KPMG

# UK Members' Report and Financial Statements 2019

**In respect of the year ended 30 September 2019**

Registered number OC301540

**December 2019**

kpmg.com/uk

# Contents



# 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 2019.

## 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 27).

## Governance

During the year ended 30 September 2019, the governance structure of the partnership comprised:

— The Board, the main governance body of the group, responsible for overseeing the stewardship, accountability and leadership of the group, providing clear-sighted counsel on the strategic direction of the group and alignment to its vision, values and purpose.

— The Executive Board, responsible for driving the board-approved strategy for the group and lead on issues that cut across the group.

The Executive Board was established during the year to focus on firm-wide strategic priorities and is supported by four Executive Committees. The Board are supported by various sub-committees including the Audit Committee. Full details of the governance structures, including changes in year, 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
Jeremy Barton
Phillip Davidson (resigned 18 September 2019)
Tim Jones (appointed 18 September 2019)
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 the Executive Board 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 below 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.

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 taken into account.

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 an agreed 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.

# Report to the members

*(continued)*

## Members' capital, profit shares and drawings *(continued)*

These elements account for the majority of the total profit allocated to members. The remainder 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, quality or performance has fallen below the levels expected by the Executive Board, as indicated by adverse Quality and Risk metrics.

## Financial performance during the year

Revenue increased by 3% during the year ended 30 September 2019, to £2,398 million. Audit, Tax, Pensions and Legal and Deal Advisory all contributed to revenue growth, with Audit in particular generating strong growth in net sales of 10% year on year (see note 4 for reconciliation between revenue and net sales by capability).

Profit before taxation and members' profit shares fell to £307 million, decreasing 14% on a like-for-like basis (excluding the profit on disposal of 15 Canada Square in 2018). Increased headcount contributed to an increased cost base which, when coupled with higher level of investments during the year, resulted in falling profitability despite revenue growth.

## Financial position at the end of the year

The financial position of the group remains strong at 30 September 2019. As set out on page 3, operations are generally financed by members' capital and other members' interests, which together totalled £296 million at 30 September 2019 (2018: £393 million) for the group and £225 million (2018: £332 million) for the partnership.

Bank facilities of £385 million were also available to the group at 30 September 2019. The group's operating activities are generally cash generative.

The main current assets of the group are trade receivables and contract assets, 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 £1,006 million (2018: £893 million) for the group and £951 million (2018: £839 million) for the partnership.

## Events after year end

Subsequent to the year end, KPMG LLP entered into a conditional agreement to sell the pensions advisory business, as set out in note 28.

## 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 the financial impact of our business risks.

At 30 September 2019, the group had undrawn facilities of £165 million (2018: £354 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 17.

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 23.

After making enquiries, and following a review of the group's profit and cash flow forecasts and consideration of wider business risks faced by the group (as set out in the group's separately published Transparency Report) 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 they ought to have taken to make themselves 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.

# Report to the members

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## 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 the group and partnership 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 the group and partnership financial statements for each financial year. Under that law the members have elected to prepare both 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 or loss of the group for that period.

In preparing each of the group and partnership 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;
- Assess the group and partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the group or the partnership or to cease operation, or have no realistic alternative but to do so.

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

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group 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 2019 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 their preparation 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 2019 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 (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the 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.

### 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 £15.1 million, using profit and loss before taxation and members' profit shares as a benchmark;
- Key matters were identified as professional claims and regulatory matters, revenue recognition including the risk of fraud, impairment of goodwill and defined benefit pension scheme liabilities;
- 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 |
|---|---|
| **Professional claims and regulatory matters**<br><br>The accounting policy and disclosures on professional claims and regulatory matters are shown in note 19.<br><br>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 when the group has a present legal or constructive obligation as a result of a past event, that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This can be highly judgemental.<br><br>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:<br><br>— performing an assessment of the professional claim and regulatory matter notification process, and the identification and practice protection procedures in operation<br><br>— consideration of those claims and regulatory matters in progress which are, or have the potential to be material; 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<br><br>— 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<br><br>— consideration of whether the information we obtained was complete through review of publicly available information and that held by the group's General Counsel; and<br><br>— consideration of the adequacy of the presentation and disclosures related to professional claims and regulatory matters.<br><br>**Key observations**<br><br>— Our testing did not identify any significant deficiencies in the operation of the professional claim and regulatory matter notification, identification and practice protection procedures.<br><br>— Having noted the significant degree of inherent uncertainty in the assumptions and estimates, we did not identify any material misstatements.<br><br>— 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.<br><br>— We consider that the disclosures in note 19 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 |
|---|---|
| **Revenue recognition**<br><br>The accounting policy and related disclosures on revenue recognition are shown in note 4.<br><br>Revenue is measured based on the consideration specified in a contract with the customer, inclusive of recoverable expenses incurred on client assignments but excluding value added tax. Revenue is recognised at an amount that depicts the transaction price of the transfer of professional services to a customer.<br><br>The majority of the group's revenue is derived from contracts where the consideration is based on time and materials. For these contracts the group satisfies performance obligations over time and revenue is recognised in proportion to cost incurred relative to total expected cost required to complete the satisfaction of that performance obligation.<br><br>In determining the timing of revenue to be recognised in accordance with International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' 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.<br><br>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:<br><br>— gaining an understanding of the processes and relevant 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<br><br>— an assessment of the accounting policies and practices surrounding revenue recognition to ensure compliance with the relevant accounting standards<br><br>— substantive testing on a sample of engagements to assess that the right to consideration had been obtained through performance of the agreed services<br><br>— 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<br><br>— enquiries of engagement and management teams where revenues recognised or trends fell outside our expectation parameters. We sought corroborating evidence to support explanations provided by those teams; and<br><br>— consideration of the adequacy of the disclosures related to revenue recognition.<br><br>**Key observations**<br><br>Our testing did not identify any significant deficiencies in the revenue recognition policies and practices.<br><br>Our audit work indicated that on a sampled basis revenue is only recognised when a right to that consideration had been obtained through performance of the agreed services.<br><br>Overall our assessment is that the estimates applied in determining the level of revenue resulted in an appropriate level of revenue recognised in the consolidated income statement and unbilled revenue within the consolidated and partnership statement of financial position.<br><br>We consider the related disclosure in note 4 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 |
|---|---|
| **Impairment of goodwill**<br><br>The accounting policy and related disclosures on intangible assets are shown in note 12.<br><br>There are material goodwill balances held in the statement of financial position at year end based on significant judgements.<br><br>We therefore identified impairment of goodwill 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:<br><br>— consideration of management's assessment of the impairment of goodwill and determining whether appropriate judgements and estimates were taken into account in the impairment models<br><br>— corroboration of contracts and commercial opportunities that are reflected in the approved forecasts; and<br><br>— where appropriate, we ensured that appropriate disclosure of any impairment, the accounting treatment and associated judgements had been made within the financial statements.<br><br>**Key observations**<br><br>We found the arrangements in place for reviewing impairment to be effective and did not identify any material misstatements in the carrying value of goodwill.<br><br>We consider that the disclosures in note 12 appropriately discloses the accounting treatment, valuation inputs and the associated judgements and estimates relating to goodwill and impairment. |
| **Defined benefit pension scheme liabilities**<br><br>The accounting policy and related disclosures on defined benefit pension schemes are shown in note 21.<br><br>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.<br><br>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:<br><br>— assessing the objectivity, competence and capability of the KPMG internal actuarial team<br><br>— in conjunction with our internal actuarial specialists, considering the appropriateness of the valuation methodologies and challenging the appropriateness of the valuation assumptions<br><br>— assessing the appropriateness of information sources used for the valuation; and<br><br>— consideration of the adequacy of the disclosures related to defined benefit pension schemes.<br><br>**Key observations**<br><br>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.<br><br>We consider that the related disclosure in note 21 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)*

