also in Liechtenstein)
KPMG Klynveld Peat Marwick Goerdeler SA	Swiss Limited Liability Company	Swiss Licensed Auditor Expert under State Oversight	Audit Services	Switzerland
Ostschweizerische Treuhand-Gesellschaft	Swiss Limited Liability Company	Swiss Licensed Auditor Expert	Audit, Tax & Advisory Services	Switzerland
KPMG (Liechtenstein) AG	Liechtenstein Limited Liability Company	Liechtenstein Registered Auditor	Audit, Tax & Advisory Services	Liechtenstein
KPMG Asesores, S.L.	Spanish Limited Liability Company	None	Advisory Services	Spain
KPMG Abogados, S.L.	Spanish Limited Liability Company	None	Tax & Legal Services	Spain
KPMG, S.A.	Spanish corporation	None	Support services to Spain	Spain
KPMG, S.L.†	Andorran Limited Liability Company	None	Audit Services	Andorra

† Not wholly owned

\* Queen Street Mutual Company PCC Limited – KPMG LLP has the right to control the board and no other party has any entitlement to benefit from future profits or to existing reserves.

# Appendix 1

## Key legal entities continued

### Key legal entities that were part of the group as at 30 September 2010

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Belastingconsulenten en Juridische Adviseurs CVBA/KPMG Conseils Fiscaux et Juridiques SCRL†	Belgian Civil Cooperative Company with Limited Liability	Belgian Accounting & Tax regulated	Tax and Legal Services	Belgium
KPMG Fiduciaire CVBA/SCRL†	Belgian Civil Cooperative Company with Limited Liability	Belgian Accounting & Tax regulated	Accounting Services	Belgium
KPMG Advisory CVBA†	Belgian Civil Cooperative Company with Limited Liability	None	Advisory Services	Belgium
KPMG Tax Services†	Belgian Civil Cooperative Company with Limited Liability	Belgian Accounting & Tax regulated	Tax Services	Belgium
KPMG Support Services†	Economic Interest Grouping	None	Internal Services to KPMG Belgium companies	Belgium
Fiduciaire van België /Fiduciaire de Belgique†	Belgian Company Limited by shares	None	Internal Services to KPMG companies	Belgium
KPMG CFO Advisory	Belgian Cooperative Company with Limited Liability	None	Advisory Services	Belgium
KPMG Accountants N.V.	Dutch Limited Liability Company	Netherlands Registered Auditor	Audit Services	Netherlands
KPMG Advisory N.V.	Dutch Limited Liability Company	None	Advisory Services	Netherlands
KPMG Management Services B.V.	Dutch Limited Liability Company	None	Advisory Services	Netherlands
KPMG CT Information Technology B.V.	Dutch Limited Liability Company	None	IT Services	Netherlands
KPMG Staffing & Facility Services B.V.	Dutch Limited Liability Company	None	Services to the group	Netherlands
KPMG Ukraine Limited	Ukrainian Limited Liability Company	Ukrainian Valuation Regulated	Tax, Advisory & Valuation Services	Ukraine
KPMG Limited	Guernsey Limited Liability Company	None	Advisory & Tax Services	Russia
ZAO KPMG†	Russian Closed Joint Stock Company	Audit & Valuation Regulated	Audit, Audit Related Valuation, Tax and Advisory Services	Russia
KPMG Audit†	Ukrainian Private Joint Stock Company	Audit Regulated	Audit Services	Ukraine
KPMG CIS Limited	Guernsey Limited Liability Company	None	Audit & Advisory Services	Georgia
KPMG Bishkek OOO	Kyrgyz Limited Liability Company	Audit Regulated	Audit Services	Kyrgyzstan
KPMG Tax & Advisory LLC	Kazakh Limited Liability Company	Valuation Regulated	Tax & Advisory Services	Kazakhstan
KPMG Audit LLC (Kazakhstan)	Kazakh Limited Liability Company	Audit Regulated	Audit Services	Kazakhstan
KPMG Armenia cjsc (Armenia)†	Armenian Limited Liability Company	Audit Regulated Accounting & Tax Regulated	Audit, Tax & Advisory Services	Armenia

