KPMG

Members' Report and Financial Statements 2018

In respect of the year ended 30 September 2018

December 2018

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Contents

Report to the members 2

Independent auditor’s report to the members of KPMG LLP 5

Consolidated income statement 12

Consolidated statement of comprehensive income 12

Statements of financial position 13

Statements of changes in equity 14

Statements of cash flows 15

Notes 16

Report to the members

The Board submits its report together with the audited consolidated financial statements of KPMG LLP and its subsidiary undertakings (the group) for the year ended 30 September 2018.

Legal structure

KPMG LLP is the UK member firm of KPMG International, a Swiss co-operative that serves as a co-ordinating entity for a network of independent member firms that provide professional services to a wide variety of public and private sector organisations. Each member firm is a separate and independent legal entity and describes itself as such. All member firms are committed to following common standards in the provision of services for clients and to maintaining the highest levels of independence and integrity.

KPMG LLP is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000 and is referred to in these financial statements as 'the partnership'.

The partnership's registered office is 15 Canada Square, Canary Wharf, London, E14 5GL.

Principal activities

The principal activities of the group are the provision of professional services, notably audit, tax, pensions and legal, deal advisory and consulting. The group operates primarily through the partnership and its subsidiary undertakings, predominantly in the UK but also has operations in other countries as client contracts require (see note 26).

Governance

During the year ended 30 September 2018, the governance structure of the partnership comprised:

- The Board, the main governance body of the group, responsible for the growth and long-term prosperity of the group ensuring it keeps with, and is true to, its purpose, its vision and the KPMG Values. It provides leadership to the group, approves the group's strategy and oversees its implementation and monitors performance against the group's business plan. The Board also ensures that there is a satisfactory process for managing cultural, ethical, risk and reputational matters affecting the group's business, including compliance with laws, other regulations relevant to the group and KPMG International's global policies.
- The Executive Committee (ExCo), responsible for management of the day-to-day activities of the group, the development and implementation of the business plan, monitoring operating and financial performance, prioritisation and allocation of resources, investment and managing the risk profile of the group.

The Board are supported by various sub-committees including the Audit Committee. Full details of the governance structures as well as the composition and responsibilities of the Board and related committees can be found on the group's website and in the group's separately published Transparency Report.

Designated members

The designated members (as defined in the Limited Liability Partnerships Act 2000) of the partnership during the year were:

Bill Michael (appointed 1 November 2017)
Jeremy Barton
Phillip Davidson
Sarah Willows

Members' capital, profit shares and drawings

The group is financed through a combination of members' capital, undistributed profits and borrowing facilities. Members' capital is provided by each member on becoming a partner and is only repayable on retirement or resignation so remains relatively stable from year to year. During the year, members receive monthly drawings and, from time to time, additional profit share distributions. The level and timing of the additional distributions are decided by ExCo and approved by the Board, taking into account the group's cash requirements for operating and investing activities.

The remuneration model is designed to drive and reward one-firm behaviour consistent with our strategy and values, reflect an individual's medium term value as well as current year performance against their goals, and promote clarity and transparency amongst members regarding their own remuneration and that of other members. A member's remuneration generally comprises three elements as described on page 3 based on benchmark pay. Benchmark pay is communicated to members in November/December each year and is determined in relation to an individual's medium term value to the group.

Report to the members

(continued)

Members’ capital, profit shares and drawings *(continued)*

Each member’s benchmark pay is determined with quality as the primary factor and with other factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group.

The profit allocated to members is distributed as follows:

Basic profit share – each member will receive 60% of their benchmark pay;

One Firm Profit Share – each member will receive a set percentage of their benchmark pay (the same percentage applies to all members);

Discretionary Profit Share (DPS) – in total the same amount as for the One Firm Profit Share is allocated to members on the basis of their relative in-year performance against their balanced scorecard goals.

These elements account for 94% of the total profit allocated to members. The remaining 6% was allocated to those members who retired in the year, and who received an additional profit share in line with the KPMG LLP partnership agreement. A deduction is made from the total pay for any members if their behaviour or performance has fallen below the levels expected by ExCo, as indicated by adverse risk metrics.

Financial performance during the year

2018 saw strong growth in revenue, increasing to £2,338 million reflecting an increase of 8% on 2017. All four capabilities contributed to that growth, with Deal Advisory having a particularly strong year, delivering growth in net sales of 14% year on year (see note 3 for a reconciliation between revenue and net sales by capability).

Profit before taxation and members’ profit shares increased by 53% year on year and by 18% when excluding the profit on disposal of property at 15 Canada Square. This underlying profitable growth reflects the improved return on investments in technology and people following the disappointing results of 2017 when a number of underperforming contracts, other provisions and investment write offs all impacted profitability.

Financial position at the end of the year

The financial position of the group is now considerably stronger than in 2017, with net assets attributable to members increasing year on year following the disposal of property at 15 Canada Square; the members voting to retain the profit on disposal of the property for future development and investment in the group. As set out on page 2, operations are generally financed by members’ capital and other members’ interests, which together totalled £393 million at 30 September 2018 (2017: £225 million) for the group and £332 million (2017: £186 million) for the partnership.

Bank facilities of £385 million were also available to the group at 30 September 2018, having reduced from £560 million at 30 September 2017 as a result of the required repayment under the facility following disposal of 15 Canada Square. The group’s operating activities are generally cash generative in the short term.

The main current assets of the group are trade receivables and unbilled amounts for client work, both of which are monitored across the business. The prompt rendering of fees for work done and collection of the resulting receivables are important aspects of the monitoring of financial risks within the group. These assets totalled £831 million (2017: £772 million) for the group and £786 million (2017: £716 million) for the partnership.

Report to the members

(continued)

Going concern

As set out above, the group has access to considerable financial resources, namely members' capital, undistributed profits and borrowings. This funding, together with well-established relationships with many clients and suppliers across different geographic areas and industries, leaves the group well placed to manage its business risks successfully.

At 30 September 2018, the group had undrawn facilities of £354 million (2017: £81 million); this level of committed, undrawn funding allows the group to actively pursue, respond to and invest in opportunities in line with the strategy of the group. Full details of the borrowing facilities are set out in note 16.

In addition, the group's objectives, policies and processes to address risks arising from the group's use of financial instruments, in particular its exposure to market, credit and liquidity risks are set out in note 22.

After making enquiries, and following a review of its profit and cash flow forecasts and consideration of wider business risks faced by the group, the Board has concluded that, at the time of approving these financial statements, the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing this report and financial statements.

Disclosure of information to the auditor

The Board members who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the group's auditor is unaware; each Board member has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Auditor

In accordance with Section 485 of the Companies Act 2006, the independent auditor, Grant Thornton UK LLP, will be proposed for re-appointment.

Statement of members' responsibilities in respect of the report to the members and the financial statements

The members are responsible for preparing the report to the members and financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the group and partnership financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

Under Regulation 8 of the 2008 Regulations the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and partnership and of the profit of the group for that period.

In preparing these financial statements, the members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as adopted by the European Union; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and partnership will continue in business.

Under Regulation 6 of the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and partnership's transactions and disclose with reasonable accuracy at any time the financial position and enable them to ensure that the financial statements comply with those regulations.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and partnership and to prevent and detect fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. During the year, these responsibilities were exercised by the Board on behalf of the members.

Independent auditor's report to the members of KPMG LLP

Our opinion on the financial statements is unmodified

We have audited the financial statements of KPMG LLP (the parent limited liability partnership) and its subsidiaries (the group) for the year ended 30 September 2018 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Statements of financial position, the Statements of changes in equity, the Statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent limited liability partnership financial statements, in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent limited liability partnership's affairs as at 30 September 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent limited liability partnership's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, in accordance with the provisions of the Companies Act 2006, as applied to limited liability partnerships; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

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

In addition, the limited liability partnership's members have requested us to expand our auditor's report to report under ISA (UK) 701 Communicating Key Audit Matters in the Independent Auditor's Report. This involves communicating to the members Key Audit Matters together with Other Audit Planning and Scoping Matters.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall group materiality has been determined at £18.0 million, using profit and loss before taxation, the profit on disposal of property, plant and equipment and members' profit shares as a benchmark;
- Key matters were identified as revenue recognition, defined benefit pension schemes, professional claims and regulatory matters, the impairment of intangible assets and the profit on disposal of property, plant and equipment;
- We performed a full scope audit of the financial statements of the limited liability partnership. A full scope audit of Queen Street Mutual Company PCC Limited was performed by a Grant Thornton International Limited network firm under our instruction. We completed targeted or analytical procedures for all other subsidiaries.

Independent auditor's report to the members of KPMG LLP

(continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Revenue recognition The accounting policy and related disclosures on revenue recognition are shown in note 3. Revenue is recognised as the fair value of the consideration earned in respect of professional services engagements undertaken during the year. In determining the timing of revenue to be recognised in accordance with International Accounting Standard (IAS) 18 'Revenue' and the value of unbilled revenue to be recognised in the statement of financial position, each individual engagement team estimates the stage of completion and the right to consideration at the year-end for each contract. This can be highly judgemental. We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – gaining an understanding of the processes and controls implemented by management to identify, measure and recognise revenue; assessing the design effectiveness of those processes and controls and testing the operating effectiveness of certain key controls – an assessment of the accounting policies and practices surrounding revenue recognition to ensure compliance with relevant accounting standards – substantive testing on a sample of engagements to assess that the right to consideration had been obtained through performance of the agreed services – for individually significant engagements, or engagements where we identified a specific risk, we discussed and challenged the estimates applied by engagement and management teams in determining the level of revenue recognised in the Consolidated income statement and unbilled revenue recognised within the consolidated and partnership Statements of financial position – certain analytical procedures and enquiries of engagement and management teams where revenues recognised or trends fell outside our expectation parameters. Where relevant, we sought corroborating evidence to support explanations provided by those teams. **Key observations** Our testing did not identify any significant deficiencies in the revenue recognition policies and practices and we conclude these continue to be in line with IAS 18 'Revenue' guidelines. Our audit work indicated that revenue is only recognised when a right to that consideration had been obtained through performance of the agreed services. Overall our assessment is that the estimates applied in determining the level of revenue resulted in a mildly cautious, but consistent, level of revenue recognised in the Consolidated income statement and unbilled revenue within the consolidated and partnership Statement of financial position. We consider the related disclosure in note 3 to the financial statements appropriately discloses and describes the significant degree of inherent uncertainty in the assumptions and estimates used in determining the stage of completion of revenue contracts.

Independent auditor's report to the members of KPMG LLP

(continued)

Key audit matters *(continued)*

Key audit matter – group and limited liability partnership	**How the matter was addressed in the audit – group and limited liability partnership**
Defined benefit pension scheme liabilities The accounting policy and related disclosures on defined benefit pension schemes are shown in note 20. There are significant provisions for post-employment benefits, currently resulting in a defined benefit pension deficit. The measurement of these liabilities in accordance with IAS 19 (Revised) 'Employee benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension liabilities being recognised within the financial statements. We therefore identified defined benefit pension scheme liabilities as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – assessing the qualification and objectivity of the KPMG internal actuarial team – in conjunction with our internal actuarial specialists, considering the appropriateness of the valuation methodologies and challenging the appropriateness of the valuation assumptions – agreeing asset values to investment manager statements and the ownership of the scheme assets by contacting the investment custodians – assessing the appropriateness of information sources used for the valuation. **Key observations** Our audit work found the valuation methodologies and the actuarial assumptions inherent within them to be balanced and consistent with the expectation of our actuarial specialists. We obtained direct confirmation of assets from the investment managers and custodians and agreed them to the value of assets included within the IAS 19 valuation. We consider that the related disclosure in note 20 to the financial statements appropriately describes the significant degree of uncertainty in the underlying assumptions and estimates.

Independent auditor's report to the members of KPMG LLP

(continued)

Key audit matters *(continued)*

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Professional claims and regulatory matters The accounting policy and disclosures on professional claims and regulatory matters are shown in note 18. Insurance cover is maintained for professional claims and regulatory matters which is principally written through mutual insurance companies. In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', a provision is made for estimated costs for dealing with and settling claims and regulatory matters. This can be highly judgemental. We therefore assessed the identification of and provisioning for the costs of settling professional claims and regulatory matters as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – performing an assessment of the professional claim and regulatory matter notification process, and the identification and practice protection procedures in operation – consideration of those claims in progress which are, or have the potential to be, material and challenge of management's key assumptions and the underlying level of provision, including whether any exposure was, or was not, covered by the insurance arrangements – confirmation of the existence of insurance cover and consideration of the financial strength of the insurance providers to ensure that sufficient assets were available to honour the levels of cover provided – consideration of whether the information we obtained was complete through review of publicly available information and that held internally. **Key observations** Our testing did not identify any significant deficiencies in the operation of the professional claim and regulatory matter notification, identification and practice protection procedures. Our audit work over professional claims and regulatory matters in progress found that, based on the information available to management, appropriate judgements had been made in determining the level of any provision required after taking into account available insurance cover. We did not identify from external sources, or from internal sources, any material claims or regulatory matters or circumstances not already included in the internal reporting procedures. We consider that the disclosures in note 18 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates used in valuing the provisions relating to professional claims and regulatory matters.

Independent auditor's report to the members of KPMG LLP

(continued)

Key audit matters *(continued)*

Key audit matter – group and limited liability partnership	How the matter was addressed in the audit – group and limited liability partnership
Impairment of intangible assets The accounting policy and related disclosures on intangible assets are shown in note 11. There are material intangible assets held in the statement of financial position at year end based on significant judgements. We therefore identified impairment of intangible assets as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – consideration of management's assessment of intangible assets for impairment and determining whether appropriate judgements and estimates were taken into account in the impairment models – where appropriate, we ensured that appropriate disclosure of any impairment, the accounting treatment and associated judgements had been made within the financial statements. **Key observations** We found the arrangements in place for reviewing impairment to be effective, which resulted in the appropriate accounting treatment being applied. We consider that the disclosures in note 11 appropriately discloses the accounting treatment, valuation inputs and the associated judgements and estimates relating to intangible assets and impairment.
The profit on disposal of property, plant and equipment As set out in the Consolidated income statement and note 10, the financial statements include a net profit on disposal of property, plant and equipment of £106 million arising from the sale and leaseback of the group's and limited liability partnership's offices at 15 Canada Square, London. There is significant management judgement in the recognition of this profit as discussed in note 10. We therefore identified this key audit matter as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – assessing the accounting for the sale and leaseback transaction by reference to the sale and lease agreements – evaluating management's assessment of the leaseback transaction as an operating lease – in conjunction with our internal property specialist evaluating whether the profit in excess of fair value has been properly recognised as a profit on disposal – considering whether the presentation of the profit on disposal and disclosures of the judgements made in arriving at the profit in the financial statements is appropriate. **Key observations** Our audit work found the judgements and estimates made by management in concluding the transaction was an operating lease and subsequently arriving at the profit on disposal for the sale and leaseback were balanced and consistent with the expectation of our property specialist.