## 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.

Materiality was determined as follows:

| Materiality measure | Group | Parent limited liability partnership |
|---|---|---|
| Financial statements as a whole | £15.1 million which is 5% of the profit before taxation and members' profit share. This benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members.<br><br>This benchmark was agreed with the Audit Committee during our planning phase and has been consistently applied in the current and prior years. | £13.3 million which is 5% of the profit before taxation and members' profit share. This benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members.<br><br>This benchmark was agreed with the Audit Committee during our planning phase and has been consistently applied in the current and prior years. |
| Performance materiality used to drive the extent of our testing | 75% of financial statements materiality. | 75% of financial statement materiality. |
| Specific materiality | We determined a lower level of specific materiality for certain areas such as members' remuneration and related party transactions. | We determined a lower level of specific materiality for certain areas such as members' remuneration and related party transactions. |
| Communications of misstatements to the Audit Committee | £755,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £665,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

# Independent auditor's report to the members of KPMG LLP

*(continued)*

### 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 27. 97% of group revenues and 97% 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 5, 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.

## Use of our report

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.

**Jonathan Maile BSc (Hons) FCA**
Senior Statutory Auditor

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

Gatwick
6 December 2019

GrantThornton

# Consolidated income statement

**For the year ended 30 September 2019**

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Revenue** | 4 | **2,398** | 2,338 |
| Recoverable expenses | | **(333)** | (344) |
| **Net sales** | | **2,065** | 1,994 |
| Other operating income | 5 | **76** | 86 |
| Staff costs | 6 | **(1,165)** | (1,086) |
| Profit on disposal of property, plant & equipment | 11 | **-** | 106 |
| Depreciation and amortisation | 11,12 | **(64)** | (61) |
| Impairment of trade receivables and contract assets | 15 | **(4)** | - |
| Other operating expenses | 7 | **(600)** | (573) |
| **Operating profit** | | **308** | 466 |
| Financial income | 8 | **11** | 9 |
| Financial expense | 8 | **(12)** | (13) |
| **Net financial expense** | | **(1)** | (4) |
| **Profit before taxation and members' profit shares** | | **307** | 462 |
| Tax expense in corporate entities | 9 | **(15)** | (14) |
| **Profit for the financial year before members' profit shares** | | **292** | 448 |
| Members' profit shares charged as an expense | 6 | **(275)** | (327) |
| **Profit for the financial year available for discretionary division among members** | | **17** | 121 |
| **Profit for the financial year available for discretionary division among members, attributable to:** | | | |
| Members as owners of the parent entity | | **20** | 124 |
| Non-controlling interests | | **(3)** | (3) |
| | | **17** | 121 |

# Consolidated statement of comprehensive income

**For the year ended 30 September 2019**

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Profit for the financial year available for discretionary division among members** | | **17** | 121 |
| **Other comprehensive income, net of tax:** | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit pension plans | 21 | **(3)** | 21 |
| **Total comprehensive income for the financial year, net of tax** | | **14** | 142 |
| **Total comprehensive income for the financial year, attributable to:** | | | |
| Members as owners of the parent entity | | **17** | 145 |
| Non-controlling interests | | **(3)** | (3) |
| | | **14** | 142 |

