2 February 2018

Dear Mr Field and Ms Reeves

Carillion

Thank you for your letter of 25 January 2018.

We are very conscious of the impact Carillion’s collapse has had, and will have, on its workforce, their families, the supply chain, and many others. We fully understand the importance of this inquiry and we welcome the opportunity to assist you.

In this letter we refer to Carillion plc and its subsidiaries as “Carillion”. We refer to Carillion’s Annual Report and Accounts for the year ended 31 December 2016 as the “2016 Accounts”.

You have asked for information dating back to 2008 relating to engagements for Carillion and for government relating to contracts with Carillion. This information is included in Appendices 1 and 2 to this letter.

We set out responses to your six questions below.

Your questions.

1. In light of Carillion’s collapse, have KPMG conducted a cold review of their 2016 audit? If so, do KPMG stand by their audit opinion that gave Carillion’s consolidated accounts a clean bill of health?
We will always review our work when challenged, and the Carillion audit is no exception. Whilst that review work remains ongoing we have no reason to believe that the 2016 Accounts showed other than a true and fair view, and, as we have commented publicly, we believe we conducted our work appropriately and responsibly.

As you know, the FRC has announced that it is investigating our audit work, for 2014, 2015 and 2016, and our half year interim review work for 2017. We welcome this. We believe it is important that regulators acting in the public interest review the audit work related to high profile cases such as Carillion. We will be cooperating fully with the FRC’s investigation.

If there are lessons to be learned, either from our review or that of the FRC, we will learn them.

Finally, without seeking to deflect the questions for us that the Carillion collapse rightly raises, it is not correct that an unmodified audit report gives a company a “clean bill of health”. An audit opinion is an opinion (based on obtaining reasonable assurance) on a company’s accounts at a particular point in time, looking back over the previous 12 months, and on the reasonableness of management’s view that the company will continue as a going concern for the following 12 months from the date of approval of the financial statements. In some industries, construction being one, an accumulation of adverse developments in specific areas of the business can quite quickly cause a precipitous decline. It does not follow automatically from a company collapse either that the opinion of management was wrong, or that the auditor did a bad job.

We see this issue as at the heart of the “expectation gap” that exists in relation to the purpose and nature of an audit as currently required by the law and auditing standards. We are fully supportive of a wider debate which considers what purpose audit should fulfil to meet valid stakeholder demands in today’s business environment. We are committed to playing a full role in such a debate and working with other stakeholders in seeking to enhance the real and perceived value of the audit process.

Your 2016 audit opinion noted the risks relating to estimates around revenue recognition from contracts, but concluded that there was no material misstatement in the accounts. Yet three months later, a KPMG-led review of Carillion’s contracts resulted in a £845 million provision relating to these contracts. KPMG’s 2016 audit opinion outlines in detail the audit work conducted on these contracts, but concluded no provision was required. What changed?
As a preliminary point, we wish to clarify that the contract review in 2017 was management led, not KPMG led. We agreed with Carillion to accelerate certain audit procedures in relation to the contract reviews being undertaken by management for the purposes of our half year review, with the expectation that the output of the work would contribute to our year-end audit. The accelerated audit procedures involved reviewing and challenging the output of management's review of contracts.

As Carillion announced in its trading update on 10 July 2017 (just over four months after the date of our audit opinion and six months after the date of the balance sheet on which our opinion was given), deteriorating cash flows across a number of significant contracts during the first half of 2017 led the company to undertake an enhanced review which ultimately resulted in the write-down of £845m. In short, management concluded that external factors meant that its previous estimates as to the outturn on a number of large, multi-year construction contracts were no longer going to be met. The fact that subsequent events adversely impacted on the expected outcomes does not mean that the views formed about those contracts at the year-end were unreasonable or wrong.

In order to understand how this might happen, it may be helpful to explain some of the challenges involved in long term contracting, and the reasons why judgements in relation to accounting for such contracts change over time.