Independent auditor's report to the members of KPMG LLP

(continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be £18.0 million and £16.2 million for the limited liability partnership, which was determined by reference to profit before taxation, the profit on disposal of property, plant and equipment and members' profit shares. The materiality and associated benchmark were agreed with the Audit Committee during our planning phase, where the public interest nature of the group was taken into account.

Group materiality and limited liability partnership materiality for the current year are both higher than the levels that we determined for the year ended 30 September 2017 reflecting the increase in the profit before taxation, the profit on disposal of property, plant and equipment and members' profit share. These changes in materiality have not had a significant effect on our scope or approach to testing.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. We also determine a lower level of specific materiality for certain areas such as members' remuneration and related party transactions.

We determined the threshold at which we communicated misstatements to the Audit Committee to be £900,000. In addition we communicated misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit included an audit of the financial statements of the parent limited liability partnership, together with audits for group reporting purposes of its subsidiary undertakings as detailed in note 26. 97% of group revenues and 96% of group total assets attributable to members were subject to an audit based upon group materiality, with the remaining group net assets subject to targeted audit procedures or analytical review. Substantially all of the subsidiary undertakings are subject to audit by us, directly, as the group auditor.

The group audit was conducted from one key location and all material subsidiary companies were within the scope of our audit testing. The only significant subsidiary not audited by us directly was Queen Street Mutual Company PCC Limited (QSM) which was audited by a Grant Thornton International Limited network firm under our instruction. QSM does not generate any of the group's revenue and represents less than 4% of the group's total assets. We determined the level of involvement we needed to have in the audit of QSM to be able to conclude whether sufficient, appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Detailed audit instructions were sent to the component auditor of QSM setting out the audit areas that should be covered and the information required to be reported back to the group audit team, together with the materiality threshold which was set at a lower level than overall group financial statement materiality. We also reviewed the component auditor's working papers and held direct discussions with them regarding their findings and conclusions.

We evaluated certain key management controls over the financial processes linked to the significant audit risks, including those described above which were identified as part of our risk assessment. We evaluated general IT controls, the accounts production process and controls over critical accounting matters. We reviewed the findings of the work undertaken by internal audit where relevant to our assessment of significant risk. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was dependent on various factors including our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Other information

The members are responsible for the other information. The other information comprises the information included in the Report to the members. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of KPMG LLP

(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent limited liability partnership's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of members for the financial statements

As explained more fully in the statement of members' responsibilities set out on page 4, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Jonathan Maile BSc (Hons) FCA

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

Gatwick
4 December 2018

Grant Thornton

Consolidated income statement

For the year ended 30 September 2018

	Note	2018 £m	2017 £m
Revenue	3	**2,338**	2,172
Recoverable expenses		**(344)**	(323)
Net sales		**1,994**	1,849
Other operating income	4	**86**	78
Staff costs	5	**(1,086)**	(1,010)
Profit on disposal of property, plant & equipment	10	**106**	-
Depreciation and amortisation	10,11	**(61)**	(66)
Other operating expenses	6	**(573)**	(543)
Operating profit		**466**	308
Financial income	7	**9**	11
Financial expense	7	**(13)**	(18)
Net financial expense		**(4)**	(7)
Profit before taxation and members' profit shares		**462**	301
Tax expense in corporate entities	8	**(14)**	(12)
Profit for the financial year before members' profit shares		**448**	289
Members' profit shares charged as an expense	5	**(327)**	(281)
Profit for the financial year available for discretionary division among members		**121**	8
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**124**	10
Non-controlling interests		**(3)**	(2)
		121	8

Consolidated statement of comprehensive income

For the year ended 30 September 2018

	Note	2018 £m	2017 £m
Profit for the financial year available for discretionary division among members		**121**	8
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans	20	**21**	14
Total comprehensive income for the financial year, net of tax		**142**	22
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**145**	24
Non-controlling interests		**(3)**	(2)
		142	22

Statements of financial position

At 30 September 2018

		Group		Partnership	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**171**	431	**170**	431
Intangible assets	11	**82**	92	**35**	40
Investments	12	**1**	1	**13**	13
Other non-current assets	13	**5**	5	**86**	86
		259	529	**304**	570
Current assets, excluding members' interests					
Trade and other receivables	14	**967**	891	**1,017**	870
Other financial assets	15	**49**	56	**-**	-
Cash and cash equivalents	16	**49**	66	**12**	23
		1,065	1,013	**1,029**	893
Total assets, excluding members' interests		**1,324**	1,542	**1,333**	1,463
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**83**	106	**83**	106
Provisions	18	**131**	114	**104**	90
Bank borrowings	16	**-**	300	**-**	300
Deferred tax liability	19	**1**	2	**-**	-
Other non-current liabilities	13	**-**	-	**90**	90
		215	522	**277**	586
Current liabilities, excluding members' interests					
Bank borrowings	16	**31**	179	**31**	116
Trade and other payables	17	**676**	606	**689**	571
Tax payable		**6**	4	**-**	-
Provisions	18	**4**	4	**4**	4
		717	793	**724**	691
Total liabilities, excluding members' interests		**932**	1,315	**1,001**	1,277
Net assets attributable to members and non-controlling interests		**392**	227	**332**	186
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(42)**	(43)	**(42)**	(43)
Amounts classified as non-current liabilities:					
Amounts due to members	21	**29**	-	**29**	-
Amounts classified as current liabilities:					
Amounts due to members	21	**246**	170	**246**	170
Members' capital	21	**73**	59	**73**	59
		319	229	**319**	229
Amounts classified as equity:					
Other members' interests classified as equity		**87**	39	**26**	-
Total members' interests		**393**	225	**332**	186
Non-controlling interests		**(1)**	2	**-**	-
		392	227	**332**	186

The partnership reported a profit available for discretionary division among members for the year ended 30 September 2018 of £102 million (2017: £52 million).

The financial statements on pages 12 to 59 were authorised for issue and signed on 4 December 2018 on behalf of the members of KPMG LLP, registered number OC301540 by:

Bill Michael
Chairman

Sarah Willows
Chief Financial Officer and Head of Operations

Statements of changes in equity

For the year ended 30 September 2018

		Group				Partnership
	Note	Members' other reserves £m	Translation reserve £m	Non-controlling interests £m	Total £m	Members' other reserves £m
Balance at 1 October 2016		62	4	2	68	(15)
Profit/(loss) for the financial year available for discretionary division among members		10	-	(2)	8	52
Remeasurement of defined benefit pension plans	20	14	-	-	14	14
Total comprehensive income		24	-	(2)	22	66
2016 profits available for discretionary division, allocated to members during the year	5	(51)	-	-	(51)	(51)
Other movements		-	-	2	2	-
Transactions with owners		(51)	-	2	(49)	(51)
Balance at 30 September 2017		35	4	2	41	-
Profit/(loss) for the financial year available for discretionary division among members		**124**	**-**	**(3)**	**121**	**102**
Remeasurement of defined benefit pension plans	20	**21**	**-**	**-**	**21**	**21**
Total comprehensive income		**145**	**-**	**(3)**	**142**	**123**
2017 profits available for discretionary division, allocated to members during the year	5	**(20)**	**-**	**-**	**(20)**	**(20)**
Other movements	21	**(77)**	**-**	**-**	**(77)**	**(77)**
Transactions with owners		**(97)**	**-**	**-**	**(97)**	**(97)**
Balance at 30 September 2018		**83**	**4**	**(1)**	**86**	**26**

Statements of cash flows

For the year ended 30 September 2018

		Group		Partnership	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**121**	8	**102**	52
Adjustments for:					
Tax expense	8	**14**	12	**-**	-
Depreciation and amortisation	10,11	**61**	66	**55**	56
Financial income	7	**(9)**	(11)	**(19)**	(46)
Financial expense	7	**13**	18	**16**	21
Profit on disposal of property, plant & equipment	10	**(106)**	-	**(106)**	-
Impairment of investments		**-**	7	**-**	-
Members' profit shares	5	**327**	281	**327**	281
		421	381	**375**	364
Increase in trade and other receivables		**(76)**	(53)	**(147)**	(87)
Increase in trade and other payables		**20**	28	**70**	21
Increase in provisions and retirement benefits		**11**	14	**8**	13
Cash generated from operations		**376**	370	**306**	311
Net interest and other financial costs paid	7	**-**	(5)	**(2)**	(5)
Corporate taxes paid		**(13)**	(13)	**-**	-
Net cash flows from operating activities before transactions with members		**363**	352	**304**	306
Payments to members		**(304)**	(329)	**(304)**	(329)
Net cash flow from operating activities		**59**	23	**-**	(23)
Cash flows from investing activities					
Cash received on disposal of interest in subsidiary	9	**-**	2	**-**	-
Dividends received		**-**	-	**7**	34
Disposal of other financial assets		**7**	4	**-**	-
Proceeds from sale of property, plant and equipment	10	**404**	2	**404**	2
Acquisition of property, plant and equipment	10	**(30)**	(27)	**(29)**	(27)
Development of intangible assets	11	**(10)**	(27)	**(9)**	(25)
Net cash flows from investing activities		**371**	(46)	**373**	(16)
Cash flows from financing activities					
Repayment of bank borrowings	16	**(746)**	(206)	**(683)**	(196)
Proceeds from new bank borrowings	16	**298**	254	**298**	251
Capital introduced by members	21	**8**	7	**8**	7
Capital repayments to members	21	**(7)**	(8)	**(7)**	(8)
Net cash flows from financing activities		**(447)**	47	**(384)**	54
Net (decrease)/increase in cash and cash equivalents		**(17)**	24	**(11)**	15
Cash and cash equivalents at the beginning of the year		**66**	42	**23**	8
Cash and cash equivalents at the end of the year	16	**49**	66	**12**	23

Notes

Forming part of the consolidated financial statements

1. Accounting policies

KPMG LLP (the partnership) is incorporated in the UK as a limited liability partnership under the Limited Liability Partnerships Act 2000.

The consolidated financial statements include the financial statements of the partnership and its subsidiary undertakings (the group) and include the group's interest in joint arrangements. The parent entity financial statements present information about the partnership as a separate entity and not about its group.

Both the group and partnership financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (adopted IFRSs), together with the requirements of the Companies Act 2006 applicable to Limited Liability Partnerships (LLPs), and have been approved by the members. In presenting the parent entity financial statements together with the group financial statements, the partnership is taking advantage of the exemption in Section 408(4) of the Companies Act 2006, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) regulations 2008, not to present its individual income statement and related notes as part of these approved financial statements.

Accounting policies that relate to the financial statements as a whole are set out below, while those that relate to specific areas of the financial statements are shown in the corresponding note. All accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

A number of new amendments to IFRSs have been endorsed by the European Union with effective dates such that they fall to be applied by the group. The following amendments to published standards are the only changes of relevance to these financial statements that have been applied in the year ended 30 September 2018:

- Amendments to IAS 7: 'Disclosure Initiative'; effective for periods beginning on or after 1 January 2017.
- Annual Improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2017.

The group elected to early adopt the following IFRSs and amendments in the year ended 30 September 2018:

- Annual Improvements to IFRSs 2014-2016 Cycle; effective for periods beginning on or after 1 January 2018.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'; effective for periods beginning on or after 1 January 2018.

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

There are no other standards, interpretations or amendments that required mandatory application in the current year.

Notes

Forming part of the consolidated financial statements *(continued)*

1. Accounting policies *(continued)*

Future developments

There are a number of standards, interpretations and amendments issued by the International Accounting Standards Board (IASB) that have been endorsed by the European Union and are effective for financial statements after this reporting period. The most significant of these are:

IFRS 15 'Revenue from Contracts with Customers' (IFRS 15)

Effective date

Together with subsequent clarifications to IFRS 15 'Revenue from Contracts with Customers', effective for periods beginning on or after 1 January 2018.

Key requirements

The standard replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes' and establishes a comprehensive framework for determining whether, how much and when revenue is recognised by introducing a five step model.

Implementation and impact

The group will implement IFRS 15 for the year ending 30 September 2019.

We have completed our impact assessment of the requirements of IFRS 15 against our existing accounting policies, including those in respect of contingent and other variable fee arrangements, contracts with multiple services and timing of recognition of revenue for long-term contracts.

IFRS 15 requires revenue to be recognised only to the extent that it is highly probable that the revenue will not subsequently be reversed. We consider that this is broadly in line with the group's and partnership's current accounting policies and no material differences arise, except in respect of contingent fee arrangements; revenue and unbilled amounts for client work would be recognised by the group and partnership at an earlier point in time for contingent fee arrangements under IFRS 15. Based on current fee arrangements in place, we consider that this earlier recognition in revenue would result in additional revenue of no more than 1.5% of the group's and partnership's revenue for the year ended 30 September 2018.

IFRS 9 'Financial Instruments' (IFRS 9)

Effective date

Together with subsequent Amendments to IFRS 9 'Prepayment Features with Negative Compensation', effective for periods beginning on or after 1 January 2018.

Key requirements

The standard replaces existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and liabilities including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements.

Implementation and impact

The group will implement IFRS 9 for the year ending 30 September 2019.

We have completed our impact assessment of the requirements of IFRS 9 against our current classification, measurement and recognition of financial assets and liabilities. We have also considered the impact on our current levels of impairment provisions against trade and other receivables.

We do not consider that the implementation of IFRS 9 will have a material impact on either classification, measurement and recognition of financial assets and liabilities of the group and partnership in existence at 30 September 2018. We also do not consider that the implementation of IFRS 9 will have a material impact on impairment provisions against trade and other receivables based on the ageing profile of those receivables at 30 September 2018.

Notes

Forming part of the consolidated financial statements *(continued)*

1. Accounting policies *(continued)*

Future developments *(continued)*

IFRS 16 'Leases' (IFRS 16)

Effective date

Effective for periods beginning on or after 1 January 2019.

Key requirements

The standard replaces IAS 17 'Leases' and significantly revises the way that entities will account for leases. It will result in most leases being accounted for on-balance sheet recognising a new category of right-of-use asset and liability based on discounted future lease payments. The right-of-use asset will be depreciated over its useful life and the lease payment will be apportioned between a finance charge and capital repayment.

Implementation and impact

The group will implement IFRS 16 for the year ending 30 September 2020.

We have completed our impact assessment of the requirements of IFRS 16 and the potential impact on the results of the group and partnership are considered to be material; had the group and partnership adopted IFRS 16 at 30 September 2018, the impact under the modified retrospective approach would have been to recognise a lease liability of approximately £536 million and right-of-use asset of approximately £485 million to £493 million, depending upon the transition option applied (the difference relating to rent free accruals).