# Statements of financial position

**At 30 September 2019**

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | Note | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Assets, excluding members' interests** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | **157** | 171 | **157** | 170 |
| Intangible assets | 12 | **68** | 82 | **28** | 35 |
| Investments | 13 | **1** | 1 | **16** | 13 |
| Other non-current assets | 14 | **5** | 5 | **86** | 86 |
| | | **231** | 259 | **287** | 304 |
| **Current assets, excluding members' interests** | | | | | |
| Trade and other receivables | 15 | **1,110** | 967 | **1,152** | 1,017 |
| Other financial assets | 16 | **47** | 49 | **-** | - |
| Cash and cash equivalents | 17 | **37** | 49 | **10** | 12 |
| | | **1,194** | 1,065 | **1,162** | 1,029 |
| **Total assets, excluding members' interests** | | **1,425** | 1,324 | **1,449** | 1,333 |
| **Liabilities, excluding members' interests** | | | | | |
| **Non-current liabilities** | | | | | |
| Retirement benefits | 21 | **85** | 83 | **85** | 83 |
| Provisions | 19 | **113** | 131 | **113** | 104 |
| Deferred tax liability | 20 | **1** | 1 | **-** | - |
| Other non-current liabilities | 14 | **-** | - | **90** | 90 |
| | | **199** | 215 | **288** | 277 |
| **Current liabilities, excluding members' interests** | | | | | |
| Bank borrowings | 17 | **220** | 31 | **220** | 31 |
| Trade and other payables | 18 | **685** | 676 | **697** | 689 |
| Tax payable | | **5** | 6 | **-** | - |
| Provisions | 19 | **24** | 4 | **19** | 4 |
| | | **934** | 717 | **936** | 724 |
| **Total liabilities, excluding members' interests** | | **1,133** | 932 | **1,224** | 1,001 |
| **Net assets attributable to members and non-controlling interests** | | **292** | 392 | **225** | 332 |
| **Represented by:** | | | | | |
| **Amounts classified as current assets:** | | | | | |
| Amounts due from members | 22 | **(46)** | (42) | **(46)** | (42) |
| **Amounts classified as non-current liabilities:** | | | | | |
| Amounts due to members | 22 | **-** | 29 | **-** | 29 |
| **Amounts classified as current liabilities:** | | | | | |
| Amounts due to members | 22 | **205** | 246 | **205** | 246 |
| Members' capital | 22 | **86** | 73 | **86** | 73 |
| | | **291** | 319 | **291** | 319 |
| **Amounts classified as equity:** | | | | | |
| Other members' interests classified as equity | | **51** | 87 | **(20)** | 26 |
| **Total members' interests** | | **296** | 393 | **225** | 332 |
| Non-controlling interests | | **(4)** | (1) | **-** | - |
| | | **292** | 392 | **225** | 332 |

The partnership reported a profit available for discretionary division among members for the year ended 30 September 2019 of £10 million (2018: £102 million). The financial statements on pages 13 to 65 were authorised for issue and signed on 6 December 2019 on behalf of the members of KPMG LLP, registered number OC301540 by:

**Bill Michael**
Chairman

**Sarah Willows**
Chief Financial Officer

# Statements of changes in equity

**For the year ended 30 September 2019**

| | | Group | | | | Partnership |
|---|---|---|---|---|---|---|
| | Note | Members' other reserves £m | Translation Reserve £m | Non-controlling interests £m | Total £m | Members' other reserves £m |
| Balance at 1 October 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 | 21 | 21 | - | - | 21 | 21 |
| **Total comprehensive income** | | 145 | - | (3) | 142 | 123 |
| 2017 profits available for discretionary division, allocated to members during the year | 6 | (20) | - | - | (20) | (20) |
| Other movements | 22 | (77) | - | - | (77) | (77) |
| **Transactions with owners** | | (97) | - | - | (97) | (97) |
| Balance at 30 September 2018 | | 83 | 4 | (1) | 86 | 26 |
| Remeasurement on adoption of IFRS 9 'Financial Instruments' on 1 October 2018 | 15 | **(2)** | **-** | **-** | **(2)** | **(2)** |
| Profit/(loss) for the financial year available for discretionary division among members | | **20** | **-** | **(3)** | **17** | **10** |
| Remeasurement of defined benefit pension plans | 21 | **(3)** | **-** | **-** | **(3)** | **(3)** |
| **Total comprehensive income** | | **17** | **-** | **(3)** | **14** | **7** |
| 2018 profits available for discretionary division, allocated to members during the year | 6 | **(51)** | **-** | **-** | **(51)** | **(51)** |
| **Transactions with owners** | | **(51)** | **-** | **-** | **(51)** | **(51)** |
| **Balance at 30 September 2019** | | **47** | **4** | **(4)** | **47** | **(20)** |

# Statements of cash flows

**For the year ended 30 September 2019**

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | Note | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Cash flows from operating activities** | | | | | |
| Profit for the financial year after members' profit shares charged as an expense | | **17** | 121 | **10** | 102 |
| Adjustments for: | | | | | |
| Tax expense | 9 | **15** | 14 | **-** | - |
| Depreciation and amortisation | 11,12 | **64** | 61 | **57** | 55 |
| Financial income | 8 | **(11)** | (9) | **(48)** | (19) |
| Financial expense | 8 | **12** | 13 | **17** | 16 |
| Impairment of trade receivables and contract assets | 15 | **4** | - | **4** | - |
| Profit on disposal of property, plant & equipment | 11 | **-** | (106) | **-** | (106) |
| Members' profit shares | 6 | **275** | 327 | **275** | 327 |
| | | **376** | 421 | **315** | 375 |
| Increase in trade and other receivables | | **(139)** | (76) | **(133)** | (147) |
| Increase in trade and other payables | | **8** | 20 | **8** | 70 |
| (Decrease)/increase in provisions and retirement benefits | | **(4)** | 11 | **18** | 8 |
| **Cash generated from operations** | | **241** | 376 | **208** | 306 |
| Net interest and other financial costs paid | 8 | **-** | - | **(1)** | (2) |
| Corporate taxes paid | | **(16)** | (13) | **-** | - |
| **Net cash flows from operating activities before transactions with members** | | **225** | 363 | **207** | 304 |
| Payments to members | | **(391)** | (304) | **(391)** | (304) |
| **Net cash flow from operating activities** | | **(166)** | 59 | **(184)** | - |
| **Cash flows from investing activities** | | | | | |
| Capital subscribed in subsidiary | 13 | **-** | - | **(3)** | - |
| Dividends received | | **-** | - | **34** | 7 |
| Disposal of other financial assets | | **2** | 7 | **-** | - |
| Proceeds from sale of property, plant and equipment | 11 | **3** | 404 | **2** | 404 |
| Acquisition of property, plant and equipment | 11 | **(34)** | (30) | **(34)** | (29) |
| Development of intangible assets | 12 | **(5)** | (10) | **(5)** | (9) |
| **Net cash flows from investing activities** | | **(34)** | 371 | **(6)** | 373 |
| **Cash flows from financing activities** | | | | | |
| Net repayment of bank borrowings | 17 | **-** | (448) | **-** | (385) |
| Net proceeds from new bank borrowings | 17 | **189** | - | **189** | - |
| Capital introduced by members | 22 | **8** | 8 | **8** | 8 |
| Capital repayments to members | 22 | **(9)** | (7) | **(9)** | (7) |
| **Net cash flows from financing activities** | | **188** | (447) | **188** | (384) |
| Net decrease in cash and cash equivalents | | **(12)** | (17) | **(2)** | (11) |
| Cash and cash equivalents at the beginning of the year | | **49** | 66 | **12** | 23 |
| **Cash and cash equivalents at the end of the year** | 17 | **37** | 49 | **10** | 12 |