Accounting for long-term contracts requires the use of significant judgements and estimations on the part of management at each point at which the financial statements are drawn up. Those judgements and estimations will evolve over time as work on a long-term contract progresses. Auditors must then assess the reasonableness of the judgements and estimations made by management.

Under the relevant accounting standard for construction contracts\(^1\), revenue is recognised on the "percentage of completion" basis. In most construction companies, including Carillion, revenue is recognised based on the costs incurred on the contract up to the balance sheet date as a percentage of the forecast of the total costs at the end of the contract. This is then applied to the estimate of forecast total revenue for the contract to derive the revenue to be recognised to date.

In arriving at these estimates, judgements have to be made by management on a wide range of matters, both in relation to forecast costs and forecast revenues.

\(^1\) International Accounting Standard 11: Construction Contracts
As regards forecast costs, management have to consider a range of factors such as:

- the time required to complete the work;
- future prices of building materials and labour;
- how much it will have to pay sub-contractors;
- uncertainties as regards how specific issues, such as with site conditions, may unfold; and
- the outcome of amounts in dispute where there is a gap between contractor and sub-contractor's costings.

As regards forecast revenues, there are also multiple factors to consider such as whether:

- it is sufficiently advanced in negotiations with its client that it is able to estimate probable receipts on claims;
- it is probably going to receive amounts for variations and if so, how much;
- the work will be completed within the time specified by the contract, such that penalties for late delivery (liquidated damages) are not deducted from the sums payable by the client; and
- the work will be completed to the client’s satisfaction, such that sums will not be withheld from contract retentions (such amounts generally payable 12 months after the work is complete, subject to completion of snagging works).

These are just some of the many moving parts which the contractor needs to consider at each point as a long term contract progresses. Risks that the project may prove loss making are present from day one, but inevitably are accentuated when construction work does not proceed as anticipated (or costs vary in a way not envisaged) from whatever cause. These risks are often compounded when trading in different jurisdictions, for example where there are heightened geopolitical risks.

Consequently, there is rarely a simple or straight forward answer when considering complex, multi-year contracts, but instead a range of possible outcomes, and, as with any forecast, it will rarely be the case that the actual outcome is exactly in line with expectations. Assigning probabilities to outcomes is highly subjective, particularly if, for example, making a judgement about how a negotiation (for example in relation to contract variations or penalties) will unfold.
Accordingly, changes in the amounts accounted for on a contract arise from changes in the estimate of costs to complete the work and changes in the forecast income from claims and variations. Such changes may result from:

- events that take place in the new period, such as unexpected technical issues, significant unit cost variances or extreme weather conditions; and/or
- changing information on likely settlements with the client and subcontractors based on how the negotiations are proceeding and the counterparties’ attitudes and conduct; and/or
- a different management approach as regards where the contract estimates should sit within the acceptable range of accounting estimates (i.e. from the more cautious through to the more optimistic, but still defensible); and/or
- management’s appetite to accept a negotiated settlement in order to secure cash rather than pursue, sometimes lengthy, dispute resolution processes.

Under accounting standards, changes to contract accounting arising from the above factors are accounted for as a change in estimate and booked in the current year rather than an adjustment to prior year(s) accounts.

In our view each of the above factors were present in the £1,045 million contract write-downs reflected by management in Carillion’s half year results for the six months to 30 June 2017 as announced on 29 September 2017. We base this view on our review of contract position papers prepared by management during our half year interim review which explained why management concluded that the write-downs fell to be accounted for in 2017 as changes in estimates. These conclusions reflected in particular the deterioration within specific large UK and overseas construction contracts caused by the cumulative effect of a variety of intervening factors including:

- worsening delays leading to forecast cost reassessments including liquidated damages;
- unexpected site specific developments;
- adverse developments in dispute resolution processes;
- indicators from customers of a reduced ability to pay; and
- the impact of the developing political and economic situation in the Middle East, particularly events in Qatar.
As stated in our interim review report on the condensed half year financial statement issued by Carillion on 29 September 2017, nothing came to our attention that caused us to believe that the half year financial statements were not prepared, in all material respects, in compliance with the relevant accounting standards for interim financial reporting. It’s important to understand that the auditor does not express an audit opinion on half year results and that the scope of work in an interim review is substantially less than involved in an audit.