The impact of adoption has increased since the disclosures provided for the year ended 30 September 2017 as a result of the sale and leaseback of 15 Canada Square in January 2018.

Other relevant changes of less significance are:

- IFRIC 23 'Uncertainty over Income Tax Treatments': effective for periods beginning on or after 1 January 2019 (endorsed 23 October 2018).
- Annual Improvements to IFRSs 2015-2017 Cycle: effective for periods beginning on or after 1 January 2019.
- Amendments to IAS 19: 'Plan Amendment; Curtailment or Settlement' effective for periods beginning on or after 1 January 2019.
- Amendments to References to the Conceptual Framework in IFRS Standards: effective for periods beginning on or after 1 January 2020.Amendments to IFRS 3 'Business Combinations': effective for periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8 'Definition of Material': effective for periods beginning on or after 1 January 2020.

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

Notes

Forming part of the consolidated financial statements *(continued)*

1. Accounting policies (continued)

Basis of preparation

The financial statements have been prepared on the historical cost basis except that derivative financial instruments and certain other financial instruments are stated at their fair value.

The functional currency of the partnership and the presentation currency of the group is pounds sterling. The financial statements are presented in millions of pounds (£m) unless stated otherwise.

Going Concern

As set out in the Report to the members, the group has access to considerable financial resources, namely members' capital, undistributed profits and borrowings. This funding, together with well-established relationships with many clients and suppliers across different geographic areas and industries, leaves the group well placed to manage its business risks successfully.

At 30 September 2018, the group had undrawn facilities of £354 million (2017: £81 million); this level of committed, undrawn funding allows the group to actively pursue, respond to and invest in opportunities in line with the strategy of the group. Full details of the borrowing facilities are set out in note 16.

In addition, the group's objectives, policies and processes to address risks arising from the group's use of financial instruments, in particular its exposure to market, credit and liquidity risks are set out in note 22.

After making enquiries, and following a review of its profit and cash flow forecasts and consideration of wider business risks faced by the group, the Board has concluded that, at the time of approving these financial statements, the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing this report and financial statements.

Foreign currency

Transactions in each entity in foreign currencies other than its functional currency are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end date are retranslated in each entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement within financial income or expense, as appropriate. Non-monetary assets that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

For presentation purposes, the revenues and expenses of group undertakings with a functional currency other than pounds sterling are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of such undertakings, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at year-end. Exchange differences arising from this retranslation are recognised in other comprehensive income in the translation reserve.

Non-derivative financial instruments

The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date the group becomes party to the contractual provisions of the instrument.

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

Non-derivative financial instruments comprise other financial assets (note 15), non-current loans and receivables (note 13), trade and other receivables (note 14), unbilled amounts for client work (note 14), cash and borrowings (note 16), trade and other payables (note 17), members' capital (note 21) and amounts due to and from members (note 21).

Notes

Forming part of the consolidated financial statements *(continued)*

1. Accounting policies *(continued)*

Impairment

Financial assets (including receivables)

The carrying amounts of the group's and partnership's financial assets not carried at fair value through profit or loss are reviewed at each year-end to determine whether there is any objective evidence that there is an indication of impairment which includes default by a debtor, adverse changes in the payment status of debtors or issuers, or the disappearance of an active market for a security. If any such indication exists, the assets' recoverable amounts are estimated.

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

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

Non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit (or CGU)). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, significant estimates and assumptions that affect the application of policies and reported amount of revenue, expenses, assets and liabilities and the disclosure of contingent assets and liabilities.

These judgements and significant estimates are based on historical experience and other factors, including market data and expectations of future events that are believed to be reasonable and constitute management's best assessment at the date of the financial statements. They are continually re-evaluated and actual experience could differ from the estimates, resulting in adjustments being required in future periods. Where appropriate, present values are calculated using discount rates reflecting the currency and maturity of the items being valued.

Critical accounting judgements in applying the group's accounting policies that have the most significant effect on amounts recognised in the 2018 financial statements are as follows:

- Sale and leaseback of property, plant & equipment: assessing whether the resulting lease is an operating or finance lease and the fair value of the property disposed (note 10).

Notes

Forming part of the consolidated financial statements *(continued)*

2. Accounting estimates and judgements *(continued)*

- Asset-Backed Funding (ABF) partnership only: assessing whether an embedded derivative exists, impacting the recognition and valuation of the loan receivable under the ABF (note 13).
- Member retirement provisions: assessing whether a contractual or constructive obligation exists, resulting in a provision to be recognised (note 18).
- Consolidation of investee companies: assessing whether the group has control over certain subsidiaries despite minority shareholding (note 26).

Estimates that may carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are considered as follows:

- Revenue from service contracts: estimating the stage of service contract completion, including estimating the costs still to be incurred, assessing the likely engagement outcome and assessing the recoverability of unbilled amounts for the client work (note 3).
- Impairment of intangible assets: determining the appropriate cash generating units to which goodwill is allocated and estimating their value in use, with the key assumptions being future trading growth, profitability and cash flows (note 11).
- Professional claims and regulatory matters – assessing the probable outcome of claims and regulatory proceedings and estimating the level of costs likely to be incurred in defending and concluding such matters (note 18).
- Retirement benefits – determining the actuarial assumptions to be applied in estimating the net obligations of the group's pension plans, with the key actuarial assumptions being mortality, discount rates, and inflation (note 20).

Further details of these judgements and significant estimates are set out in the related notes to the financial statements as indicated in each case together with sensitivity analysis where relevant.

Certain judgements and significant estimates were disclosed in the 2017 financial statements but, having reassessed, management have concluded that they no longer meet the requirements for disclosure:

- Classification of bank borrowing: following the repayment of a significant amount of borrowing during the year and expectations of future cash flows, classification of bank borrowing into non-current and current is no longer a judgement that needs to be taken (note 16).
- Trade and other receivables: whilst revenue from service contracts and amounts recognised for unbilled amounts for client work are both key sources of estimation uncertainty, recoverability of trade and other receivables is not considered to be a significant estimate, as evidenced by the consistently low level of bad debt provision from year to year (note 14).
- Provision for former members' annuities: the provision recognised for former members' annuities does not change significantly if underlying assumptions are changed, as demonstrated by the sensitivity disclosures in note 18. The provision is not therefore considered to be a key source of estimation uncertainty.

3. Segmental reporting

Accounting policy - Revenue

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

Where the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent that the costs of providing the service are recoverable. No revenue is recognised where there are significant uncertainties regarding recovery of the consideration due or where the right to receive payment is contingent on events outside the control of the group. Costs incurred are carried within 'Unbilled amounts for client work' but appropriately provided until such a time as the contingency is removed. Expected losses are recognised as soon as they become probable based on latest estimates of revenue and costs.

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

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

Notes

Forming part of the consolidated financial statements *(continued)*

3. Segmental reporting *(continued)*

Significant estimate

In calculating revenue from service contracts, the group and partnership make certain estimates as to the stage of completion of those contracts. In doing so, the group and partnership estimate the remaining time and external costs to be incurred in completing contracts and the clients' willingness and ability to pay for the services provided. These estimates depend upon the outcome of future events and may need to be revised as circumstances change.

Certain service contracts, notably those in Deal Advisory and Consulting, require a greater degree of estimation than others, specifically those contracts that:

- are long-term, spanning a number of accounting periods, thereby extending the period over which estimation is required;
- have fee arrangements other than a simple time and materials basis, requiring an estimation as to percentage completion over time; or
- have multiple deliverables, such as software implementation and support services, requiring an estimate as to revenue allocation to each deliverable or percentage completion over time if the contract is considered to be a single contract.

The group has voluntarily adopted IFRS 8 'Operating Segments'. Accordingly, segment information is presented, reflecting the group's principal management and internal reporting structures. From 1 October 2017, the group's business continued to be managed through a matrix structure which is capability led – Audit, Tax, Pensions and Legal (TPL), Deal Advisory, Consulting (previously Risk Consulting and Management Consulting), Solutions and Digital (S&D), Coverage Central and KPMG Business Services (KBS) – and market informed, through coverage groups, namely Financial Services, Corporates and National Markets.

Information presented to the Chief Operating Decision Maker (CODM - considered to be the group's Executive Committee) covers both capabilities and coverage groups. However, the group's people and resources are now principally organised by capability and it is therefore the capability reporting that predominantly influences decisions around resource allocation made by the CODM.

Four of the group's capabilities are considered to be operating segments under IFRS 8 – Audit, TPL, Deal Advisory and Consulting. The remaining three capabilities – S&D, Coverage Central and KBS – do not directly generate revenue for the group and so do not meet the definition of an operating segment under IFRS 8.

Revenue, profit and asset information is presented on page 23 for the four operating segments; segments have not been aggregated for this purpose. Prior year information has been represented to reflect the refocus on capabilities, including the bringing together of Risk Consulting and Management Consulting into one single Consulting capability. Certain activities were reclassified between capabilities during the year and accordingly prior year figures have been restated where relevant.

Additional revenue information is provided for the coverage groups; this is for information purposes only and is not considered part of the segmental disclosures under IFRS 8.

Segments

Audit	Provision of statutory and regulatory attestation services, advice in compliance with changing reporting and regulatory requirements, and non-statutory assurance services.
Tax, Pensions & Legal (TPL)	Advice and support to help clients understand and comply with tax, pensions and legal regulations and requirements.
Deal Advisory (DA)	Deal Advisory focuses on helping clients buy, sell, partner, fund and fix through all elements of the deal lifecycle.
Consulting (Cons)	Strategic advice through to implementation and support to improve business performance through transforming operations, business intelligence and finance transformation, working capital and cash management, revenue enhancement and cost optimisation, IT-enabled transformation, embedding risk and regulatory management and deal services. Provision of advice on embedding governance, risk management and internal controls, Internal Audit and on compliance with changing regulatory requirements; provision of accounting, investigation and business skills to assist clients involved in contentious financial matters.

Notes

Forming part of the consolidated financial statements *(continued)*

3. Segmental reporting *(continued)*

Information by segment is as follows:

2018	**Audit £m**	**TPL £m**	**DA £m**	**Cons £m**	**Total £m**
Net sales (as reported internally)	**535**	**455**	**394**	**593**	**1,977**
Recoverable expenses (as reported internally)	**55**	**91**	**49**	**149**	**344**
Gross sales (as reported internally)	**590**	**546**	**443**	**742**	**2,321**
Revenue of entities not reported internally					**24**
Elimination of intra-group trading and other financial adjustments					**(7)**
Total group revenue					**2,338**
Segmental contribution (as reported internally)	**196**	**189**	**172**	**195**	**752**
Members' remuneration adjustments					**154**
Costs not allocated to segments					**(530)**
Net financial expense (see note 7)					**(4)**
Profit on disposal of property, plant & equipment (see note 10)					**106**
Loss before taxation of entities not reported internally					**(16)**
Total group profit before taxation and members' profit shares					**462**
Segmental assets (as reported internally)	**78**	**162**	**112**	**156**	**508**
Assets of entities not reported internally					**53**
Assets not allocated to segments					**763**
Total group assets, excluding members' interests					**1,324**

2017	Audit £m	TPL £m	DA £m	Cons £m	Total £m
Net sales (as reported internally)	496	425	346	564	1,831
Recoverable expenses (as reported internally)	56	75	46	146	323
Gross sales (as reported internally)	552	500	392	710	2,154
Revenue of entities not reported internally					28
Elimination of intra-group trading and other financial adjustments					(10)
Total group revenue					2,172
Segmental contribution (as reported internally)	201	173	126	193	693
Members' remuneration adjustments					146
Costs not allocated to segments					(507)
Net financial expense (see note 7)					(7)
Loss before taxation of entities not reported internally					(24)
Total group profit before taxation and members' profit shares					301
Segmental assets (as reported internally)	81	156	95	155	487
Assets of entities not reported internally					74
Assets not allocated to segments					981
Total group assets, excluding members' interests					1,542

Notes

Forming part of the consolidated financial statements *(continued)*

3. Segmental reporting *(continued)*

Members' remuneration adjustments reflect notional charges for members intended to equate to a salary equivalent; these charges are reversed for financial reporting purposes.

Costs incurred by S&D, Coverage Central and KBS include the costs of central support and infrastructure such as those relating to property, IT costs, marketing, training and other general overhead expenses (including depreciation, amortisation and other non-cash items). These costs are not allocated to the segments on a regular basis for routine internal reporting provided to the CODM; these costs are therefore captured within 'costs not allocated to segments' above.

Assets attributed to the segments for internal reporting purposes comprise trade receivables and unbilled amounts for client work net of amounts billed on account. All other assets, including non-current assets, balances with members and cash are controlled centrally and are not allocated across segments. There is no internal reporting of liabilities by segment, hence no segmental disclosures are given.

The group operates almost entirely in the UK; subsidiary entities based outside the UK are immaterial for the purposes of presenting separate geographical segment information. The group generates 82% (2017: 84%) of its revenue from clients located in the UK; the remaining revenue is generated across clients located in a number of countries, the largest of which is the United States (2018: 4%; 2017: 4%)

Major clients

The group has no reliance on any one client – no more than 3% (2017: 2%) of group revenue and 3% (2017: 2%) of partnership revenue is attributable to the largest client.

Net sales by coverage group

As set out on page 22, the group organises its clients into coverage groups; net sales by coverage group is provided below for information:

		Group
	2018 **£m**	2017 £m
Financial Services	**681**	619
Corporates	**423**	380
National Markets	**863**	817
Central	**10**	15
	1,977	1,831

4. Other operating income

Included in other operating income are the following items:

		Group
	2018 **£m**	2017 £m
Charges to other KPMG International member firms	**70**	68
Rental income	**1**	1
Other items	**15**	9
	86	78

Charges to other KPMG International member firms reflect charges for staff and the provision of other services.

Notes

Forming part of the consolidated financial statements *(continued)*

5. Members and staff

The average number of members (being those who are members of the partnership) and staff of the group and partnership during the year were as follows:

	Group		Partnership	
	2018 Number	2017 Number	**2018 Number**	2017 Number
Members	**603**	590	**603**	590
Staff	**14,587**	13,969	**-**	-
	15,190	14,559	**603**	590

KPMG LLP employs no staff; all UK staff are employed by KPMG UK Limited, a subsidiary of the partnership (see note 26).

The average number of members and staff by capability were as follows:

	Group	
	2018 Number	2017 Number
Audit	**3,774**	3,609
Tax, Pensions & Legal	**2,621**	2,638
Deal Advisory	**1,514**	1,613
Consulting	**3,708**	3,327
KPMG Business Services, Solutions & Digital and Coverage Central	**3,573**	3,372
	15,190	14,559

Employment costs

The aggregate employment costs of staff are set out below. These costs exclude amounts in respect of members receiving an allocation of profit of the partnership (see members' profit shares on page 26).