# Notes

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

## 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 in this note, 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, with the exception of those changed as a result of adopting new IFRSs during the year (see note 2).

A number of new IFRSs have been endorsed by the European Union with effective dates such that they fall to be applied by the group.

The following standards and amendments to published standards are the only changes of relevance to these financial statements that have been applied in the year ended 30 September 2019:

— IFRS 15: 'Revenue from Contracts with Customers' together with subsequent Clarifications to IFRS 15: Revenue from Contracts with Customers; effective for periods beginning on or after 1 January 2018 (note 2).

— IFRS 9: 'Financial Instruments'; effective for periods beginning on or after 1 January 2018 (note 2).

The group elected to early adopt the following IFRSs and amendments in the year ended 30 September 2019:

— 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.

— IFRIC 23: 'Uncertainty over Income Tax Treatments'; effective for periods beginning on or after 1 January 2019.

With the exception of the impact of adopting IFRS 15 and IFRS 9, set out in note 2, 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.

### 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 is:

#### 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.

# Notes

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

## 1. Accounting policies *(continued)*

*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 impact on the results of the group and partnership is considered to be material; the impact under the modified retrospective approach on adoption of IFRS 16 on 1 October 2019 is to recognise a lease liability of approximately £558 million and right-of-use asset of approximately £518 million (the difference relating mainly to rent-free accruals).

In the financial year to 30 September 2020, depreciation of right-of-use assets and finance charges on the lease liabilities are expected to total £58 million. If the group were to continue to account for operating lease charges under IAS 17 in the financial year to 30 September 2020, the expected income statement charge would be £45 million.

### Other future developments

Other relevant changes not yet endorsed by the European Union and of less significance are:

- 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.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7); 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.

### 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 the financial impact of our business risks.

At 30 September 2019, the group had undrawn facilities of £165 million (2018: £354 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 17.

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 23.

After making enquiries, and following a review of the group's profit and cash flow forecasts and consideration of wider business risks faced by the group (as set out in the group's separately published Transparency Report) 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.

# Notes

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

## 1. Accounting policies *(continued)*

### 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.

### Impairment

#### Non-financial assets

The carrying amounts of the group's and partnership'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.

# Notes

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

## 2. Changes in significant accounting policies

The group and partnership have initially applied IFRS 15 and IFRS 9 from 1 October 2018.

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

The group and partnership have initially applied IFRS 15 from 1 October 2018, using the cumulative effect method. The new standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and establishes a comprehensive framework for revenue recognition based on a five-step model.

Under the cumulative effect method, the cumulative effect of initially applying IFRS 15 is recognised as an adjustment to the opening balance of equity at 1 October 2018. However, detailed assessments carried out by the group and partnership have demonstrated that the adoption of IFRS 15 and the five-step model does not significantly change either the timing or value of revenue recognised by the group for either the current or prior year, as the principles of IFRS 15 align closely with the group's previous revenue recognition policy. Accordingly, no adjustments to opening equity are required on initial adoption.

IFRS 15 requires a number of additional disclosures, which are set out in note 4. In addition, assets classified as 'Unbilled amounts for client work' under IAS 18 are now classified as 'Contract assets' under IFRS 15 and liabilities classified as 'Amounts billed on account' under IAS 18 are now classified as 'Contract liabilities' under IFRS 15.

### IFRS 9 'Financial Instruments' (IFRS 9)

The group and partnership have initially applied IFRS 9 from 1 October 2018. The new standard replaces IAS 39 'Financial instruments: recognition and measurement' and addresses the classification, measurement, impairment and de-recognition of financial instruments, including new hedge accounting requirements.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale and instead contains three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

From 1 October 2018, financial assets were reclassified under IFRS 9 as follows:

- All financial assets which were previously classified as loans and receivables under IAS 39 are classified as financial assets measured at amortised cost with the exception of the amounts due from other UK group undertakings (partnership only) which are classified as FVTPL (see note 14).
- Other financial assets (note 16) were designated as FVTPL under IAS 39 because they were managed on a fair value basis and their performance was monitored on this basis. These assets continue to be classified as FVTPL under IFRS 9.

IFRS 9 has also introduced a new model for impairment which is based on assessing changes in credit quality from the initial recognition of a financial instrument. The model requires expected credit losses to be determined, being a probability-weighted estimate of the difference between the cash flows that are expected to be received and the cash flows that are due under the contract. As a result, the group and partnership have adopted a forward-looking credit loss model instead of the historical incurred credit loss model previously applied under IAS 39 (see note 15).

The adoption of IFRS 9 has not had a significant effect on the group's and partnership's accounting policies related to financial instruments and on the carrying amounts of financial assets and financial liabilities reported at 30 September 2018 under IAS 39 (see note 15). An adjustment of £2 million for group and partnership has been recognised in brought forward reserves in the year ended 30 September 2019, reflecting the introduction of a new model for impairment (see note 15) on adoption of IFRS 9.