† Not wholly owned

## Appendix 1

### Key legal entities continued

#### Key legal entities that were part of the group as at 30 September 2010 continued

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Audit Sàrl	Luxembourg Limited Liability Company	Audit, Accounting & Tax Regulated	Audit Services	Luxembourg
KPMG Tax Sàrl	Luxembourg Limited Liability Company	Accounting & Tax Regulated	Tax Services	Luxembourg
KPMG Advisory Sàrl	Luxembourg Limited Liability Company	Ministry of Classes Moyennes Licensed	Advisory Services	Luxembourg
KPMG İş ve Yönetim Danışmanlığı A.Ş.	Turkish joint-stock company	Turkish code of commerce regulated	Business and Management consulting services	Turkey

#### Key legal entities that become part of the group after 30 September 2010

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Auditores, S.L.	Spanish Limited Liability Company	Registered Auditor	Audit Services	Spain

#### Key legal entities over which KPMG Europe LLP has a call option but no legal ownership

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
Akis Bağımsiz Denetim Ve S.M.M.M A.Ş	Turkish joint-stock company	Turkish Code of Commerce Regulated	Audit & Advisory Services	Turkey
Yetkin Y.M.M. A.Ş	Turkish joint-stock company	Turkish Code of Commerce Regulated	Tax & Advisory Services	Turkey
Yetkin S.M.M.M. A.Ş	Turkish joint-stock company	Turkish Code of Commerce Regulated	Tax & Accounting Services	Turkey
KPMG Bedrijfsrevisoren CVBA/ KPMG Reviseurs d'Enterprises SCRL	Belgian Civil Cooperative Company with Limited Liability	Belgian Audit regulated	Audit Services	Belgium

#### Other entities

KPMG Rechtsanwalts-gesellschaft mbH which provides legal services in Germany is owned by certain members of the Board of KPMG AG Wirtschaftsprüfungsgesellschaft.

## Appendix 2

### Details of Board members and others charged with governance



#### **John Griffith-Jones**

*Joint Chairman*

John is the UK Senior Partner, Chairman of EMA region and is a member of the Global Board and Global Executive Team of KPMG International. He has been a partner within KPMG for 23 years and served on the KPMG Europe LLP Board for three years.



#### **Jurgen van Breukelen**

*Non-executive partner*

Jurgen is a member of the Audit Committee. He has been a partner for 10 years and served on the KPMG Europe LLP Board for one year.



#### **Prof Dr. Rolf Nonnenmacher**

*Joint Chairman*

Rolf is the German Senior Partner and a member of the Global Board and Global Executive Team of KPMG International. He has been a partner at KPMG for 23 years and served on the KPMG Europe LLP Board for three years.



#### **Rachel Campbell**

*Head of People*

Rachel is Global Head of People, Performance & Culture. Rachel has been a partner for 10 years and served on the KPMG Europe LLP Board for three years.



#### **Hubert Achermann**

*Non-executive partner*

Hubert is the Swiss senior partner, chairs our Remuneration Committee and is a member of the Global Board of KPMG International. He has been a partner for 18 years and served on the KPMG Europe LLP Board for two years.



#### **Andrew Cranston**

*Non-executive partner*

Andrew is the senior partner for our CIS region, a member of the Remuneration Committee and is a member of the Global Board of KPMG International. He has been a partner for 13 years and served on the KPMG Europe LLP Board for one year.



#### **Jeremy Anderson**

*Head of Markets*

Jeremy is Head of Markets for the EMA region and the head of Financial Services sector for our group, the EMA region and KPMG globally. He has been a partner for 6 years and served on the KPMG Europe LLP Board for two years.