3 Accounting standards require that the total loss of a contract is recognised if it is deemed that the contract is loss-making. What proportion of Carillion's contracts were loss-making to financial year-end 2016? Were KPMG satisfied that all loss-making contracts were fully recognised at that point?

It is correct that accounting standards require that the total loss of a contract falls to be recognised if a loss is projected across the contract life.

This is set out in IAS 11 which states that, when it is considered probable that the total forecast costs of delivering the contract will exceed total forecast contract revenue, the expected loss over the lifetime of the contract is recognised in full as an expense immediately. These are often referred to as “onerous contracts”. Distinct from this, given the movements in predicted outcomes on contracts which we set out in our answer to Question 2 above, there may also be situations where a review of a contract means that there is a reduction in the forecast margin for the contract, such that a loss is recognised in that year’s financial statements, notwithstanding that the contract is not expected to be loss-making over its entire life.

Based on a schedule provided by management of UK contracts, of some 700 contracts which were subject to profit or loss movement in the UK in 2016, 97 of those recorded a loss in 2016 (some 14% by number).

Carillion included £3.3 million of "onerous contract" provisions and some £50 million of provision against exposures on higher risk contracts within Accruals and Deferred Income in the 2016 Accounts.
In order to assess whether management's position taken on contract judgements (including recognition of loss-making contracts) was appropriate, we conducted the audit procedures as summarised in our published audit report\(^5\), as follows:

> "We evaluated the controls designed and implemented by the Group to monitor amounts owed on service and construction contracts, and in particular, the claims and variation elements across the Group. We attended a sample of, and inspected minutes from all, the Major Projects Committee meetings, which form a key part of the Group's risk process to fully challenge, at an executive level, both new tenders and contract bids and ongoing performance on existing contracts. We then selected a sample of contracts using a variety of quantitative and qualitative factors in order to assess and challenge the most significant and more complex contract positions. In this area our procedures, which varied by contract, included:

- considering the financial performance of the selected contracts against budget and historical trends to assess the historical accuracy of judgement in the recognition of claims and variations as well as the final out-turn on contracts;
- inspecting the contracts for key clauses, identifying relevant contractual mechanisms such as 'pain/gain' shares, liquidated damages and success fees and considered their impact on the completeness and existence of the amounts recognised in the financial statements;
- completing a number of site visits across the UK, Middle East and Canada, meeting local management, physically inspecting the stage of completion of individual projects and identifying areas of complexity through observation and discussion with site personnel;
- on the basis of detailed position papers obtained from the Group and conversations with senior operational, commercial and financial management, challenging the Group's estimates and judgements in respect of forecast construction contract out-turn, quantum and allocation of contingencies, settlements and the recoverability of contract balances with reference to our own assessments based on historical outcomes, third party evidence and industry norms;
- assessing the profile of aged work in progress on service contracts and challenging aged amounts for recoverability with a focus on claims and variations recognised on individual contracts;
- agreeing the above to correspondence and meeting minutes with customers around variations and claims, corroborating with assessments

\(^5\) Refer Page 86 of the 2016 Accounts.
of these positions from the Group’s legal or technical experts, if applicable; and

we also considered the adequacy of the Group’s disclosures in respect of these estimates and judgements.”

Following completion of our audit procedures, we were satisfied that the Group’s position taken on contract judgements (including recognition of loss-making contracts) was appropriate.