As a result of the adoption of IFRS 9, the group and partnership have adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in the income statement and other comprehensive income, if material. Previously, the impairment loss on trade receivables was included in 'Other operating expenses'. This change in presentation has had an immaterial impact on the group and partnership financial statements.

Additionally, the group and partnership have adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures in respect of 2019 but not generally applied to comparative information.

# Notes

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

## 3. 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 2019 financial statements are as follows:

— Provisions: determining whether a provision, contingent liability or neither arises at the balance sheet date and whether disclosure of the relevant matter would be seriously prejudicial (note 19).

— Asset-Backed Funding (ABF) partnership only: assessing whether an embedded derivative exists and the asset meets the 'solely principal and interest' test under IFRS 9, impacting the recognition and valuation of the loan receivable under the ABF (note 14).

— Member retirement provisions: assessing whether a contractual or constructive obligation exists, resulting in a provision to be recognised (note 19).

— Consolidation of investee companies: assessing whether the group has control over certain subsidiaries despite minority shareholding (note 27).

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:

— 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 19).

— 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 contract assets for the client work (note 4).

— Impairment of intangible assets: estimating value in use, with the key assumptions being future trading growth, profitability and cash flows (note 12).

— 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 21).

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.

In the 2018 financial statements management also concluded that the 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 11) – was a critical accounting judgement. However, as this transaction arose only in 2018 it is not considered a critical accounting judgement in the 2019 financial statements.

# Notes

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

## 4. Revenue

All revenue of the group and partnership is generated from contracts with customers.

### Accounting policy

Revenue is measured as the fair value of the consideration received or receivable for satisfying performance obligations contained in contracts with clients, inclusive of recoverable expenses incurred on client assignments but excluding value added tax.

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.

Revenue is recognised at an amount that depicts the transaction price of the transfer of professional services to a customer. Variable consideration, such as fee arrangements contingent on the occurrence or non-occurrence of a future event, is included in the transaction price only to the extent that it is highly probable that a significant reversal will not be required when the uncertainties determining the level of variable consideration are subsequently resolved.

Revenue is recognised when the group and partnership have satisfied performance obligations by transferring control of services to clients.

The majority of the group's revenue is derived from contracts where the consideration is based on time and materials. For these contracts the group satisfies performance obligations over time and revenue is recognised based on the rate agreed with the client, provided there is an enforceable right to payment for performance completed to date.

Similarly, revenue derived from fixed fee contracts is recognised over time based on the actual service provided to the end of the reporting period relative to total services to be provided, generally assessed by reference to actual inputs of time and expenses as a proportion of the total expected inputs, where there is an enforceable right to payment for performance completed to date.

For contingent fee contracts, including certain Deal Advisory engagements where the group are providing deal support, revenue is constrained in estimating revenue and recognised at a point in time when the contingency is resolved and the firm has an entitlement to payment.

Where contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on its stand-alone selling price, reflecting expected cost plus margin or stand-alone selling price if relevant.

Invoices are issued in accordance with the terms of engagement; except where consideration is variable, fees are usually billed on account based on a payment schedule and standard payment terms are usually 30 days from date of issue.

Where revenue recognised by the group and partnership exceeds the amounts invoiced, a 'Contract asset' is recognised within 'Trade and other receivables'. Invoices raised in excess of revenue recognised by the group and partnership are classified as 'Contract liabilities' within 'Trade and other payables'.

### Significant estimate

In calculating revenue from service contracts, the group and partnership make certain estimates as to the extent to which performance obligations have been satisfied. 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, Consulting and Tax, Pensions & Legal, 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;

— 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 performance obligation.

Estimates of revenue, costs or extent of progress toward completion are revised if circumstances change. Estimates are updated at each reporting date, including application of any constraint in respect of variable consideration until the uncertainty is resolved. Any resulting increases or decreases in estimated revenues or costs are reflected in the income statement in the period in which the circumstances arose.

# Notes

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

## 4. Revenue *(continued)*

### Segmental reporting

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

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

The group and partnership generates its revenue from its principal activities, through four of the group's capabilities, 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 24 for the four operating segments; segments have not been aggregated for this purpose.

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. Revenue by capability and coverage groups disclosed on pages 24 and 25 also reflect the categories determined for the purpose of disaggregation of revenues under IFRS 15.

### 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 life-cycle.

**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)*

## 4. Revenue *(continued)*

Information by segment is as follows:

| **2019** | Audit £m | TPL £m | DA £m | Cons £m | **Total £m** |
|---|---|---|---|---|---|
| Net sales (as reported internally) | **587** | **470** | **406** | **583** | **2,046** |
| Recoverable expenses (as reported internally) | **60** | **97** | **49** | **127** | **333** |
| **Gross sales (as reported internally)** | **647** | **567** | **455** | **710** | **2,379** |
| Revenue of entities not reported internally | | | | | **28** |
| Elimination of intra-group trading and other financial adjustments | | | | | **(9)** |
| **Total group revenue** | | | | | **2,398** |
| | | | | | |
| Segmental contribution (as reported internally) | **190** | **191** | **184** | **173** | **738** |
| Members' remuneration adjustments | | | | | **163** |
| Costs not allocated to segments | | | | | **(576)** |
| Net financial expense (see note 8) | | | | | **(1)** |
| Loss before taxation of entities not reported internally | | | | | **(17)** |
| **Total group profit before taxation and members' profit shares** | | | | | **307** |
| | | | | | |
| Segmental assets (as reported internally) | **115** | **174** | **134** | **157** | **580** |
| Assets of entities not reported internally | | | | | **45** |
| Assets not allocated to segments | | | | | **800** |
| **Total group assets, excluding members' interests** | | | | | **1,425** |

| 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 8) | | | | | (4) |
| Profit on disposal of property, plant & equipment (see note 11) | | | | | 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 |

# Notes

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

## 4. Revenue *(continued)*

Entities not reported internally include KPMG Crimsonwing, Queen Street Mutual, entities in Gibraltar and joint operations in India. 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 and are therefore captured within 'costs not allocated to segments' above.