#### **Herman Dijkhuizen**

*Non-executive partner*

Herman is the senior partner for our firm in the Netherlands, a member of the Remuneration Committee and the Board of KPMG International. He has been a partner for 16 years and served on the KPMG Europe LLP Board for one year.



#### **Mike Ashley**

*Head of Quality & Risk*

Mike Ashley is Head of Quality & Risk for the UK firm and is a member of the Global Quality & Risk Management Steering Group. He has been a partner for 13 years and served on the KPMG Europe LLP Board for three years.



#### **Malcolm Edge**

*Non-executive partner*

Malcolm is a member of the Remuneration Committee. He will rotate off the Board on 31 December 2010. He has been a partner for 23 years and served on the KPMG Europe LLP Board for three years.



#### **Guy Bainbridge**

*Non-executive partner*

Guy is chair of our group's Audit Committee. He has been a partner for 16 years and served on the KPMG Europe LLP Board for three years.



#### **Dr. Bernd Erle**

*Head of Finance & Infrastructure*

Bernd served as Chief Operating Officer for KPMG Germany until his retirement on 30 September 2010. Bernd had been a partner for 18 years and served on the KPMG Europe LLP Board for three years.



#### **Richard Bennison**

*Chief Operating Officer*

Richard is the CEO of the UK firm. He has been a partner at KPMG for 19 years and served on the KPMG Europe LLP Board for two years.



#### **Jaap van Everdingen**

*Non-executive partner*

Jaap is also Chief Operating Officer of KPMG in the Netherlands. From 1 October 2010 he took on the role of Head of Finance & Infrastructure for our group. He has been a partner for 17 years and served on the KPMG Europe LLP Board for one year.



#### **Sue Bonney**

*Head of Tax*

Sue served as Head of Tax for our group and the EMA region throughout the year. She has been a partner for 15 years and served on the KPMG Europe LLP Board for three years. Sue retired from the Board on 30 September 2010.



#### **Hans-Jürgen Feyerabend**

*Non-executive partner*

Hans-Jürgen is also a member of the Quality & Risk Committee (up until his retirement from the Board on 30 September 2010). He has been a partner for 13 years and served on the KPMG Europe LLP Board for three years.

## Appendix 2

### Details of Board members and others charged with governance continued



**Michael Gewehr**

*Non-executive partner*

Michael is a member of our Remuneration Committee. He will rotate off the Board on 31 December 2010. He has been a partner for 19 years and served on the KPMG Europe LLP Board for three years.



**Bernd Schmid**

*Head of Advisory*

Bernd Schmid was an advisory partner who until his retirement on 31 January 2010 also served as Head of Advisory for KPMG Germany and globally. He was a partner for 17 years and served on the KPMG Europe LLP Board for just over two years.



**Harald von Heynitz**

*Non-executive partner*

Harald is chair of our Nominations Committee. He has been a partner for 11 years and served on the KPMG Europe LLP Board for three years.



**Patrick Simons**

*Non-executive partner*

Patrick became senior partner for our Belgian firm during the year. He is also a member of our Quality & Risk Committee and the Remuneration Committee. He has been a partner for 20 years and joined the KPMG Europe LLP Board on 1 April 2010.



**Alistair Johnston**

*Non-executive partner*

Alistair is Vice Chairman of the Board of KPMG International. He has been a partner for 24 years and served on the KPMG Europe LLP Board for three years. He retired from the Board on 27 September 2010.



**Dr. Ashley Steel**

*Non-executive partner*

Ashley also chaired the Quality & Risk Committee (up until her retirement from the Board of KPMG Europe LLP on 30 September 2010). She has been a partner for 14 years and served on the Board for three years.



**Johannes Pastor**

*Non-executive partner*

Johannes is a member of the Audit Committee. He has been a partner for 15 years and has served on the KPMG Europe LLP Board for three years.