The 2017 interim financial statements concede that there likely would have been a further hit to the company’s reserves of around £125-150 million when IFRS 15 (a new international financial reporting standard relating to revenue recognition) was expected to be retrospectively adopted on 1 January 2018. The financial statements in 2016 noted that this standard would be adopted on that date but said only it was “difficult to determine with any certainty the impact on revenue” this would have. This standard was introduced in part to guard against companies aggressively recognising contract revenue, so why were KPMG not more proactive in highlighting the risk this presented in the 2016 accounts?

IFRS 15 is the new accounting standard for revenue and was the result of a joint project between the International Accounting Standards Board and the US Financial Accounting Standards Board. As stated in the basis for conclusions to IFRS 15, the two boards undertook the project because:

“their requirements for revenue needed improvement for the following reasons:

- US GAAP comprised broad revenue recognition concepts and detailed guidance for particular industries or transactions, which often resulted in different accounting for economically similar transactions;

- The previous revenue standards in IFRS had different principles and were sometimes difficult to understand and apply to transactions other than simple ones. In addition, IFRS had limited guidance on important topics such as revenue recognition for multiple-element arrangements. Consequently, some entities that were applying IFRS referred to parts of US GAAP to develop an appropriate revenue recognition accounting policy;

- The disclosures required under both IFRS and US GAAP were inadequate and often did not provide uses of financial statements with

---

International Financial Reporting Standard 15: Revenue from Contracts with Customers
information to sufficiently understand revenue arising from contracts with customers."

IFRS 15 is only applicable from 1 January 2018 (although we note that in a very few cases companies have early adopted the standard in 2017). IFRS 15 has a quite different approach in some areas to the previous International Accounting Standards for revenue recognition (principally IASs 11 and 18). Accordingly, for companies such as Carillion assessing the impacts of the changes requires a detailed review of existing contracts to assess where differences exist and then further work to quantify those differences. At the time KPMG signed off the 31 December 2016 audit report, as stated in the 31 December 2016 financial statements, Carillion was at the time "performing a detailed assessment [which they] expected to be completed in the first half of 2017" and they stated further that it was difficult at that stage "to determine with any certainty the impact on revenue and profit from adopting this standard". Carillion's work on assessing the impacts of this new standard was at an early stage, such that it was not possible for the company to estimate with any degree of reliability the impact IFRS 15 would have. Accordingly, no quantitative disclosure of the impact of transition to IFRS 15 was included in its 2016 Accounts. This position was consistent with the large majority of listed companies in the UK and indeed in other parts of the world which follow International Financial Reporting Standards, in that very few companies provided quantification of the impact of IFRS 15 in 2016 Accounts.

IAS 8 deals with the requirements in this area. It states that: "When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose: (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application". The FRC had reminded preparers of this requirement in their letter to Audit Committee Chairs and Finance Directors in October 2016, which stated that they expected "that most companies that apply IFRS will have made substantial progress in their implementation of these standards. Companies should provide information on this progress and disclose the likely impacts of each of the new standards once they can be reasonably estimated" (emphasis added). Given that at the time the company issued the 2016 Accounts the work on this transition was still in progress and hence the amounts were not known or yet reasonably estimable, there was no requirement for it to disclose the impact.

---

7 International Accounting Standard 18: Revenue
8 International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (refer paragraph 30)
By the time the 30 June 2017 interim financial statements were ready for issue, the IFRS15 transition project was more substantially progressed, such that the company was able to provide a quantification of the estimated impact. In this case we would note that, even at June 2017, listed companies providing quantification of the transition impact were still in the minority; most companies were disclosing that their transition work was still in progress.

As regards the question as to why KPMG was not proactive in highlighting this issue in the 2016 Accounts, we are required to make reference in our report to failure to comply with material disclosures requirements under UK Generally Accepted Accounting Principles. However, as noted above, Carillion’s non-disclosure of the impact of IFRS 15 in its 2016 Accounts was consistent with the accounting requirements and consistent with most other listed companies. In addition, we would note that it is usual to only disclose the impact of new standards in the year immediately preceding their application, hence we would have expected such disclosure in the 31 December 2017 financial statements, but not before.