Assets attributed to the segments for internal reporting purposes comprise trade receivables and contract assets net of contract liabilities. 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 83% (2018: 82%) 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 (2019: 4%; 2018: 4%).

### Major clients

The group has no reliance on any one client – no more than 2% (2018: 3%) of group revenue and 2% (2018: 3%) of partnership revenue is attributable to the largest client.

### Net sales by coverage group

As set out on page 23, the group organises its clients into coverage groups; net sales by coverage group is provided below for information:

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| National Markets | **873** | 846 |
| Financial Services | **683** | 683 |
| Corporates | **479** | 438 |
| Central | **11** | 10 |
| | **2,046** | 1,977 |

# Notes

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

## 4. Revenue *(continued)*

### Contract balances

Receivables, contract assets and contract liabilities from contracts with customers are included within 'Trade and other receivables' and 'Trade and other payables' respectively (notes 15 and 18).

At 30 September 2019, the aggregate amount of the transaction price allocated to fixed price, long-term contracts that were only partially complete was £186 million for the group and partnership. Management expects that 40% of the transaction price allocated to these unsatisfied contracts will be recognised as revenue during the financial year ending 30 September 2020, 39% recognised in the financial year ending 30 September 2021 and the remainder in the following financial year or subsequently. Variable consideration that is not highly probable is not included in these amounts.

All other contracts with customers are for periods of one year or less or the right to consideration is directly aligned to the performance completed to date. The group and partnership has applied the practical expedient in IFRS 15 not to disclose information in respect of partially completed contracts where the period of the contract is one year or less. The group and partnership has also applied the practical expedient in respect of the presentation of prior financial year comparatives for unsatisfied long-term contracts.

During the financial year ended 30 September 2019, £176 million of the group's and £169 million of the partnership's contract liabilities held at 30 September 2018 were recognised as revenue.

## 5. Other operating income

Included in other operating income are the following items:

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Charges to other KPMG International member firms | **62** | 70 |
| Rental income | **1** | 1 |
| Other items | **13** | 15 |
| | **76** | 86 |

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)*

## 6. 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 | |
|---|---|---|---|---|
| | **2019 Number** | 2018 Number | **2019 Number** | 2018 Number |
| Members | **621** | 603 | **621** | 603 |
| Staff | **15,864** | 14,587 | **-** | - |
| | **16,485** | 15,190 | **621** | 603 |

KPMG LLP employs no staff; all UK staff are employed by KPMG UK Limited, a subsidiary of the partnership (see note 27). The average number of members and staff by capability were as follows:

| | Group | |
|---|---|---|
| | **2019 Number** | 2018 Number |
| Audit | **4,795** | 3,774 |
| Tax, Pensions & Legal | **2,744** | 2,621 |
| Deal Advisory | **1,611** | 1,514 |
| Consulting | **3,526** | 3,708 |
| KPMG Business Services, Solutions & Digital and Coverage Central | **3,809** | 3,573 |
| | **16,485** | 15,190 |

### 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 28).

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Salaries (including bonuses) | **1,016** | 948 |
| Social security costs | **104** | 99 |
| Cost of retirement benefits (note 21) | **45** | 39 |
| Staff costs per income statement | **1,165** | 1,086 |
| Net financing cost charged to the income statement in respect of defined benefit pension plans (note 21) | **2** | 3 |
| Past service cost charged to the income statement in respect of defined benefit scheme (note 21) | **2** | - |
| Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 21) | **3** | (21) |
| **Total staff related costs** | **1,172** | 1,068 |

# Notes

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

## 6. 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'.

Members' profit shares charged as an expense is calculated based on the accounting profits of the adjusted group and totalled £275 million for the year ended 30 September 2019 (2018: £327 million, excluding profit on disposal of the property at 15 Canada Square).

Average partner distribution totalled £640,000 (2018: £690,000) including both members' profit shares charged as an expense and profits available for discretionary allocation, and after taking account of amounts released from reserves with a notional tax credit.

Further disclosures are given in note 26 regarding transactions with members who are considered to be key management and the remuneration of the highest paid member.

## 7. Other operating expenses

Other operating expenses of the group include property and IT costs, together £128 million (2018: £105 million), and employee training costs of £53 million (2018: £47 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.

| | Group | |
|---|---|---|
| | **2019 £000** | 2018 £000 |
| Auditors' remuneration: | | |
| Audit of partnership and consolidated financial statements | **274** | 278 |
| Amounts receivable by auditors, of the partnership, and their associates in respect of: | | |
| Audit of financial statements of subsidiaries | **182** | 181 |
| Audit related assurance services provided to the group | **184** | 101 |
| Audit of certain group pension plans | **55** | 52 |
| | **695** | 612 |

In both years, audit related assurance services were provided in respect of pensions controls work, sustainability reporting and property rental reporting. In addition, assurance services were provided overseas for local filing and tax reporting purposes. In the current year, assurance services have also been provided in respect of SOC 2 reporting on systems hosted by the group. None of these services are 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)*

## 8. 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 or 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 | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Interest income | **2** | 2 |
| Exchange gains | **9** | 7 |
| **Financial income** | **11** | 9 |
| | | |
| Net interest on defined benefit pension plan liabilities (note 21) | **2** | 3 |
| Discount on provisions (note 19) | **1** | 1 |
| Interest expense on bank borrowings | **2** | 2 |
| Exchange losses | **7** | 7 |
| **Financial expense** | **12** | 13 |

The total interest income on financial assets that were not classified as fair value through profit or loss was £2 million (2018: £2 million). The total interest expense on financial liabilities that were not classified as fair value through profit or loss was £2 million (2018: £2 million).