	Group	
	2018 £m	2017 £m
Salaries (including bonuses)	**948**	881
Social security costs	**99**	92
Cost of retirement benefits (note 20)	**39**	37
Staff costs per income statement	**1,086**	1,010
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 20)	**3**	2
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**(21)**	(14)
Total staff related costs	**1,068**	998

Notes

Forming part of the consolidated financial statements *(continued)*

5. Members and staff *(continued)*

Members' profit shares

Accounting policy

The LLP Partnership Agreement requires that 90% of the group profits, excluding the results of certain overseas subsidiaries (adjusted group) must be allocated to members; the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the accounting profits of the adjusted group for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the adjusted group for the period is subject to a member vote. It is therefore considered that a contractual liability exists under IAS 32 'Financial Instruments: Presentation' in respect of 90% of the adjusted group profits and these amounts are charged as an expense in the income statement and recognised as a liability in the statement of financial position.

The allocation of group profits between those who were members of the partnership during the financial year occurs following the finalisation of these financial statements.

Any amounts paid to members in year are reclaimable from members until profits have been allocated. Any such amounts paid in excess of the liability recognised in respect of 90% of the accounting profits of the adjusted group would be shown as 'Amounts due from members'. Profits available for discretionary allocation are classified as equity and included within 'Members' other reserves'. In both cases, amounts that may be determined as due from and attributable to members who retired from the partnership in the year may be included.

During the year ended 30 September 2018, the members of KPMG LLP voted in favour of the Board's proposal to retain the profit on disposal of the property at 15 Canada Square (see note 10). Members' profit shares charged as an expense is therefore calculated based on the accounting profits of the adjusted group excluding that element and totalled £327 million for the year ended 30 September 2018 (2017: £281 million).

After taking account of amounts withheld and released from profit distribution, average partner remuneration for the year (including both members' profit shares charged as an expense and profits available for discretionary allocation) totalled £601,200 (2017: £519,500).

Further disclosures are given in note 25 regarding transactions with members who are considered to be key management and the remuneration of the highest paid member.

6. Other operating expenses

Other operating expenses of the group include property and IT costs, together £105 million (2017: £99 million), and employee training costs of £47 million (2017: £34 million). All other general overhead expenses associated with the provision of professional services for the group are also classified within other operating expenses, including the costs of insurance, communications and marketing. Also included in other operating expenses for the group are impairment charges in respect of investments totalling £nil million (2017: £7 million) (see note 12).

	Group	
	2018 **£000**	2017 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**268**	274
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
Audit of financial statements of subsidiaries	**181**	179
Audit related assurance services provided to the group	**101**	80
Audit of certain group pension plans	**52**	51
	602	584

In both years, audit related assurance services were provided in respect of pensions controls work, overseas tax and filing requirements, sustainability reporting and other ad hoc assurance work. These services are not related to the statutory audit of the group and therefore are considered to be non-audit services.

Notes

Forming part of the consolidated financial statements *(continued)*

7. Financial income and expense

Accounting policy

Financial income comprises exchange gains, interest income and, if positive, net change in fair value of financial assets at fair value through the profit and loss.

Financial expense comprises exchange losses, interest expense on bank borrowings, net interest expense on defined benefit pension plan liabilities and discount on provisions. All borrowing costs are recognised in the income statement using the effective interest method.

		Group
	2018 **£m**	2017 £m
Net change in fair value of financial assets at fair value through profit or loss	**-**	2
Interest income	**2**	-
Exchange gains	**7**	9
Financial income	**9**	11
Net interest on defined benefit pension plan liabilities (note 20)	**3**	2
Discount on provisions (note 18)	**1**	1
Interest expense on bank borrowings	**2**	5
Exchange losses	**7**	10
Financial expense	**13**	18

The total interest income on financial assets that were not classified as fair value through profit or loss was £2 million (2017: £nil). The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £2 million (2017: £5 million).

8. Tax expense in corporate entities

Accounting policy

Taxation on all partnership profits is solely the personal liability of the individual members. Consequently neither taxation nor related deferred taxation arising in respect of the partnership is accounted for in these financial statements. Distributions to members of the partnership are made net of income tax; such amounts retained are paid to HM Revenue & Customs by the partnership, on behalf of the individual members, when this tax falls due. These amounts retained for tax are treated in the financial statements in the same way as other profits of the partnership and so are included in 'Amounts due to members' or 'Other members' interests' depending on whether or not division of profits has occurred.

The companies dealt with in the consolidated financial statements are subject to corporation tax based on their profits for the accounting period. Tax and any deferred taxation of these companies are recorded in the consolidated income statement or consolidated statement of comprehensive income under the relevant heading and any related balances are carried as tax payable or receivable in the consolidated statement of financial position. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, and any adjustment to tax payable in respect of previous years.

Notes

Forming part of the consolidated financial statements *(continued)*

8. Tax expense in corporate entities *(continued)*

As set out above, the charge to tax arises in the corporate subsidiaries included within these financial statements and comprises:

	Group	
	2018 **£m**	2017 £m
Current tax expense:		
Current year	**12**	11
Overseas taxes	**-**	1
Share of overseas taxes of joint operation	**3**	2
Adjustments in respect of the prior year	**-**	(1)
Deferred tax (see note 19)	**(1)**	(1)
Total tax expense in income statement	**14**	12

The group is required under IAS 12 'Income Taxes' to present the following tax reconciliation in respect of group profits:

	Group	
	2018 **£m**	2017 £m
Profit before taxation and members' profit shares	**462**	301
Less profit arising in partnership, on which tax is payable by the members personally	**(429)**	(333)
Profit/(loss) before taxation arising in group companies	**33**	(32)
Tax at 19% (2017: 19.5%) being the average rate of corporate taxes levied on the profits of group companies	**6**	(6)
Impact of tax exempt items	**6**	17
Recognition of deductible temporary differences	**(1)**	(1)
Overseas taxes	**-**	1
Share of overseas taxes of joint operation	**3**	2
Adjustments in respect of the prior year	**-**	(1)
Total tax expense in income statement	**14**	12

There was no tax charge/(credit) recognised in the statement of comprehensive income (2017: £nil).

Factors affecting the tax charge in future periods

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the corporate subsidiaries future current tax charge accordingly.

Notes

Forming part of the consolidated financial statements *(continued)*

9. Acquisitions and disposals

Accounting policy

For business combinations, fair values that reflect conditions at the date of the business combination and the terms of each business combination are attributed to the identifiable assets, liabilities and contingent liabilities acquired. For business combinations achieved in stages, the group revalues its investment to the fair value reflecting the conditions at the date of acquisition of the controlling share with any resultant gain or loss recognised in the income statement. Consideration for the business combination is measured at the fair value of assets transferred to and liabilities incurred on behalf of the previous owners of the acquiree. Goodwill is recognised where the consideration for the business combination exceeds the fair values of identifiable assets, liabilities and contingent liabilities acquired. Where the excess is positive, it is treated as an intangible asset, subject to annual impairment testing.

Transaction costs that the group incurs in connection with a business combination, such as legal fees, are expensed as incurred.

Non-controlling interests arise where the group holds less than 100% of the shares in the entities acquired or, as a result of agreements in place, is entitled to less than 100% of profits or losses arising. Non-controlling interests are measured on initial recognition at their share of the relevant net assets.

Intangible assets have been recognised in respect of customer relationships (and similar assets) and trade names (see note 11).

Acquisitions and disposals

The details set out below provide the information required under IFRS 3 ‘Business Combinations’ for those acquisitions and disposals that occurred during the year ended 30 September 2018 together with information in respect of the disposals that occurred during the year ended 30 September 2017.

Disposals – year ended 30 September 2017

KPMG Crimsonwing

In June 2017, the group disposed of a 10% interest in its subsidiary, KPMG Investments Malta Limited, to KPMG Advisory N.V. an entity within the KPMG International member firm in the Netherlands, under a pre-existing options contract for consideration of £2 million. The disposal decreased the group’s ownership from 85% to 75%. The carrying amount of KPMG Investments Malta Limited’s net assets in the group’s consolidated financial statements on the date of the disposal was £18 million.

As a transaction between owners, any gain or loss arising on disposal is recognised in equity under IFRS. The disposal of the 10% interest in KPMG Investments Malta Limited had no impact on the group’s equity at the date of disposal.

Acquisitions and disposal – year ended 30 September 2018

KPMG Gibraltar

On 27 April 2018, the group acquired 100% ownership in the two legal entities that form KPMG Gibraltar - KPMG Limited and KPMG Advisory Limited – for a cash consideration of £1 million including balances with other KPMG International member firms and working capital adjustments. Net assets acquired totalled £0.5 million resulting in goodwill recognised of £0.5 million; as the level of goodwill is immaterial, it has been impaired during the year.

Portfolio Solutions Group (PSG)

In June 2018, the partnership signed an agreement to dispose of the PSG business subject to completion and certain conditions being met. These conditions have since been met. The partnership received £1 million on completion with a further £1 million to be received in December 2018, representing payment for the transfer of certain employees and client contracts.

These transactions would not have had a material impact on either revenue or profit of the group and partnership if they had taken place at 1 October 2017.

Notes

Forming part of the consolidated financial statements *(continued)*

10. Property, plant and equipment

Accounting policy

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

Leases under which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, assessed at inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as noted below.

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

Leasehold land	999 years (or life of lease, if shorter)
Leasehold buildings	50 years (or life of lease, if shorter)
Office furniture, fittings and equipment	5-12 years
Computer and communications equipment	2-5 years
Motor vehicles	5 years

The useful lives and residual value, if not insignificant, are reassessed annually.

Judgement

The partnership disposed of its property interest at 15 Canada Square during the year, leasing it back from the new landlord under a lease that management concluded falls to be classified as an operating lease under IAS 17 'Leases', after consideration of the lease terms in accordance with IFRS.

The classification of the resulting lease in a sale and leaseback transaction determines when the profit on disposal is recognised in the income statement; an operating lease resulting in the profit being recognised in the year of the disposal whilst a finance lease resulting in deferral of the profit, recognising it over the life of the lease. The profit on disposal of £106 million would therefore have been deferred to be recognised over the 25 year life of the lease if management had concluded that the resulting lease was a finance lease rather than an operating lease; in this case only £3 million of the profit arising would have been recognised in the year ended 30 September 2018.

Under IAS 17, where a sale and leaseback has taken place which is accounted for as an operating lease, judgement is also required to ensure that the sales proceeds and future lease rentals are both at market value. If it were determined that the future lease rentals were above market, the lease rentals should be adjusted downwards, with a compensating adjustment to reduce the sales proceeds. Accordingly, a rent free amount of £47 million was recognised at date of disposal, by reference to market rates on comparable properties, and will be amortised over the life of the lease. A different assessment of this rent free amount would have resulted in a different profit on disposal being recognised in the year.

Group

The group's property, plant and equipment include those of the partnership, as reflected in the table on page 31, KPMG Crimsonwing and KPMG Gibraltar, together totalling to a net book value of £171 million (2017: £431 million). At 30 September 2018, the net book value of the property, plant and equipment of KPMG Crimsonwing and KPMG Gibraltar totalled £0.7 million (2017: £0.5 million):

- computer and communications equipment - cost and net book value of £0.6 million (2017: £0.4 million); and
- office furniture, fittings and equipment - cost and net book value of £0.1 million (2017: £0.1 million).

Notes

Forming part of the consolidated financial statements *(continued)*

10. Property, plant and equipment *(continued)*

Partnership

	Leasehold land and buildings	Computer and communications equipment	Office furniture, fittings and equipment	Motor vehicles	Total
	£m	£m	£m	£m	£m
Cost					
Balance at 1 October 2016	270	63	262	18	613
Additions	-	20	3	4	27
Disposals	-	-	(3)	(5)	(8)
Balance at 30 September 2017	270	83	262	17	632
Additions	**-**	**15**	**9**	**5**	**29**
Disposals	**(270)**	**(3)**	**(32)**	**(4)**	**(309)**
Balance at 30 September 2018	**-**	**95**	**239**	**18**	**352**
Depreciation and impairment					
Balance at 1 October 2016	30	46	83	7	166
Charge for the year	4	11	23	3	41
Disposals	-	-	(3)	(3)	(6)
Balance at 30 September 2017	34	57	103	7	201
Charge for the year	**1**	**14**	**23**	**3**	**41**
Disposals	**(35)**	**(1)**	**(22)**	**(2)**	**(60)**
Balance at 30 September 2018	**-**	**70**	**104**	**8**	**182**
Net book value					
At 1 October 2016	240	17	179	11	447
At 30 September 2017	236	26	159	10	431
At 30 September 2018	**-**	**25**	**135**	**10**	**170**

The leasehold land and buildings at 30 September 2017 related entirely to the group's premises at 15 Canada Square, London. The leasehold interest, including land, fell to be classified as a finance lease, as the term of 999 years represented the majority of the useful economic life of the asset. The net book value of assets owned under a finance lease was £nil million (2017: £236 million).

The partnership disposed of its interest in 15 Canada Square in January 2018 for consideration of £400 million. The disposal also included certain fixtures and fittings with a net book value of £10 million. Adjusting the consideration for a rent free amount of £47 million and allowing for transaction costs of £2 million, the profit on disposal of £106 million was recognised in the income statement in the year ended 30 September 2018.

Notes

Forming part of the consolidated financial statements *(continued)*

11. Intangible assets

Accounting policy

Expenditure on research is recognised in the income statement as an expense as incurred. Development expenditure on internally generated software is capitalised only if development costs can be measured reliably, if the product or process is technically and commercially feasible, future economic benefits are probable, and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads directly attributable to developing the intangible. Other development expenditure is recognised in the income statement as an expense as incurred.

Internally generated software has a finite useful life and is measured at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of internally generated software is generally four to eight years.

Goodwill, customer relationships and trade names are discussed in note 9. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGUs) and is not amortised but is tested annually for impairment.

Customer relationships (and similar assets) and trade names are stated at cost less accumulated amortisation and impairment. Each category is amortised over its estimated useful life as follows:

Customer relationships	4-10 years
Trade names	1-10 years

Significant estimate

As noted above, goodwill arising on acquisitions is capitalised with an indefinite useful life and tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to the CGU that is expected to benefit from the business combination in which the goodwill arose. The recoverable amount of a CGU is calculated with reference to its value in use. In assessing value in use, the group applies a growth rate to the relevant CGU, as set out on page 34. These growth rates are dependent on future events and may need to be revised as circumstances change. A different assessment of the growth rate in each case may result in a different assessment of impairment arising.