As a final point, we would note that in many areas the differences in accounting for long-term contracts between IFRS 15 and IAS 11 will not be material. Without going into a lengthy summary of the differences, in general the accounting for long-term contracts, such as those which Carillion undertook, will be based on recognising revenue through the delivery of a performance obligation over time, which will in most cases be measured as a percentage of costs incurred to date divided by the total costs of the project at completion. Judgements will still have to be made as to the likelihood of companies earning estimated revenues from claims and variations made on those projects and judgements will still need to be made in estimating the total cost of the contracts.

5 The accounts show that the pension schemes suffered a £725 million actuarial loss due to changes in financial assumptions. This accounts for more than 90% of the total net pension liability. What work did KPMG do to verify the validity of the actuarial assumptions?

Carillion, in common with other listed groups, used an independent scheme actuary to assist with the valuation of the pension scheme under IAS 19 for the

---

9 As previously noted in our response to question 2, KPMG did not audit the 30 June 2017 interim financial statements.
10 A company such as Carillion might expect differences arising in particular out of: (a) the requirement under IFRS 15 to account for separate performance obligations under a contract, rather than accounting for the contract as one, which could lead to a different timing on recognition of revenue and profit; and (b) different recognition criteria for upfront costs on service contracts and the ability to capitalise and then amortise those.
11 International Accounting Standard 19: Employee Benefits
purposes of the financial statements. As auditing standards require us to do, we assessed and were satisfied with the independent scheme actuary's objectivity and capability as an external expert, and gained an understanding of the assumptions used and considered whether these were appropriate and reasonable. In view of the quantum and scale of the Company's pension arrangements, we involved KPMG pension specialists in reviewing the actuarial assumptions used to prepare the scheme valuations, and we held discussions with the independent scheme actuary and management about them.

The actuarial loss of £725 million is set out in Note 30 of the 2016 Accounts, and shows the movement in key assumptions year on year. Note 30 also sets out the weighted average of the principal assumptions used by the Company as advised by the independent actuary. The increase in the liabilities was most significantly driven by the fall from 3.95% to 2.7% in the discount rate applied to future liabilities, which is based on AA bond yields.

Yields are at historical lows and any changes in these rates can have a proportionately significant impact on the value of the liabilities. It should also be noted that pension accounting reflects the position at a point in time and is accordingly subject to fluctuating market prices from one valuation period to the next. Surveys indicate that the IAS 19 pension deficits for companies in the FTSE 350 had in total increased from £50 billion to £62 billion over the course of 2016, which included actuarial losses of over £80 billion, so in this regard Carillion's experience was in line with other providers of defined benefit schemes.

Our pension specialists critically assessed the assumptions in isolation against KPMG independently generated benchmarks and also whether the individual assumptions were mutually compatible, and our feedback was addressed by the company and the independent actuary in finalising the assumptions. We concluded that the assumptions used in the 2016 Accounts were within KPMG's benchmark range.

Goodwill, at £1.57 billion, is the largest single item on the balance sheet, and represented over 70% of the group's non-current assets. Given the inherent uncertainty in valuing such an intangible asset, did KPMG form a view as to whether this reliance on goodwill was sustainable in the long-run?

The goodwill balance on the Carillion balance sheet arose from historical acquisitions made by the group and related principally to acquisitions within the UK Support Services Division. We agree that there is inherent uncertainty in

Impact of pension schemes on UK business – Reviewing the effect of DB pensions on companies within the FTSE350 (7th annual report) by Barnett Waddingham
Refer Note 11 to the 2016 Accounts.
valuing an intangible asset such as goodwill, and we recognised this as a key risk in our audit. Before explaining the work that we did, we thought it may be helpful to explain what goodwill is, and how it arises.

Under accounting standards, when acquiring a business, a company recognises goodwill as at the acquisition date, measured as the excess of the consideration paid for the business over the identifiable net assets acquired.