## 9. 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)*

## 9. Tax expense in corporate entities *(continued)*

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

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| **Current tax expense:** | | |
| Current year | **10** | 12 |
| Overseas taxes | **1** | - |
| Share of overseas taxes of joint operation | **4** | 3 |
| Deferred tax (see note 20) | **-** | (1) |
| **Total tax expense in income statement** | **15** | 14 |

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

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Profit before taxation and members' profit shares | **307** | 462 |
| Less profit arising in partnership, on which tax is payable by the members personally | **(285)** | (429) |
| **Profit before taxation arising in group companies** | **22** | 33 |
| Tax at 19% (2018: 19%) being the average rate of corporate taxes levied on the profits of group companies | **4** | 6 |
| Impact of tax exempt items | **6** | 6 |
| Recognition of deductible temporary differences | **-** | (1) |
| Overseas taxes | **5** | 3 |
| **Total tax expense in income statement** | **15** | 14 |

There was no tax charge/(credit) recognised in the statement of comprehensive income (2018: £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)*

## 10. 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 (see note 12).

### Acquisitions and disposals

The details set out within this note provide the information required under IFRS 3 'Business Combinations' for those acquisitions and disposals that occurred during the year ended 30 September 2018; there were no acquisitions or disposals during the year ended 30 September 2019.

### 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 was immaterial, it was impaired during the prior 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 were met prior to 30 September 2018. The partnership received £1 million on completion with a further £1 million 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)*

## 11. 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:

| | |
|---|---|
| Office furniture, fittings and equipment | 4-12 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 prior year, leasing it back from the new landlord under a lease that management concluded fell 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 value, 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 prior year.

### Group

The group's property, plant and equipment include those of the partnership, as reflected in the table on page 33, KPMG Crimsonwing and KPMG Gibraltar, together totalling to a net book value of £157 million (2018: £171 million). At 30 September 2019, the net book value of the property, plant and equipment of KPMG Crimsonwing and KPMG Gibraltar totalled £0.5 million (2018: £0.7 million):

- computer and communications equipment – cost and net book value of £0.2 million (2018: £0.6 million); and
- office furniture, fittings and equipment – cost and net book value of £0.3 million (2018: £0.1 million).

# Notes

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

### **11. Property, plant and equipment** *(continued)*

#### Partnership

| | Leasehold land and buildings £m | Computer and communication equipment £m | Office furniture, fittings and equipment £m | Motor vehicles £m | **Total £m** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 October 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 |
| Additions | **-** | **17** | **12** | **5** | **34** |
| Disposals | **-** | **-** | **-** | **(5)** | **(5)** |
| **Balance at 30 September 2019** | **-** | **112** | **251** | **18** | **381** |
| **Depreciation and impairment** | | | | | |
| Balance at 1 October 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 |
| Charge for the year | **-** | **18** | **24** | **3** | **45** |
| Disposals | **-** | **-** | **-** | **(3)** | **(3)** |
| **Balance at 30 September 2019** | **-** | **88** | **128** | **8** | **224** |
| **Net book value** | | | | | |
| At 1 October 2017 | 236 | 26 | 159 | 10 | 431 |
| At 30 September 2018 | - | 25 | 135 | 10 | 170 |
| **At 30 September 2019** | **-** | **24** | **123** | **10** | **157** |

The leasehold land and buildings at 1 October 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 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)*

## 12. 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 and customer relationships are discussed in note 10. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGUs), where the CGU is based on an individual acquired business basis, and is not amortised but is tested annually for impairment.

Customer relationships and similar assets are stated at cost less accumulated amortisation and impairment. These are amortised over their estimated useful life of 4-10 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 36. 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; we consider it unlikely that there would be 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 36).

# Notes

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

## 12. Intangible assets *(continued)*

### Group

| | Internally generated software £m | Customer relationships and similar items £m | Goodwill £m | **Total £m** |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 October 2017 | 118 | 34 | 45 | 197 |
| Additions | 10 | - | - | 10 |
| Write off | (17) | (7) | (5) | (29) |
| Balance at 30 September 2018 | 111 | 27 | 40 | 178 |
| Additions | **5** | **-** | **-** | **5** |
| Write off | **(5)** | **-** | **-** | **(5)** |
| **Balance at 30 September 2019** | **111** | **27** | **40** | **178** |
| **Amortisation and impairment** | | | | |
| Balance at 1 October 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 |
| Charge for the year | **12** | **2** | **5** | **19** |
| Write off | **(5)** | **-** | **-** | **(5)** |
| **Balance at 30 September 2019** | **81** | **22** | **7** | **110** |
| **Net book value** | | | | |
| At 1 October 2017 | 43 | 9 | 40 | 92 |
| At 30 September 2018 | 37 | 7 | 38 | 82 |
| **At 30 September 2019** | **30** | **5** | **33** | **68** |

Internally generated software includes components of the SAP based ERP system (net book value at 30 September 2019: £3 million), held by the partnership, which has a remaining amortisation period of five years following an extension to its useful life as the group has no immediate plans to replace the system (2018: two years).

Goodwill has been recognised in respect of the following business acquisitions, which represents the CGU for which goodwill is monitored and assessed for impairment purposes:

| Acquisition | Year of acquisition | Goodwill £m |
|---|---|---|
| KPMG CIO Advisory 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 | 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 |

The remaining goodwill of £5 million in respect of the Makinson Cowell group of companies was impaired during the year following annual impairment testing and after partial impairment of £2 million in the prior year.

# Notes

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

## 12. Intangible assets *(continued)*

Goodwill after impairment has been allocated to the group's capabilities as follows:

| | Group | |
|---|---|---|
| | **2019 £m** | 2018 £m |
| Deal Advisory | **-** | 5 |
| Consulting | **33** | 33 |

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

| | **2019** | 2018 |
|---|---|---|
| Period on which management approved forecasts are based | **4 years** | 4 years |
| Growth rate applied beyond approved forecast period | **0%** | 0% |
| Discount rate | **8.4-9.6%** | 8.5-9.8% |

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

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 on a range of scenarios suggests that a year's delay in achieving profitable trading and no growth thereafter would result in a partial impairment of £4 million against the carrying value of goodwill.