We have performed sensitivity analysis around the assumptions used; there are no reasonably possible changes in key assumptions that would cause the carrying amount to exceed the recoverable amount for any individual goodwill asset except in the case of goodwill relating to KPMG Crimsonwing (see page 34).

Notes

Forming part of the consolidated financial statements *(continued)*

11. Intangible assets *(continued)*

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	Total £m
Cost				
Balance at 1 October 2016	91	34	45	170
Additions	27	-	-	27
Balance at 30 September 2017	118	34	45	197
Additions	**10**	**-**	**-**	**10**
Write off	**(17)**	**(7)**	**(5)**	**(29)**
Balance at 30 September 2018	**111**	**27**	**40**	**178**
Amortisation and impairment				
Balance at 1 October 2016	61	19	-	80
Charge for the year	14	6	5	25
Balance at 30 September 2017	75	25	5	105
Charge for the year	**16**	**2**	**2**	**20**
Write off	**(17)**	**(7)**	**(5)**	**(29)**
Balance at 30 September 2018	**74**	**20**	**2**	**96**
Net book value				
At 1 October 2016	30	15	45	90
At 30 September 2017	43	9	40	92
At 30 September 2018	**37**	**7**	**38**	**82**

Internally generated software includes components of the SAP based ERP system, held by the partnership, which has a remaining amortisation period of two years (2017: three years).

Goodwill has been recognised in respect of the following business acquisitions:

Acquisition	Year of acquisition	Goodwill £m
KPMG CIO Advisory Limited (formerly Xantus Limited)	30 September 2012	2
Makinson Cowell group of companies	30 September 2013	7
KPMG Nunwood Consulting Limited	30 September 2015	10
KPMG Boxwood Limited (formerly Boxwood Limited)	30 September 2015	4
HRSD practice of Towers Watson Limited	30 September 2015	1
KPMG Investments Malta Limited (KPMG Crimsonwing sub-group)	30 September 2016	16

Goodwill in respect of the Makinson Cowell group of companies was partially impaired during the year following annual impairment testing; an impairment of £2 million against goodwill of £7 million was recognised in this respect. During the previous year, goodwill in respect of KPMG Sourcing Limited (formerly Equaterra Europe Limited) and the HPR practice of High-Point Rendell Limited – together totalling £5 million – was fully impaired following annual impairment testing.

Goodwill has been allocated to the group's capabilities which are considered to be its CGU for this purpose:

	Group	
	2018 £m	2017 £m
Deal Advisory	**5**	7
Management Consulting	**33**	33

Notes

Forming part of the consolidated financial statements *(continued)*

11. Intangible assets *(continued)*

The recoverable amount of the CGU has been calculated with reference to its value in use, using cash flow projections of the relevant CGU based on budgets approved by management. The key assumptions of this calculation are determined using values reflecting past experience; the initial three-year budgets are based on current pipeline activity and known plans for that particular part of the business, whilst the assumptions applied beyond three years are more prudent as shown below:

	2018	2017
Period on which management approved forecasts are based	**4 years**	4 years
Growth rate applied beyond approved forecast period	**0%**	0%
Discount rate	**8.5-9.8%**	9.2-11.8%

The growth rates used in the value in use calculation reflect a prudent view given the uncertainties around integration and market growth in these functions.

Where the calculated recoverable amount is greater than the carrying value, no impairment arises. A reasonable change in the key assumptions does not have a significant impact on the difference between value in use and carrying value except in the case of KPMG Crimsonwing where profitability of the CGU is forecast to improve considerably over the next four years. Sensitivity analysis suggests that a 50% reduction in the forecast level of profit in 2021 and 2022 would result in a partial impairment of £2 million against the carrying value of goodwill.

Partnership

	Internally generated software £m	**Customer relationships and similar items £m**	**Goodwill £m**	**Total £m**
Cost				
Balance at 1 October 2016	85	5	2	92
Additions	25	-	-	25
Balance at 30 September 2017	110	5	2	117
Additions	**9**	**-**	**-**	**9**
Write off	**(14)**	**(5)**	**(2)**	**(21)**
Balance at 30 September 2018	**105**	**-**	**-**	**105**
Amortisation and impairment				
Balance at 1 October 2016	60	2	-	62
Charge for the year	10	3	2	15
Balance at 30 September 2017	70	5	2	77
Charge for the year	**14**	**-**	**-**	**14**
Write off	**(14)**	**(5)**	**(2)**	**(21)**
Balance at 30 September 2018	**70**	**-**	**-**	**70**
Net book value				
At 1 October 2016	25	3	2	30
At 30 September 2017	40	-	-	40
At 30 September 2018	**35**	**-**	**-**	**35**

Notes

Forming part of the consolidated financial statements *(continued)*

12. Investments

Accounting policy

The partnership's investments in subsidiaries are stated at cost less provision for impairment in the entity's financial statements. Investments where the group and partnership have neither control nor significant influence are stated at fair value calculated by reference to an appropriate earnings multiple.

The net book value of investments held by the group and partnership were as follows:

	Group		**Partnership**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Shares in subsidiary undertakings	**-**	-	**13**	13
Other investments	**1**	1	**-**	-
	1	1	**13**	13

Group

During the previous year, the group's investment of £7 million in KCapital, a KPMG International entity, was fully impaired following assessment of the fair value of that entity's underlying investments. The impairment expense was recognised in the income statement within other operating expense.

The subsidiary undertakings of the group and partnership are set out in note 26.

13. Other non-current assets and liabilities

Accounting policy

Non-current loans and receivables are initially recognised at fair value, based upon the estimated present value of future cash flows discounted at the market rate of interest at the date of initial recognition. Subsequent to initial recognition, non-current loans and receivables are recorded at amortised cost less impairment losses.

Judgement

As set out in more detail on page 36, under the Asset Backed Funding (ABF) agreement, the partnership has a receivable from the Scottish Limited Partnership (SLP).

The partnership expects to recover its initial contribution of £30 million on future termination of the ABF plus an additional sum, up to a maximum £60 million.

The amount of the additional flow is determined by a number of variables, the most significant of which is considered to be non-financial in nature. Management have therefore concluded that there is no embedded derivative to recognise and the receivable has been recorded at amortised cost as a loan and receivable. A different assessment as to whether an embedded derivative exists would result in a different treatment of the instrument.

	Group		**Partnership**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Other prepayments	**-**	-	**51**	52
Amounts due from other UK group undertakings	**-**	-	**35**	34
Deferred tax assets (see note 19)	**5**	5	**-**	-
Other non-current assets	**5**	5	**86**	86
Amounts due to other UK group undertakings	**-**	-	**90**	90
Other non-current liabilities	**-**	-	**90**	90

Notes

Forming part of the consolidated financial statements *(continued)*

13. Other non-current assets and liabilities *(continued)*

Partnership

Under the ABF arrangement (see note 20), the partnership prepaid £60 million into the defined benefit plans, £52 million in the pre-2000 fund and £8 million in the TMcL fund, at the inception of the agreement. Under the agreement the SLP, a group entity set up on inception of the agreement, makes monthly payments totalling £4.5 million per annum to the pension plans for 25 years from the date of implementation. The prepayment of £60 million is therefore expected to reduce to £nil over the period of 25 years with the discount unwinding through financial income.

At 30 September 2018, the prepayment was £55 million (2017: £56 million); £51 million (2017: £52 million) is non-current, whilst the remaining £4 million (2017: £4 million) is current, classified as other prepayments within trade and other receivables.

In addition, at the inception of the ABF, the partnership contributed £30 million to the SLP which it expects to recover on future termination of the ABF. It is expected that the pension deficits would reduce over the period and therefore the ABF would generate a return of £60 million to the partnership at the end of the 25 year life. At 30 September 2018, a receivable balance of £35 million is classified as amounts due from other UK undertakings within other non-current assets with the discount unwinding through financial income (2017: £34 million).

Also under the ABF, the partnership has transferred £90 million of its trade receivables to the SLP (see note 20). As the partnership retains the risks and rewards of those receivables it has a corresponding liability, reflecting the amount owed to the SLP under this agreement. A financial expense of £4.5 million has been recognised in the partnership's income statement in respect of the unwinding discount on this liability.

14. Trade and other receivables

Accounting policy

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

Unbilled amounts for client work relate to service contract receivables on completed work where the fee is yet to be issued or where the service contract is such that the work performed falls into a different accounting period to when the fee is issued. In certain cases, costs incurred in developing the service to be delivered are deferred and classified as 'Unbilled amounts for client work' where those costs are deemed to be directly attributable to the service to be provided and where recovery is probable based on future revenue forecasts.

Unbilled amounts for client work are stated at cost plus profit recognised to date (in accordance with the revenue accounting policy set out in note 3) less provision for foreseeable losses and net of amounts billed on account.

	Group		Partnership	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Trade receivables	**464**	417	**446**	401
Unbilled amounts for client work	**367**	355	**340**	315
Amounts due from other UK group undertakings	**-**	-	**118**	54
Other prepayments	**42**	32	**45**	36
Other receivables	**32**	33	**15**	16
Amounts due from other KPMG International member firms	**62**	54	**53**	48
	967	891	**1,017**	870

Trade and other receivables are due within 12 months.

Trade receivables are shown net of impairment losses amounting to £3 million (2017: £3 million) for the group and £2 million (2017: £3 million) for the partnership. The movement for the year is recognised in 'Other operating expenses' in each case. An aged analysis of overdue trade receivables and the movement in the allowance for impairment in respect of trade receivables are given on page 37.

Notes

Forming part of the consolidated financial statements *(continued)*

14. Trade and other receivables *(continued)*

Impairment losses

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

Group

	Gross 2018 £m	**Impairment 2018 £m**	Gross 2017 £m	Impairment 2017 £m
Trade receivables				
Overdue 1-30 days	**65**	**-**	52	-
Overdue 31-180 days	**68**	**-**	51	-
More than 180 days	**5**	**3**	6	3
	138	**3**	109	3

Partnership

	Gross 2018 £m	**Impairment 2018 £m**	Gross 2017 £m	Impairment 2017 £m
Trade receivables				
Overdue 1-30 days	**60**	**-**	49	-
Overdue 31-180 days	**64**	**-**	48	-
More than 180 days	**5**	**2**	5	3
	129	**2**	102	3

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

	Group		**Partnership**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Balance at 1 October	**3**	3	**3**	3
Impairment reversal recognised in the income statement	**-**	-	**(1)**	-
Balance at 30 September	**3**	3	**2**	3

Notes

Forming part of the consolidated financial statements *(continued)*

15. Other financial assets

Accounting policy

Other financial assets held by the group mainly comprise bonds and equities. These assets are designated as at fair value through profit or loss and are measured at fair value, calculated by reference to their listed price at the year-end.

Any resultant gain or loss on these assets classified as at fair value through profit or loss is recognised in the income statement.

		Group		Partnership	
		2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Bonds	Fair value through profit or loss	**37**	42	**-**	-
Equities	Fair value through profit or loss	**12**	14	**-**	-
		49	56	**-**	-

16. Cash and borrowings

Accounting policy

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

Bank borrowings are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost. Borrowings are classified as either non-current or current according to the expected utilisation under the revolving credit facility. Borrowing costs arising on bank borrowings are expensed as incurred within financial expense. Initial facility fees incurred in respect of bank borrowing facilities are capitalised and amortised over the facility life.

	Group		Partnership	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Call deposits	**-**	8	**-**	8
Bank balances	**49**	58	**12**	15
	49	66	**12**	23

Committed borrowing facilities of £385 million (2017: £560 million) were available to the group at 30 September 2018. Actual amounts drawn were £31 million (2017: £479 million) by the group and £31 million (2017: £416 million) by the partnership. Of the facilities available as at 30 September 2018, £10 million (2017: £10 million) expires in one year or less, and the revolving credit facility of £375 million (2017: £550 million) is due to expire in January 2023; £300 million of the draw down was classified as non-current at 30 September 2017.

	Group		Partnership	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Non-current borrowings	**-**	300	**-**	300
Short term borrowings	**31**	179	**31**	116
	31	479	**31**	416

The borrowings are denominated in pounds sterling. Movements in the level of borrowings from year to year reflect entirely cash flow movements, either repayments or drawdowns under the revolving credit facility.

The availability of this revolving facility is dependent on certain conditions, including a minimum level of members' capital, all of which were satisfied at 30 September 2018 and 2017. The revolving credit facility was secured on the lease of 15 Canada Square, London until disposal of the property in January 2018 at which point the facility was reduced to £375 million.

Notes

Forming part of the consolidated financial statements *(continued)*

17. Trade and other payables

Accounting policy

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

	Group		Partnership	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Accruals	**301**	245	**157**	111
Amounts billed on account	**259**	225	**238**	205
Other taxes and social security	**70**	73	**45**	48
Other payables	**7**	15	**3**	4
Trade payables	**21**	36	**19**	35
Amounts due to other UK group undertakings	**-**	-	**209**	157
Amounts due to other KPMG International member firms	**18**	12	**18**	11
	676	606	**689**	571

Included in group accruals are amounts payable to staff in respect of bonuses.

18. Provisions

Accounting policy

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the group or partnership from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Provision is made for the present value of foreseeable rental commitments in respect of surplus property, after offsetting any future sub-letting income that could be earned. Surplus property includes premises which will become redundant as a result of steps to which the partnership or group is committed.

The partnership has conditional commitments to pay annuities to certain former members (and dependants). These annuities are payable only out of profits of the partnership, on which they constitute a first charge. The present value of the best estimate of the expected liabilities for future payments to retired members or their dependants is provided in full, gross of attributable taxation that is deducted by KPMG from payments to annuitants, as a charge against income at the point at which the contractual right arises. Any changes in the provision for former members' annuities arising from changes in former members and their dependants or in financial estimates and actuarial assumptions are recognised in the income statement.

The unwinding of the discount is presented in the income statement as a financial expense. The payment of former members' annuities is shown as a movement against the provision.

The group maintains professional indemnity insurance, principally written through mutual insurance companies. Premiums are expensed as they fall due with prepayments or accruals being recognised accordingly. Rebates are recognised once they become receivable. Where appropriate, provision is made for the cost of settling professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities.

Judgement

The Operating Provisions of the partnership allow for member retirement payments in certain circumstances, subject to prior approval by the Board. The group and partnership have assessed that no provision is required in respect of any member retirement payments arising since neither contractual nor constructive obligations are deemed to exist in respect of these arrangements. A different judgement taken as to whether a constructive obligation exists would result in a recognised provision; a high level actuarial exercise estimates that such a provision could be around £75 million at 30 September 2018.