**Dieter Widmer**

*Non-executive partner*

Dieter was a member of the Audit Committee until his retirement from the firm on 30 April 2010. He was a partner for 12 years and served on the KPMG Europe LLP Board for two years.



**Karin Riehl**

*Non-executive partner*

Karin is the Senior Partner of our firm in Luxembourg and a member of the Remuneration Committee. She has been a partner for 17 years and served on the KPMG Europe LLP Board for one year.



**Luc Wygaerts**

*Non-executive partner*

Luc was the Belgium firm's senior partner (until his retirement this year). He was also a member of the Quality & Risk Committee and the Remuneration Committee. He had been a partner for 26 years and served on the KPMG Europe LLP Board for just over one year until his retirement on 31 March 2010.



**Jack van Rooijen**

*Non-executive partner*

Jack is a member of our Quality & Risk Committee (which he has chaired from 1 October 2010). He has been a partner for 18 years and served on the KPMG Europe LLP Board for one year.



**Stefan Zwicker**

*Non-executive partner*

Stefan acts as Chief Operating Officer for our Swiss firm. He has been a partner for 18 years and has currently served on the KPMG Europe LLP Board for two years.



**John M. Scott**

*Non-executive partner*

John is the senior partner for our Spanish Firm, a member of our Remuneration Committee and a member of the Global Board of KPMG International. He has been a partner for 18 years and served on the KPMG Europe LLP Board for two years.



**Joachim Schindler**

*Head of Audit*

Joachim is Head of Audit for the EMA region, has recently been appointed as Global Head of Audit and is a member of the Global Executive Team of KPMG International. He has been a partner for 15 years and served on the KPMG Europe LLP Board for three years.

## Appendix 2

### Details of Board members and others charged with governance continued

#### Members of the KPMG Europe LLP Board appointed after 30 September 2010



##### **Aiden Brennan**

*Head of Performance & Technology*  
Aiden is also the Global Head of Performance & Technology. He has been a partner for 12 years. Aiden joined the KPMG Europe LLP Board on 1 October 2010.



##### **Simon Collins**

*Head of Transactions & Restructuring*  
Simon is also the Global Head of Transactions & Restructuring. He has been a partner for 11 years. Simon joined the KPMG Europe LLP Board on 1 October 2010.



##### **Ernst Gröbl**

*Head of Tax*  
Ernst took over the role as Head of Tax for our group on 1 October 2010 and he is currently the Head of Tax for our EMA region. He has been a partner for 18 years. He joined the KPMG Europe LLP Board on 1 October 2010.



##### **Mathieu Meyer**

*Non-executive partner*  
Mathieu will join the KPMG Europe LLP Board as a non-executive partner on 1 January 2011 and he also became a member of the Quality & Risk Committee on 1 October 2010. Mathieu has been a partner for eight years.



##### **Iain Moffatt**

*Non-executive partner*  
Iain will join the KPMG Europe LLP Board as a non-executive partner on 1 January 2011 and he will also become a member of the Remuneration Committee. Iain has been a partner for 13 years.



##### **Carsten Schiewe**

*Head of Risk & Compliance*  
Carsten has been a partner for eight years. Carsten joined the KPMG Europe LLP Board on 1 October 2010.

#### External non-executives who form the Public Interest Committee – established October 2010



##### **Sir Steve Robson**

Sir Steve retired as Second Permanent Secretary at HM Treasury in January 2001. He is currently a non-executive director of Partnerships UK plc, Xstrata plc and the Financial Reporting Council and was a non-executive director of J P Morgan Cazenove plc and Royal Bank of Scotland.



##### **Tom de Swaan**

Tom was a member of the board (and Chief Financial Officer) of ABN AMRO Bank, and is presently a member of the board of Zurich Financial Services Ltd and GlaxoSmithKline Plc (where he chairs the Audit Committee). He was also chairman of the Basel Committee on Banking Supervision from 1997 to 1998.