Goodwill can be more practically expressed as the difference between what you pay for a business, and what you get in terms of the assets and liabilities that accounting rules allow you to recognise on your balance sheet. To illustrate, you buy a company for £10 million and you are able to recognise £4 million of that company’s property and plant, £3 million of working capital, less a bank loan of £1 million on your balance sheet. You also get a skilled workforce and you believe there are synergies with your existing business. The difference of £4 million between what you have paid (£10 million) and what goes on your balance sheet (£6 million\(^{14}\)) is the goodwill. This £4 million, being the excess you were willing to pay over the assets and liabilities brought onto the balance sheet, reflects the value of the workforce and the synergies. In some businesses, including both construction and support services, where much of the value is in the skilled workforce, goodwill can be a large component of the purchase price. In other businesses, such as a property investment, almost all of the value is in balance sheet recognised assets, and there may be no goodwill at all.

As such, goodwill can be seen as representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised, and it does not itself generate cash flow independently of other assets or groups of assets. To the extent future economic benefits are insufficient to support the carrying amount of goodwill, associated goodwill balances need to be written down or impaired. So the carrying value of goodwill in a company’s balance sheet relies on whether future benefits can reasonably be expected to continue to exceed the carrying amount of identifiable and separately recognised net assets.

Accounting standards require management to test whether this is the case. To do so the relevant accounting standard\(^{15}\) requires that goodwill is allocated to assets or cash-generating units within a business. A “cash-generating unit” is defined as “the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets”. Under the standard, each cash-generating unit (“CGU”) to which

---

\(^{14}\) being £7 million of assets less the £1 million loan.

\(^{15}\) International Accounting Standard 36: Impairment of Assets
goodwill has been allocated is to be tested for impairment annually. Four such CGUs had been identified by Carillion management.

The KPMG audit team undertook the work as set out in our audit report which was as follows:

"Our procedures included critically assessing the key assumptions applied by the Group in determining the recoverable amounts of each CGU. In particular, we:

- considered the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs;
- considered the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy and wider macro environment conditions;
- challenged the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources;
- performed our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and cash flows to identify areas to focus our procedures on and, sensitised the total discounted cash flows of the Group against the notional enterprise value of the group; and
- also assessed whether the Group's disclosure about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill".

We concluded that management's assessment that the goodwill held by the company did not require impairment at 31 December 2016 was appropriate.

We hope that these answers have been useful for the Committees. As we said at the start of this letter, the collapse of Carillion has affected many people. It has also given rise to significant costs to the public purse and raises important public policy concerns. As we have stated we believe that the audit work we did was appropriate and responsible, but the speed and severity of the collapse indicates that all parties – management, boards, auditors, regulators, and government – need to examine the story of Carillion and learn any lessons. KPMG looks forward to engaging fully in important debates about the role of auditors and in the wider debate about the provision of critical and relevant financial information to the market.
Yours sincerely

Bill Michael
Chairman and Senior Partner
Appendix 1

1. **Could you therefore provide details to us, broken down on an annual basis dating back to 2008, on any terms of engagement that you had with Carillion Plc, any subsidiaries of Carillion Plc and the Carillion Pension Plan. We would request those details include overviews of what the contracted services related to and also the fees charged for those services.**

During the period 2008 to 2017, the majority of services provided to Carillion related to audit and tax compliance services. In respect of the latter, this largely relates to assistance with the completion of corporate tax returns in non-EU territories and assistance with overseas personnel taxes.