Notes

Forming part of the consolidated financial statements *(continued)*

18. Provisions *(continued)*

Significant estimates

The group from time to time receives claims in respect of professional service matters and may be subject to disciplinary proceedings brought by regulatory authorities. It defends such claims where appropriate but makes provision for the probable amounts considered likely to be payable. At 30 September 2018, the provision for such claims amounts to £73 million (2017: £56 million). Inevitably, these estimates depend on the outcome and timing of future events and may need to be revised as circumstances change. A different assessment of the likely outcome of each case or of the possible cost involved may result in a different level of provision recognised.

Group

	Annuities £m	Property provisions £m	Professional claims and regulatory matters £m	Total £m
Balance at 1 October 2017	56	6	56	118
Utilised during the year	**(3)**	**-**	**(15)**	**(18)**
Income statement:				
Provisions made during the year	**-**	**2**	**32**	**34**
Unwinding of discounted amounts	**1**	**-**	**-**	**1**
Balance at 30 September 2018	**54**	**8**	**73**	**135**
Non-current	**50**	**8**	**73**	**131**
Current	**4**	**-**	**-**	**4**

Partnership

	Annuities £m	Property provisions £m	Professional claims and regulatory matters £m	Total £m
Balance at 1 October 2017	56	6	32	94
Utilised during the year	**(3)**	**-**	**(4)**	**(7)**
Income statement:				
Provisions made during the year	**-**	**2**	**18**	**20**
Unwinding of discounted amounts	**1**	**-**	**-**	**1**
Balance at 30 September 2018	**54**	**8**	**46**	**108**
Non-current	**50**	**8**	**46**	**104**
Current	**4**	**-**	**-**	**4**

Notes

Forming part of the consolidated financial statements *(continued)*

18. Provisions *(continued)*

Group and partnership

The provision for former members' annuities reflects conditional commitments to pay annuities to certain former members (and dependants) of KPMG LLP or its predecessor partnership and is recorded gross of basic rate tax (see accounting policy on page 39).

The provision for former members' annuities is expected to be utilised as follows:

	2018 **£m**	2017 £m
Within 12 months of the year-end	**4**	3
Between 1-5 years	**12**	12
Between 5-15 years	**21**	22
In more than 15 years	**17**	19
	54	56

The principal actuarial assumptions used in assessing the provision for former members' annuities are that increases in annuities payable will continue to follow the retail price index as this is the specific obligation set out in the underlying commitment and that, after application of mortality rates, the resulting amounts are discounted at the rates set out below:

	2018 **%**	2017 %
Discount rate	**2.70**	2.50
Inflation rate (retail price index)	**3.45**	3.40

The mortality tables used for the former members' annuities provision were updated in December 2015, in line with the results of a Medically Underwritten Mortality Study. The tables adopted as at 30 September 2018 and 30 September 2017 were the SAPS Series 2 tables with a loading of 143%/108% applied to the underlying mortality rates in respect of males/females. The assumed future improvements in mortality were consistent with those applied in respect of the defined benefit pension plans (see note 20).

The assumed discount rate and inflation rate both have an effect on the provisions. The following table shows the sensitivity of the value of the member annuities to changes in these assumptions.

		Impact on annuity provision (decrease)/ increase	
Assumption	**Change in assumption**	**£m**	**%**
Discount rate	Increase by 0.25%	**(2)**	**(3)**
Inflation rate	Increase by 0.25%	**2**	**4**

Property provisions represent the cost of office space which is not currently used by the group or will become redundant as a result of steps to which the group is committed and dilapidation costs anticipated on exiting those properties.

Provision is made for the net obligation under such leases; property provisions of £nil million (2017: £1 million) for the group and £nil million (2017: £1 million) for the partnership will be utilised within 12 months and the balance is expected mainly to be utilised within the next five years.

Provisions for professional claims and regulatory matters represent costs relating to professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities. Where appropriate, provision is made for the cost (including related legal costs) to the partnership and group of settling these matters. These provisions are expected mainly to be utilised within the next five years.

Notes

Forming part of the consolidated financial statements *(continued)*

19. Deferred tax

Accounting policy

Deferred tax in subsidiary companies is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at year-end. Deferred tax balances are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax liabilities relating solely to intangible assets of the group are recognised in these financial statements. There was no deferred tax arising in the partnership.

		Group
	Assets £m	**Liabilities £m**
Balance at 1 October 2017	5	(2)
Deferred tax movement	**-**	**1**
Balance at 30 September 2018	**5**	**(1)**

Deferred tax assets have been recognised at 30 September 2018, totalling £4.9 million in respect of temporary differences arising in the corporate entities (2017: £4.8 million) and £0.4 million in respect of tax losses of £2 million (2017: £0.5 million recognised in respect of tax losses totalling £2 million).

The deferred tax asset at 30 September 2018 has been calculated based on the rate of 19% being the average of the rates expected to be in force at the time the losses are anticipated to be utilised.

20. Retirement benefits

Accounting policy

The group operates two defined contribution pension plans for which the charge for the year represents the contributions payable to the plans in respect of the accounting period. An accrual or prepayment is included in the statement of financial position to the extent to which such costs do not equate to the cash contributions paid in the year.

The group also operates two defined benefit pension plans for which the partnership is the sponsoring employer and bears all related risks. Both plans are closed to future accrual of benefits. The group's net obligations in respect of its defined benefit plans are calculated separately for each plan by estimating the benefits that former employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value and the fair value of plan assets (at bid price) is deducted.

The group determines the net interest on the net defined benefit liability for the period based on a spot rate approach. Under this approach the full yield curve which has been used to derive the discount rate used to measure the defined benefit obligation is applied to the expected cash flows from the pension schemes in each year. This gives an average rate of interest which is applied to the net defined benefit liability at the beginning of the annual period adjusted for contributions and benefit payments during the period.

The discount rate used to determine the defined benefit obligation is based on a yield curve which has been derived based on information regarding AA-rated corporate bonds at the balance sheet date. The group determines a single equivalent discount rate based on this yield curve being applied to sample pension scheme cash flows that broadly match the profile of the group's pension schemes. The calculations are performed by qualified actuaries using the projected unit credit method.

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Accounting policy *(continued)*

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment is recognised immediately in the income statement when the plan amendment or curtailment occurs.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). These are recognised immediately in the statement of comprehensive income taking into account the adverse effect of any minimum funding requirements and all other expenses related to defined benefit plans in either staff costs or financial expense in the income statement.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the group's pension plans to participating entities, the net defined benefit cost of the pension plans is recognised fully by the partnership, as sponsoring employer.

Surpluses are recognised on defined benefit pension plans only to the extent that they are considered to be recoverable by the group, taking account of contributions payable to the relevant plan.

Members of KPMG LLP are required by the KPMG LLP Limited Liability Partnership Agreement to make their own arrangements for retirement income.

Significant estimates

The net obligations of the group's pension plans of £83 million (2017: £106 million) are based on certain assumptions as to mortality, using current published tables (see page 48), discount rates reflecting current market trends and inflation rates reflecting current expectations. The use of different assumptions would result in a different net obligation liability, resulting in different remeasurement gains and losses and financial expense being recognised. The impact from the use of different assumptions on the plans' liabilities are set out in the sensitivity analysis below.

Sensitivity analysis

The principle actuarial assumptions all have a significant effect on the valuation of the defined benefit obligations. The following table shows the sensitivity of the value of the plans' liabilities to changes in these assumptions. These are consistent with sensitivity impacts disclosed in 2017.

		Impact on plan liability (decrease)/increase		
Assumption	**Change in assumption**	**TMcL plan £m**	**Pre-2000 fund £m**	**Total £m**
Discount rate	Increase by 0.25%	**(5)**	**(30)**	**(35)**
Increase of pensions in payment (RPI linked)	Increase by 0.25%	**1**	**6**	**7**
Increase for deferred pensioners (CPI; TMcL plan only)	Increase by 0.25%	**1**	**-**	**1**
Life expectancy	Increase by 1 year	**3**	**18**	**21**

These sensitivities are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the benefit obligation.

Group and partnership

The cost of employee benefits included within personnel costs for the year was:

	Group		Partnership	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Contributions to defined contribution schemes	**39**	37	**-**	-
Current service cost for defined benefit pension plans	**-**	-	**-**	-
Cost of retirement benefits	**39**	37	**-**	-

The net financing cost of £3 million (2017: £2 million) and remeasurement gains of £21 million (2017: £14 million gains) relating to defined benefit pension plans are also considered to be a part of the net cost of retirement benefits.

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Defined contribution plans

The group has two contract-based defined contribution Group Flexible Retirement Plans (GFRP) operating in the UK: one plan operated by Standard Life and the other by Aviva.

Contributions of £nil million to the defined contribution pension plans were outstanding at the end of the financial year (2017: £1 million).

Defined benefit plans

The group and partnership sponsor two defined benefit pension plans. Both pension plans are HMRC registered pension plans and subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the plans are subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension plans have appointed a Trustee who is independent of the group. The Trustee of both pension plans is required by law to act in the best interests of the plans' participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the plans. The assets of each pension plan are held separately from those of the group, administered by trustee directors of KPMG Pension Trust Company Limited.

The Trustee invests the assets of the plans with the aim of ensuring that all members' accrued benefits can be paid. The Trustee of the plans makes all major strategic decisions including, but not limited to, the plans' asset allocation and the appointment and termination of fund managers. When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee has established an Investment Committee to monitor the operation of the plans' investment strategy, make day-to-day decisions as necessary for the smooth running of the plans, and make recommendations to the Trustee on overall strategy. This structure has been established in order to ensure that decisions are taken by those who have the appropriate training and expertise.

The KPMG Staff Pension Fund – pre-April 2000 fund

The KPMG Staff Pension Fund – pre-April 2000 fund (the 'pre-2000 fund') provides benefits based on members' average salary. It was closed to new entrants and ceased future service accrual on 1 April 2000. The weighted average duration of the defined benefit obligation for the pre-2000 fund is approximately 16 years.

The most recent actuarial valuation of the pre-2000 fund was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2017. The results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2018. This valuation resulted in an actuarially assessed funding deficit of £4.2 million, including the value of the Asset Backed Funding (ABF) agreement (see page 45). The Trustee of the pre-2000 fund and the group agreed that this deficit will be addressed through investment returns.

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable directly by the group in addition, except for the first £0.35 million of expenses and administrative costs (including levies paid to the Pension Protection fund and other bodies) payable from 1 October 2017, which are being met by the pre-2000 fund.

The KMG Thomson McLintock Pension Scheme

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan providing benefits based on final pensionable pay. It is closed to new entrants and ceased future service accrual on 1 April 2016. The weighted average duration of the defined benefit obligation for the TMcL plan is approximately 15 years.

The most recent actuarial valuation of the TMcL plan was undertaken by Steve Leake of Punter Southall Limited, the scheme actuary, as at 31 March 2017. The results of this valuation were used in the preparation of these disclosures, and have been updated to 30 September 2018. This valuation resulted in an actuarially assessed funding surplus of £8.9 million, including the value of the ABF agreement (see page 45). The Trustee of the TMcL plan and the group agreed for the deficit reduction contributions to cease after 30 September 2017 and for future expenses for the TMcL plan to be met by the plan from 1 October 2017.

Defined benefit pension plans – valuation and disclosure

Valuations of the defined benefit pension plans have been provided on an IAS 19 'Employee Benefits' (IAS 19) basis as at 30 September 2018 and 30 September 2017 by KPMG's professionally qualified in-house actuaries.

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Defined benefit plans *(continued)*

Minimum funding requirements

The group and partnership have determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) of the plans, the future contributions that the group is expected to make to the plans have a higher present value than the current deficit within the TMcL plan. As such, an additional liability of £1.3 million has been recognised for the TMcL plan (2017: £nil) and no adjustment has been made for the pre-2000 fund (2017: £nil) at 30 September 2018.

Risks

The pension plans expose the group to several key risks, the most significant of which are detailed below:

- Default risk – the pre-2000 fund and the TMcL plan have been in the process of transitioning to a fully credit-based investment strategy based on buying and holding credit instruments which are expected to deliver the income required in order to pay members' pensions, reducing the volatility of the financial position of the schemes. One of the key risks of this type of 'buy and hold' strategy is default risk – the risk that the credit instruments don't deliver the expected income due to default. This risk is managed by investing primarily in investment grade credit instruments which are expected to have a lower risk of default as well as investing in a well diversified portfolio of assets.
- Reinvestment risk – the 'buy and hold' strategy mentioned above generates excess asset income in the short term which would need to be reinvested in the future in order to continue meeting the expected benefits for members over the longer term. There is a risk that this income is reinvested at worse terms than assumed, which might mean that further contributions are required from the group in the future. The scenario where this may apply (narrowing credit spreads) is likely to be during a more buoyant economic environment which is likely to be beneficial for the group more generally.
- Mortality risk – the assumptions adopted by the group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the pre-2000 fund and the TMcL plan and consequently increases in the liabilities. The group and Trustee of each plan review the mortality assumptions on a regular basis to minimise the risk of using an inappropriate assumption.

Other matters

The group expects to contribute approximately £4.5 million (which is made up entirely of payments from the ABF arrangement – see below) to its defined benefit pension plans in the next financial year.

Effective from 29 September 2014, KPMG LLP entered into an ABF agreement with the pension plans through the establishment of a Scottish Limited Partnership (SLP). Under this agreement, the beneficial interest in certain trade receivables to a fair value of £90 million was transferred to the SLP. The transfer was effected via a receivables purchase agreement, which sets out how £90 million of the group's receivables will be transferred to the SLP for a 25-year period from the date of implementation.

The plans have a limited interest in the SLP and are entitled to combined annual distribution from the profits of the partnership of £4.5 million - (£3.9 million pre-2000 fund; £0.6 million TMcL plan) payable monthly for 25 years from the date of implementation. The payments to a plan will cease if it reaches a fully funded status determined using a low risk measure of the plan's liabilities.

The SLP is controlled by the group and its results are consolidated by the group. The group's statement of financial position, IAS 19 deficit and income statement are unchanged by the establishment of the SLP. The investment held by the plans in the SLP does not qualify as a plan asset for the purposes of the group's financial statements and is therefore not included within the fair value of plan assets. The value of the assets transferred to the SLP remain on the group's statement of financial position.

As a result of the transactions under the ABF, the partnership's statement of financial position, at the inception of the agreement, was changed to reflect its receivable from the SLP of £30 million, prepayment of contributions to the pension funds of £60 million and a liability of £90 million arising under the receivables purchase agreement. The IAS 19 deficit and income statement were unchanged.

Because taxation in the partnership is a personal liability of the individual members, no deferred tax on the plans' balances falls to be recorded in the financial statements of both the group and partnership.