##### **Dr. Alfred Tacke**

Dr. Tacke is a former Director General in the Ministry of Economics in the Federal Government of Germany, and now a member of the Advisory Committee of Deutschland Fund at the Ministry of Economics in Berlin. He has been a member of the board of Deutsche Bahn, Postbank and Evonik Industries.

## Appendix 2

### Details of Board members and others charged with governance continued

#### Number of meetings attended during the year ended 30 September 2010

Member	Board		Executive		Quality & Risk		Audit		Remuneration		Nominations**	
	No. meetings available	No. meetings attended	No. meetings available	No. meetings attended	No. meetings available	No. meetings attended	No. meetings available	No. meetings attended	No. meetings available	No. meetings attended	No. meetings available	No. meetings attended
John Griffith-Jones	9	9										
Rolf Nonnenmacher	9	9	14	13								
Richard Bennison	9	9	14	14								
Joachim Schindler	9	7	14	14								
Sue Bonney	9	7	14	10								
Bernd Schmidt*	3	3	5	4								
Mike Ashley	9	8										
Rachel Campbell	9	6	14	13								
Jeremy Anderson	9	9	14	13								
Bernd Erle	9	9	14	14								
Hubert Achermann	9	9							5	5		
Guy Bainbridge	9	8					3	3				
Jurgen van Breukelen	9	6					3	3				
Andrew Cranston	9	9							3	1		
Herman Dijkhuizen	9	8							5	2		
Malcolm Edge	9	9							5	5	4	2
Jaap van Everdingen	9	8										
Alastair Johnston	9	9										
Harald von Heynitz	9	7									4	4
Johannes Pastor	9	8					3	3				
Karin Riehl	9	8							3	2		
Jack van Rooijen	9	8			6	6						
John M. Scott	9	9							5	5		
Patrick Simons*	6	4			2	2			3	3		
Stefan Zwicker	9	9										
Ashley Steel	9	9			6	6						
Hans-Jürgen Feyerabend	9	6			6	4						
Luc Wygaerts*	3	3			4	4			2	1		
Michael Gewehr	9	9							5	5		
Dieter Widmer*	3	0					1	1				

\* Bernd Schmidt, Luc Wygaerts and Dieter Widmer retired from the Board during the year and Patrick Simons joined the Board during the year.

\*\*In addition the following partners at large were members of the Nominations Committee in the year: Mel Egglenton (retired 31 March 2010), Philipp Hallauer, Willem Riegman (appointed 1 May 2010) and Wolfgang Zieren.

## Appendix 3

### National transparency reports and public interest entities

#### **National transparency reports (including public interest entity details).**

Transparency reports will be available for each of the following KPMG Europe LLP firms who undertook statutory audits and were part of the group for the year ended 30 September 2010 as follows:

- KPMG in CIS (voluntary)
- KPMG in Germany (available in March 2011 in line with regulatory requirements)
- KPMG in Luxembourg
- KPMG in the Netherlands
- KPMG in Spain
- KPMG in Switzerland (voluntary)
- KPMG in Turkey (voluntary); and
- KPMG in the UK.

#### **Public interest entities.**

A list of public interest audit clients is available for each of the firms publishing transparency reports. These lists can be found on either the country websites of the individual firms or are included in their transparency report.

NB The definition of public interest adopted by each of our firms will be that required by their national laws or regulations and as such may vary slightly from country to country.

## Appendix 4

### KPMG's global values

<b>We lead by example</b>	At all levels we act in a way that exemplifies what we expect of each other and our clients.
<b>We work together</b>	We bring out the best in each other and create strong and successful working relationships.
<b>We respect the individual</b>	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
<b>We seek the facts and provide insight</b>	By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.
<b>We are open and honest in our communication</b>	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.
<b>We are committed to our communities</b>	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.
<b>Above all, we act with integrity</b>	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

Our values are at the heart of the Global Code of Conduct which defines the standards of ethical conduct that are required of people in KPMG member firms worldwide.