In the table below, we set out our remuneration as auditors for both audit and non-audit services, as taken from the financial statements for the years ended 31 December 2008 to 31 December 2016.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor remuneration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable to the Company's auditor for</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- the audit of the Company's annual accounts</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>- the audit of the Company's subsidiaries</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
<td>1.2</td>
</tr>
<tr>
<td>- the audit of the Group's pension schemes</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>- the Group's share of the audit of joint ventures</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Total audit fees</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
<td>1.4</td>
<td>1.5</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>- taxation services</td>
<td>0.2</td>
<td>0.4</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>- other assurance services</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Total non-audit fee</td>
<td>0.2</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.4</td>
<td>0.8</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>1.6</td>
<td>1.8</td>
<td>1.6</td>
<td>1.7</td>
<td>1.9</td>
<td>2.2</td>
<td>1.9</td>
<td>1.7</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>

In addition to audit and tax compliance services in the period 2008 to 2016, KPMG also performed the "other assurance services" as shown above. These services primarily related to:
2008 – review of Public Finance Initiative ("PFI") Special Purpose Vehicle ("SPV") financing models, to confirm assumptions were in accordance with UK GAAP/IFRS.

2009 – review of PFI SPV financing models, to confirm assumptions were in accordance with UK GAAP/IFRS.

2010 – review of PFI SPV financial models, to confirm assumptions were in accordance with UK GAAP/IFRS.

2011 –
   i. Reporting Accountants in connection with the acquisition of Eaga plc;
   ii. Pensions advisory work in connection with the use of group guarantees to improve employers’ covenant for Pension Protection Fund purposes and advice on Dun & Bradstreet scoring; and
   iii. review of PFI SPV financial models, to confirm assumptions were in accordance with UK GAAP/IFRS.

2012 – review of PFI SPV financing models, to confirm assumptions were in accordance with UK GAAP/IFRS.

2013 – no “other assurance services”.

2014 – accounting advisory work in relation to the proposed acquisition of Balfour Beatty plc.

2015 – no “other assurance services”.

2016 – no “other assurance services”.

We continued as auditors in respect of the year ended 31 December 2017, and we billed £645,000 for audit work during 2017. No tax compliance services were billed by KPMG UK in 2017.

During 2017 we also carried out the following non-audit services:

- Capital markets reporting work and related to reporting accountant services for a proposed (but not completed) rights issue for which £157,000 was billed.
- Capital markets reporting work in relation to a planned series of disposals and debt-for-equity swap by the company for which £81,400 was billed.
- Accounting advisory services to assist Carillion with their IFRS 15 conversion, for which £48,000 was billed.
Appendix 2

2. Could you therefore provide similar details about any advisory services that your firm may have entered into with the Government relating to contracts with Carillion and its subsidiaries. We would also like this information dating back to the start of 2008.

In order to respond to this request we took two steps:

- reviewed KPMG International’s global conflicts and independence system for any engagement where Carillion was listed as an “other party” and central Government department or agency was identified as an “engaging party”;
- and

- requested information from our partners and directors as to any work that meets your request, but please note that many partners and directors will have left the firm over the last ten years.

Based on this approach, we identified three Government departments/agencies that have engaged KPMG between 1 January 2008 and 29 January 2018 in services which appear relevant to your question:

1. In March 2009, the Office of Government Commerce engaged us to review certain public information to understand the operations of a target company. Carillion Energy Services Limited was named as an “other party” on our conflicts system. The total fee was £9,899.

2. The Highways Agency engaged us to review certain contracts with 18 suppliers that maintain the road network, of which Carillion WSP was one of the suppliers, between 2010 and 2014. We visited the suppliers at various intervals during the period, looking at different aspects of compliance with the contract. The total fee for this project, to cover our work in relation to all 18 suppliers, was £822,794.

3. The Ministry of Defence engaged us to:
   i. review its procurement process in relation to four regional facilities management contracts in March 2013, where Carillion Plc was a bidder (the total fee for this project was £307,800);
   ii. provide accounting advice and management consultancy on the disposal of the Defence Support Group in May 2014; Carillion Construction Limited provided services to DSG and was listed as an “other party” (the total fee for this project was £1,126,745); and

---

Please note that there were projects for non-governmental public sector organisations.
iii. provide advisory support in relation to a Defence Infrastructure review in August 2016 where Carillion plc was listed as an "other party" (the total fee for this project was £1,132,859).

If we become aware of any further services which are relevant to your request we will provide details to you.