A landmark judgement was reached in the High Court on 26 October 2018 in the Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank Plc Guaranteed Minimum Pension (GMP) equalisation case. A key implication of this case is the need for pension schemes to equalise benefits for the effect of unequal GMPs accrued between May 1990 and April 1997. This does not affect the pre-2000 fund but will affect the TMcL plan, as this arrangement was contracted out of the State Earnings Related Pension Scheme. We consider that the Court judgment creates an additional obligation for the TMcL plan from the date of the judgement.

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Other matters (continued)

We anticipate this additional obligation for the TMcL plan to be recognised in the year ending 30 September 2019, however this is not expected to be material. We consider this event to be a non-adjusting post balance sheet event for the year ended 30 September 2018.

Composition and fair value of plan assets

The fair values of the plans' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the plans' liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	TMcL plan		Pre-2000 fund	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Quoted in an active market				
Debt instruments				
UK government fixed interest	**28**	106	**165**	485
UK government index-linked	**21**	54	**65**	270
Corporate bonds	**18**	-	**80**	-
Investment funds				
Diversified credit	**50**	89	**288**	385
Cash and cash equivalents				
Cash	**28**	4	**23**	12
Not quoted in an active market				
Derivatives				
Credit contracts	**-**	(105)	**(4)**	(519)
Investment funds				
Distressed debt fund	**3**	4	**13**	15
Fair value of plan assets	**148**	152	**630**	648
Present value of funded defined benefit obligations	**(153)**	(161)	**(707)**	(745)
Net deficit	**(5)**	(9)	**(77)**	(97)
Additional liability due to minimum funding requirements	**(1)**	-	**-**	-
Net liability in the statement of financial position	**(6)**	(9)	**(77)**	(97)

The plans' assets do not include any of the group's own transferable financial instruments, property occupied by, or other assets used by the group.

A key component of the Trustees' investment strategy for the TMcL plan and the pre-2000 fund is liability-driven investments (LDI). The values of these investments increase and decrease with movements in the liabilities of each arrangement.

These LDI portfolios are made up of physical holdings of government bonds as well as sale and repurchase agreements (gilt repos) of government bonds in order to achieve the objectives of the LDI portfolio in a capital efficient way. The negative values shown for the 'credit contracts' in the table above represent the cash obligation for repurchase of the government bonds under the gilt repo arrangements within the LDI portfolio and the values included under the 'debt instruments' heading in the table above include the value of government bonds which have been 'sold' as part of the sale and repurchase agreements within the LDI portfolio.

This LDI portfolio (together with the wider ABF arrangement described on page 45) meant that at 30 September 2018 approximately 95% of the interest-rate risks and inflation risks of the TMcL plan and the pre-2000 fund were hedged on the triennial funding valuation basis.

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Movements in present value of obligations

Movements in the present value of the funded defined benefit obligations for the plans were as follows:

	TMcL plan		Pre-2000 fund	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Benefit obligation at 1 October	**(161)**	(170)	**(745)**	(804)
Current service cost	**-**	-	**-**	-
Interest on obligations	**(4)**	(3)	**(16)**	(15)
Remeasurement gain arising from changes in demographic assumptions	**1**	1	**3**	5
Remeasurement gain arising from changes in financial assumptions	**4**	5	**19**	33
Remeasurement gain/(loss) arising from experience on the plan's liabilities	**-**	(1)	**-**	7
Benefits paid	**7**	7	**32**	29
Benefit obligation at 30 September	**(153)**	(161)	**(707)**	(745)
Of which: amounts owing to active members	**-**	-	**-**	-
Of which: amounts owing to deferred members	**(75)**	(78)	**(492)**	(514)
Of which: amounts owing to pensioner members	**(78)**	(83)	**(215)**	(231)

During the reporting period there have been no plan amendments, curtailments or settlements for either the TMcL or pre-2000 plan.

Movements in fair value of assets

Movements in the fair value of the plans' assets were as follows:

	TMcL plan		Pre-2000 fund	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Fair value of plan assets at 1 October	**152**	161	**648**	687
Interest income	**3**	3	**14**	13
Return on plan assets, excluding interest income	**(1)**	(6)	**(4)**	(32)
Contributions by employer	**1**	1	**4**	9
Administrative expenses	**-**	-	**-**	-
Benefits paid	**(7)**	(7)	**(32)**	(29)
Fair value of plan assets at 30 September	**148**	152	**630**	648

Components of pension expense in the income statement

The amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follows:

	2018 **£m**	2017 £m
Personnel costs		
Current service cost	**-**	-
Finance income and expense		
Net interest expense on net defined benefit obligations	**3**	2
Total expense recognised in the income statement	**3**	2

Notes

Forming part of the consolidated financial statements *(continued)*

20. Retirement benefits *(continued)*

Remeasurements recognised in the statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income in respect of the defined benefit pension plans are as follows:

	TMcL plan		Pre-2000 fund	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Remeasurement gain arising from changes in demographic assumptions	**1**	1	**3**	5
Remeasurement gain arising from changes in financial assumptions	**4**	5	**19**	33
Remeasurement gain/(loss) arising from experience on the plan's liabilities	**-**	(1)	**-**	7
Return on plan assets, excluding interest income	**(1)**	(6)	**(4)**	(32)
Change in additional liability due to minimum funding requirement	**(1)**	2	**-**	-
Total remeasurements recognised in statement of comprehensive income	**3**	1	**18**	13

Remeasurement gains and losses arise as a result of changes in assumptions or represent experience adjustments. Remeasurement gains and losses are recognised in the statement of comprehensive income in the period in which they occur.

Assumptions

Under IAS 19 measurement of plan liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions. The assumptions used are applied for the purposes of IAS 19 only.

The significant financial and other assumptions used to calculate the liabilities over the life of the plans on an IAS 19 basis were:

Actuarial assumptions

	2018 **%**	2017 %
Discount rate to calculate defined benefit obligation	**2.70**	2.50
Discount rate to calculate pension expense	**2.40**	2.25
Increase of pensions in payment (RPI linked)	**3.25**	3.20
Increase for deferred pensioners (CPI; TMcL plan only)	**2.45**	2.40

Both plans have been valued using mortality assumptions which retain an allowance for future improvement in longevity. The mortality tables used for the plans at 30 September 2018 were the SAPS Series 2 Light tables with CMI 2017 projections using a long term trend rate of 1.25% p.a. and a smoothing parameter of 7.5 for both males and females (2017: SAPS Series 2 Light tables with CMI 2016 projections, 1.25% p.a. and a smoothing parameter of 7.5 for both males and females).

These tables lead to life expectancies as follows:

	2018 **Years**	2017 Years
Retiring today, age 60		
Males	**27.8**	27.9
Females	**28.9**	28.9
Retiring at age 60, currently aged 45		
Males	**28.9**	29.0
Females	**30.0**	30.1

Notes

Forming part of the consolidated financial statements *(continued)*

21. Equity, members' capital and other interests

Accounting policy

Members' capital

The capital requirements of the group and partnership are determined from time to time by the Board, following recommendation from the Executive Committee. Each member is required to subscribe a proportion of this capital. Hence, members' capital of the group represents capital subscribed by members of the partnership to the partnership.

No interest is paid on capital except on certain reserve balances allocated to members' capital (rather than being paid on allocation) during the year (see below); interest is paid on any such balances outstanding at the end of the year at 1% above LIBOR.

On leaving the partnership, a member's capital must be repaid within one month of the leaving date, unless other arrangements have been agreed between the member and the Executive Committee. Members' capital is therefore considered a current liability and is stated at its nominal value, being the amount repayable.

Amounts due to and from members

Current amounts due to and from members are stated at their nominal value, as this approximates to amortised cost.

a) Equity

Group and partnership

Other members' interests classified as equity includes members' other reserves comprising certain amounts retained from profits arising in previous years pending their allocation to members and foreign currency translation reserves in respect of overseas subsidiaries. Also included in members' other reserves are remeasurement gains and losses arising on the defined benefit pension plans (see note 20).

Other movements in reserves arising in the year ended 30 September 2018 predominantly relate to elements of historical reserves that have either been allocated to members during the year or will be allocated to members during the next two years; following a members' vote approving the phased distribution of these reserves, unallocated amounts have been transferred from other members' interests to amounts due to members pending allocation.

b) Members' capital

Group and partnership

The group is financed by members' capital. In addition, the working capital and longer term requirements of the group will be met by the bank facilities (see note 16). The phasing of member distributions may also be altered to give further flexibility to meet finance requirements. The group's capital structure is regularly reviewed to ensure it remains relevant for the business.

Movements in members' capital was as follows:

	£m
Balance at 1 October 2016	60
Capital introduced by members	7
Repayments of capital	(8)
Balance at 30 September 2017	59
Capital introduced by members	**8**
Transfer of reserves allocated to capital	**13**
Repayments of capital	**(7)**
Balance at 30 September 2018	**73**

Notes

Forming part of the consolidated financial statements *(continued)*

21. Equity, members' capital and other interests *(continued)*

c) Amounts due from/(to) members

In addition to other members' interests classified as equity, members' interests also comprise amounts due from/(to) members as follows:

	Group		Partnership	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Amounts due from members	**42**	43	**42**	43
Amounts due to members – non-current liabilities	**(29)**	-	**(29)**	-
Amounts due to members – current liabilities	**(246)**	(170)	**(246)**	(170)
	(233)	(127)	**(233)**	(127)

Amounts due from members relate to amounts advanced to members in their first year of appointment, to cover the liabilities arising for those individuals as a result of the change in tax basis to self-employed. These balances are repayable by the member upon retirement or earlier cessation of membership.

Amounts due to members that are classified as current liabilities relate to tax withheld from allocated profits, 90% of partnership accounting profits which fall to be recognised as a liability and certain historical reserves to be allocated to members following a member vote, less amounts paid to members during the year as drawings or profit shares. Amounts due to members that are classified as non-current liabilities relate entirely to that element of historical reserves to be allocated to members in the year ending 30 September 2020. There are no loans or other amounts payable to members. In the event of a winding up, amounts due to members may be set-off against amounts due from members but would otherwise rank (with individual members' capital) after unsecured creditors.

22. Financial instruments

Accounting policy

The group uses derivative financial instruments to provide an economic hedge against exposures to foreign exchange rate and interest risks arising from operational, financing and investment activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. The derivative financial instruments used do not satisfy the criteria to be classified as hedging instruments.

Derivative financial instruments are recognised at fair value. Those with a positive fair value are classified within 'Other financial assets'; derivative financial instruments with a negative fair value are classified within 'Trade and other payables'. Attributable transaction costs are recognised in the income statement when incurred. Subsequent gains or losses on remeasurement of fair value are recognised immediately in the income statement. The fair value of forward exchange contracts, swaps and interest rate caps is the estimated amount that the group or partnership would receive or pay at the year-end, taking into account current exchange rates, interest rates and the current credit worthiness of swap counterparties.

The group's principal financial instruments arise directly from its operations. Members' capital and amounts due to and from members also fall to be treated as financial instruments. The main purpose of these financial instruments is to finance the operations of the group. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

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

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

Further quantitative disclosures are included throughout these financial statements.

Notes

Forming part of the consolidated financial statements *(continued)*

22. Financial instruments *(continued)*

a) Accounting classifications and fair values

The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2018 and 2017, largely owing to their short maturity. The bases for determining fair values are disclosed throughout these financial statements. The table below shows the classification and carrying amounts of the group's and partnership's financial assets and financial liabilities.

The only assets designated at fair value for the group are the bonds, equities and other investments shown on below; the partnership has no financial instruments carried at fair value at either 30 September 2018 or 30 September 2017.

When measuring the fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All assets designated at fair value are classified as Level 1 with the exception of other investments which are classified as Level 3. There have been no transfers between Level 1 and 2 during the current or prior year.

		Group		Partnership	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Loans and receivables					
Trade receivables	14	**464**	417	**446**	401
Unbilled amounts for client work	14	**367**	355	**340**	315
Cash and cash equivalents	16	**49**	66	**12**	23
Amounts due from members	21c	**42**	43	**42**	43
Amounts due from other UK group undertakings – non-current	13	**-**	-	**35**	34
Other receivables	14	**32**	33	**15**	16
Amounts due from other UK group undertakings	14	**-**	-	**118**	54
Amounts due from other KPMG International member firms	14	**62**	54	**53**	48
Total loans and receivables		**1,016**	968	**1,061**	934
Financial assets designated as at fair value through profit or loss					
Bonds	15	**37**	42	**-**	-
Equities	15	**12**	14	**-**	-
Other investments	12	**1**	1	**-**	-
Total financial assets at fair value through profit or loss		**50**	57	**-**	-
Total financial assets		**1,066**	1,025	**1,061**	934
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	21c	**275**	170	**275**	170
Bank borrowings	16	**31**	479	**31**	416
Members' capital	21b	**73**	59	**73**	59
Other payables	17	**7**	15	**3**	4
Trade payables	17	**21**	36	**19**	35
Amounts due to other UK group undertakings	17	**-**	-	**209**	157
Amounts due to other KPMG International member firms	17	**18**	12	**18**	11
Amounts due to other UK group undertakings – non-current	13	**-**	-	**90**	90
Total non-derivative financial liabilities measured at amortised cost		**425**	771	**718**	942
Total financial liabilities		**425**	771	**718**	942
Total net financial instruments		**641**	254	**343**	(8)

Notes

Forming part of the consolidated financial statements *(continued)*

22. Financial instruments *(continued)*

b) Market risk

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

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

Interest rate risk

The group faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations. The group uses interest rate options to manage exposure to interest rate risk. There were no open interest rate contracts at 30 September 2018 or at 30 September 2017.

The financial assets and liabilities of the group and partnership are non-interest bearing, with the exception of the following:

		Group		Partnership	
	Note	**2018** **£m**	2017 £m	**2018** **£m**	2017 £m
Fixed rate instruments					
Bonds	15	**37**	42	**-**	-
Variable rate instruments					
Bank borrowings	16	**(31)**	(479)	**(31)**	(416)
Cash and cash equivalents	16	**49**	66	**12**	23
		18	(413)	**(19)**	(393)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates during the year would have increased or decreased group profit by £2 million (2017: £4 million) and increased or decreased partnership profit by £2 million (2017: £4 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exchange rate risk

The functional currency of the partnership is pounds sterling. The functional currencies of other group entities are assessed individually and are considered to be pounds sterling, euro, US dollar and Indian rupee. However, certain expenses and charges from other KPMG International member firms or other international relationships are denominated in currencies other than the functional currency of the entities within the group. In addition, some fees are rendered in other currencies where this is requested by the clients involved.

The group maintains currency cash balances and uses currency swaps or forward foreign exchange contracts in order to cover exposure to existing foreign currency receivables and payables and also to committed future transactions denominated in a foreign currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

As set out above, the group trades in its functional currency and so does not generally have material receivable and payable balances denominated in non-functional currencies. However, at 30 September 2018 the group had receivable and payable balances, denominated in non-functional currencies as set out on page 53.

Notes

Forming part of the consolidated financial statements *(continued)*

22. Financial instruments *(continued)*

Exchange rate risk *(continued)*

	Group		Partnership	
Receivables	**2018 £m**	2017 £m	**2018 £m**	2017 £m
US dollar	**24**	17	**22**	16
Euro	**19**	15	**11**	11

	Group		Partnership	
Payables	**2018 £m**	2017 £m	**2018 £m**	2017 £m
US dollar	**11**	4	**11**	4
Euro	**4**	4	**4**	4

The net bank balances and cash deposits in non-functional currencies were as follows:

	Group		Partnership	
	2018 £m	2017 £m	**2018 £m**	2017 £m
US dollar	**16**	3	**16**	3
Euro	**5**	9	**5**	8

A 5% movement in the US dollar or euro closing exchange rates would have increased or decreased group profit by £2 million and £1 million (2017: £1 million and £1 million) and partnership profit by £1 million and £1 million (2017: £1 million and £1 million), respectively.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	**2018**	2017
Euro	**1.1378**	1.1507	**1.1237**	1.1418
US dollar	**1.3515**	1.2663	**1.3135**	1.3416

Equity price risk

Equity price risk arises from fair value through profit or loss equity securities. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by at least one Board member or the Head of Finance.

The primary goal of the group's investment strategy is to maximise investment returns; management is assisted by external advisers in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The only financial assets which are considered to be exposed to equity price risk are equity securities, totalling £12 million (2017: £14 million) and other investments of £1 million (2017: £1 million).

Notes

Forming part of the consolidated financial statements *(continued)*

22. Financial instruments *(continued)*

c) Credit risk

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

Trade and other receivables

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

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

The group establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables and investments.

Impairment information is included in note 14. There are no significant impairment provisions against the other classes of assets.

Securities, other investments and derivatives

Cash investments are made only in liquid securities, mainly fixed-term deposits or government or high-quality corporate bonds, and are monitored regularly. Derivatives are concluded with high-quality counterparties only and are monitored regularly.

The maximum exposure to credit risk is represented by the carrying amount of the group's and partnership's financial assets as set out in the table in section a) on page 51.

d) Liquidity risk

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

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

The Treasury function monitors the group's significant cash positions daily and it is the group's policy to use finance facilities or to invest surplus funds efficiently.

Limits are maintained on amounts to be deposited with each banking counterpart and these are reviewed regularly in the light of market changes.

The group has access to committed overdraft and revolving credit facilities which are drawn down as required (see note 16). The borrowings under this facility are the only financial liabilities of the group and partnership that are interest bearing.

The group and partnership have non-derivative financial liabilities as set out in the table in section a) on page 51. All of those financial liabilities are measured at amortised cost. In each case, the carrying amount reflects the contractual cash flows due to the short maturity; they are all due for payment within 12 months, except the non-current bank borrowings of £nil million (2017: £300 million) which have a maturity of 1-5 years and the non-current amounts due to members of £29 million (2017: £nil million) which is due in 18 months. In the case of the partnership only, non-current amounts due to other UK group undertakings of £90 million (2017: £90 million) has a maturity of 21 years but is matched by non-current receivables.

23. Leases

Accounting policy

Assets held by the group under leases that transfer substantially all of the risks and rewards of ownership to the group are classified as finance leases. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets held under other leases are classified as operating leases and are not recognised in the group's and partnership's statement of financial position. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, over the term of the lease.

Rental income from sub-let property is recognised in the income statement, within other operating income, on a straight-line basis over the term of the lease.

The only asset held by the group and partnership under a finance lease during the year was the property interest at 15 Canada Square, held until January 2018 when it was sold under a sale and leaseback transaction (see note 10).

Notes

Forming part of the consolidated financial statements *(continued)*

23. Leases *(continued)*

Non-cancellable operating lease rentals

Total commitments under non-cancellable operating leases are as follows:

	Group		Partnership	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Within one year	**59**	42	**59**	41
Between 1-5 years	**195**	121	**194**	119
More than five years	**486**	160	**486**	160
	740	323	**739**	320

A number of office facilities are leased under operating leases including the lease of 15 Canada Square which commenced in January 2018 following the sale and leaseback of that property (see note 10). The periods of the leases vary between 1-25 years; lease payments are generally subject to rent review every five years. The group also leases certain computer equipment, office equipment and motor vehicles under operating leases. These leases typically run for a period of three years.

Group and partnership

	2018 **£m**	2017 £m
Amounts receivable from sub-let properties:		
– within 1 year	**-**	-
– within 2-5 years	**1**	1
Operating lease cost for the year in 'Other operating expenses'	**42**	30
Operating lease income for the year in 'Other operating income'	**1**	1

24. Commitments and contingencies

Capital commitments for contracted purchases of property, plant and equipment at the end of the financial year, for which no provision has been made, were £5 million (2017: £2 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

In addition to provisions held for professional service claims and regulatory matters (see note 18), the group and partnership have contingent liabilities arising as a result of those claims where the outflow of resources is considered less than probable or cannot be measured reliably.

25. Related parties

The group has a related party relationship with its key management, considered to be the members of the Board and the Executive Committee who were also individual members of the partnership.

Transactions with key management

The members of the UK Board and the Executive Committee are responsible for planning, directing and controlling the activities of the group. The members of the UK Board and the Executive Committee all share in the profits of the partnership and the following disclosures relate to those members only.

As set out in note 5, the partnership does not divide profits amongst members until after the financial statements have been finalised and approved by the members. The estimated profit entitlement due to the partnership's key management in respect of the current year totalled £27 million. The actual profit allocated in respect of the previous year was £18 million.

The estimated total profit share payable to the highest paid member is £2.1 million (2017: highest paid £3.1 million, of which his normal remuneration for the period represented £1.0 million and the balance an additional amount paid under the group's partner retirement provisions).

Notes

Forming part of the consolidated financial statements *(continued)*

25. Related parties *(continued)*

Transactions with key management *(continued)*

There were no balances due to or from key management at 30 September 2018 or 2017 save in respect of relevant shares of profit (or related taxation), shares of historical reserves and members' capital.

As discussed in note 5, members receive monthly drawings and other distributions representing payments on account of current year profits. Any such amounts paid in excess of the liability recognised in respect of 90% of the accounting profits of the adjusted group would be shown as 'Amounts due from members' until allocation of the current year profits. Amounts that are retained from allocated profits in respect of taxation liabilities that fall on members are classified as 'Amounts due to members' together with the 90% of adjusted group profits treated as a liability. All amounts are expected to be paid in the short term.

Amounts due from/(to) key management of the partnership and the group are as follows:

	2018 **£m**	2017 £m
Amounts due from key management	**2**	1
Amounts due to key management	**(24)**	(14)
	(22)	(13)

Total members' capital invested by key management in the partnership amounted to £4 million at 30 September 2018 (2017: £2 million).

Transactions with fellow group entities

Transactions with fellow group entities mainly reflect appropriate charges for the cost of shared services.

The transactions and year-end balances between the partnership and fellow group entities are set out below.

				Partnership
	Services provided by fellow group entities £m	**Services provided to fellow group entities £m**	**Amounts due from fellow group entities £m**	**Amounts due to fellow group entities £m**
2018				
UK group undertakings – services provided	**51**	**23**	**105**	**-**
KPMG UK Limited – provision of staff	**1,128**	**-**	**-**	**196**
2017				
UK group undertakings – services provided	50	26	36	-
KPMG UK Limited – provision of staff	1,045	-	-	139

Notes

Forming part of the consolidated financial statements *(continued)*

26. Group undertakings

Accounting policy

Subsidiaries are entities controlled by the partnership. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Joint arrangements are arrangements in which the group, according to contractual agreements with one or more other parties, has joint control. The arrangements are classified as joint ventures if the contracting parties' rights are limited to net assets in the separate legal entities; the arrangements are classified as joint operations if the parties have direct and unlimited rights to the assets and obligations for the liabilities of the arrangement. The group has accounted for its interest in its joint operations by recognising its share of individual assets, liabilities, revenue and costs.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Judgement

As set out below, certain investee entities are not 100% owned by KPMG UK. A judgement is required as to whether KPMG UK controls these investee entities despite non-standard ownership arrangements:

- Queen Street Mutual (QSM): no ownership but power to control through power to appoint majority board members and right to entitlement to benefit from future profits or existing retained reserves;
- Operations in India: KPMG UK and other shareholding partners are the recipients of substantially all the services provided by the entities and will be the only source of funding to settle the entities' liabilities.

A different assessment of the agreements in place would have resulted in a different conclusion on control and the impact on consolidation.

All of the group and partnership's investments in subsidiaries and joint arrangements at 30 September 2018 are listed in the table on page 58.

All of the subsidiary undertakings make up their accounts to 30 September and are consolidated within these financial statements. The joint operations provide management information at 30 September for the purposes of group reporting. All entities prepare their accounts under uniform accounting policies and operate principally in their country of incorporation.

Notes

Forming part of the consolidated financial statements *(continued)*

26. Group undertakings *(continued)*

	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
Subsidiary undertakings				
KPMG Holdings Limited	England[4]	Holding company	UK registered Auditor	100
KPMG Audit Holdings Limited	England[4]	Holding company	UK registered Auditor	100[3]
KPMG Audit Plc	England[4]	Statutory audits and related services	UK registered Auditor	100[3]
KPMG United Kingdom Plc	England[4]	Advisory services	None	100[3]
KPMG UK Limited[1]	England[4]	Employment company	None	100[3]
KPMG IT Advisory Limited	England[4]	Advisory services	None	100
KPMG Business Intelligence Limited	England[4]	Dormant	None	100[3]
KPMG Sourcing Limited	England[4]	Advisory services	None	100[3]
KPMG CIO Advisory Limited	England[4]	Advisory services	None	100[3]
KPMG Overseas Services Limited	England[4]	Advisory services	UK registered auditor	100[3]
Makinson Cowell Limited	England[4]	Advisory services	None	100[3]
Makinson Cowell (US) Limited	England[4]	Advisory services	None	100[3]
KPMG Pension Trust Company Limited	England[4]	Trust company	None	100
KPMG Pension Funding (GP) Limited	Scotland[5]	General Partner of SLP	None	100
KPMG Nunwood Investment Limited	England[4]	Holding company	None	100[3]
KPMG Nunwood Holdings Limited	England[4]	Holding company	None	100[3]
KPMG Nunwood Consulting Limited	England[4]	Advisory services	None	100[3]
Knowledge Systems (Nunwood) Limited	England[4]	Internal IT support services	None	100[3]
KPMG UK (Americas) Inc (formerly Nunwood Inc)	United States of America[6]	Advisory services	None	100[3]
KPMG Boxwood Limited	England[4]	Advisory services	None	100[3]
Queen Street Mutual Company PCC Limited	Guernsey[7]	Insurance	Guernsey Insurer	0[2]
K Nominees Limited	England[4]	Dormant	None	100[3]
KPMG CW Properties Limited	England[4]	Dormant	None	100
Daymer International Limited	England[4]	Advisory services	None	100[3]
KPMG Investments Malta Limited	Malta[8]	Holding company	None	75[3]
Crimsonwing Limited (formerly Crimsonwing Plc)	Malta[9]	Holding company	None	75[3]
KPMG Crimsonwing Limited	England[4]	Advisory services	None	75[3]
KPMG Crimsonwing (Malta) Limited	Malta[9]	Advisory services	None	75[3]
KPMG Crimsonwing BV	Netherlands[10]	Advisory services	None	75[3]
Flareware Systems Limited	England[4]	In liquidation	None	100[3]
KPMG Limited	Gibraltar[11]	Audit services	None	100[3]
KPMG Advisory Limited	Gibraltar[11]	Advisory services	None	100[3]
Joint operations				
KPMG Resource Centre Private Limited	India[12]	Internal support services	None	50[3]
KPMG Global Advisory Holdings (Bermuda) LP	Bermuda[13]	Holding company	None	50[3]
GKAS (Mauritius) Limited	Mauritius[14]	Holding company	None	50[3]
KPMG Global Services Management Private Limited	India[15]	Internal advisory support services	None	33[3]
KPMG Global Services Private Limited	India[15]	Internal advisory support services	None	33[3]
KPMG Global Services Inc.	United States of America[16]	Internal advisory support services	None	33[3]

Notes

Forming part of the consolidated financial statements *(continued)*

26. Group undertakings *(continued)*

The partnership has an interest in a Scottish Limited Partnership (SLP), KPMG Pension Funding Limited Partnership, which is fully consolidated into these group accounts. The SLP is not required to present and file accounts at Companies House as it is not a qualifying partnership as defined in the Partnerships (Accounts) Regulations 2008. The SLP was set up during the year ended 30 September 2014 in connection with the Asset Backed Funding agreement (see note 20).

The group is a 33.33% partner in KPMG Global Services Private Limited and KPMG Global Services Management Private Limited, joint arrangements formed with KPMG US and KPMG India to provide advisory support services for KPMG International member firms. The group is also a 50% partner in KPMG Resource Centre Private Limited, a joint arrangement formed with KPMG India to provide support services for KPMG International member firms.

Although these entities are legally separated from their shareholders (as detailed above), the group has classified them as joint operations. This is on the basis that the partners are the recipients of substantially all the services provided by the entities and will be the only source of funding to settle their liabilities.

1. This company employs the staff occupied in the businesses of KPMG LLP and certain other group companies.
2. KPMG LLP has a 100% interest in the UK related net assets of this company through its right to control the Board and its right to entitlement to benefit from future profits or existing retained reserves arising from those assets.
3. Held indirectly through intermediate holding companies.

Registered offices:

4. 15 Canada Square, Canary Wharf, London, E14 5GL
5. Citypoint, 65 Haymarket Terrace, Edinburgh, E112 5HD
6. CT Corporation System, 111 Eight Avenue, New York, NY10011
7. Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT
8. Portico Building, Marina Street, Pieta
9. Lignum House, Aldo Moro Road, Marsa, MRS9065
10. Seinstraat 32, 1223DA Hilversum
11. 3B Leisure Island Business Centre, Ocean Village, Gibraltar
12. 1st Floor, Lodha Excellus, Apollo Mills Compound N.M. Joshi Marg, Mahalaxmi Mumbai, Mumbai City, MH 400011
13. Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda
14. C/o Trident Trust Company (Mauritius) Limited, 5th Floor, Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Mauritius
15. 6th Floor, Tower C, Building No 10, DLF Cyber City, Phase – II Gurgaon, Gurgaon HR 122002
16. 3 Chestnut Ridge Road, Montvale, New Jersey, USA 07645

kpmg.com/uk

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