# Notes

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

## 12. Intangible assets *(continued)*

### Partnership

| | Internally generated software £m | Customer relationships and similar items £m | Goodwill £m | **Total £m** |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 October 2017 | 110 | 5 | 2 | 117 |
| Additions | 9 | - | - | 9 |
| Write off | (14) | (5) | (2) | (21) |
| Balance at 30 September 2018 | 105 | - | - | 105 |
| Additions | **5** | **-** | **-** | **5** |
| Write off | **(5)** | **-** | **-** | **(5)** |
| **Balance at 30 September 2019** | **105** | **-** | **-** | **105** |
| **Amortisation and impairment** | | | | |
| Balance at 1 October 2017 | 70 | 5 | 2 | 77 |
| Charge for the year | 14 | - | - | 14 |
| Write off | (14) | (5) | (2) | (21) |
| Balance at 30 September 2018 | 70 | - | - | 70 |
| Charge for the year | **12** | **-** | **-** | **12** |
| Write off | **(5)** | **-** | **-** | **(5)** |
| **Balance at 30 September 2019** | **77** | **-** | **-** | **77** |
| **Net book value** | | | | |
| At 1 October 2017 | 40 | - | - | 40 |
| At 30 September 2018 | 35 | - | - | 35 |
| **At 30 September 2019** | **28** | **-** | **-** | **28** |

## 13. 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 was as follows:

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Shares in subsidiary undertakings | **-** | - | **16** | 13 |
| Other investments | **1** | 1 | **-** | - |
| | **1** | 1 | **16** | 13 |

The subsidiary undertakings of the group and partnership are set out in note 27.

During the year, the partnership subscribed capital to the UK Cell of Queen Street Mutual, the group's insurance entity (see note 27).

# Notes

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

## 14. 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 below, 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 has therefore concluded that whilst there is no embedded derivative, the receivable does not meet the ‘solely principal and interest’ test under IFRS 9 and has been recorded at fair value as a FVTPL asset. Fair value is calculated based on cashflows, discounted at the rate inherent in the ABF agreement.

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Other prepayments | **-** | - | **49** | 51 |
| Amounts due from other UK group undertakings | **-** | - | **37** | 35 |
| Deferred tax assets (see note 20) | **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 |

### Partnership

Under the ABF arrangement (see note 21), 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 2019, the prepayment was £53 million (2018: £55 million); £49 million (2018: £51 million) is non-current, whilst the remaining £4 million (2018: £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 2019, a receivable balance of £37 million is classified as amounts due from other UK undertakings within other non-current assets with the discount unwinding through financial income (2018: £35 million).

Also under the ABF, the partnership has transferred £90 million of its trade receivables to the SLP (see note 21). 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.

# Notes

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

## 15. Trade and other receivables

### Accounting policy

Trade and other receivables (except contract assets) 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.

Contract assets 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 'Contract assets' 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.

Contract assets are stated at cost plus profit recognised to date (in accordance with the revenue accounting policy set out in note 4) less provision for foreseeable losses and net of amounts billed on account.

### Impairment – Policy applicable from 1 October 2018

The group and partnership recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15). The loss allowance is measured at an amount equal to lifetime ECLs.

When estimating ECL, the group and partnership considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the partnership's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Client receivables | **462** | 464 | **449** | 446 |
| Amounts due from other KPMG International member firms | **71** | 62 | **63** | 53 |
| Trade receivables | **533** | 526 | **512** | 499 |
| Contract assets | **473** | 367 | **439** | 340 |
| Amounts due from other UK group undertakings | **-** | - | **117** | 118 |
| Other prepayments | **41** | 42 | **45** | 45 |
| Other receivables | **63** | 32 | **39** | 15 |
| | **1,110** | 967 | **1,152** | 1,017 |

Trade and other receivables are due within 12 months.

Trade receivables and contract assets are shown net of impairment losses totalling £9 million (2018: £3 million) for the group and £8 million (2018: £2 million) for the partnership. The movement for the year is recognised in the income statement. An aged analysis of overdue trade receivables and the movement in the allowance for impairment in respect of trade receivables are given on page 40. The other classes of assets within trade and other receivables do not contain impaired assets.

# Notes

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

## 15. Trade and other receivables *(continued)*

### Impairment losses

#### Expected credit loss assessment

The group and partnership use an allowance matrix to measure the ECLs of trade receivables. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages to write-off.

The table below provides information about the exposure to credit risk and ECLs for trade receivables as at 30 September 2019.

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | Weighted average loss rate | **Gross 2019 £m** | Gross 2018 £m | **Gross 2019 £m** | Gross 2018 £m |
| **Trade receivables** | | | | | |
| Current (not past due) | 0.15% | **402** | 392 | **385** | 372 |
| 31-60 days | 0.37% | **62** | 65 | **61** | 60 |
| 61-90 days | 0.81% | **41** | 39 | **40** | 38 |
| 91-120 days | 1.94% | **19** | 22 | **17** | 21 |
| 121-150 days | 5.30% | **7** | 3 | **7** | 3 |
| 151-180 days | 10.88% | **2** | 2 | **2** | 2 |
| 181-360 days | 38.33% | **4** | 4 | **3** | 3 |
| More than 360 days | 100% | **5** | 2 | **5** | 2 |
| Gross trade receivables | | **542** | 529 | **520** | 501 |
| Gross contract assets | 0.15% | **473** | 367 | **439** | 340 |
| | | **1,015** | 896 | **959** | 841 |
| Expected credit losses | | **(8)** | - | **(7)** | - |
| Other impairment provisions | | **(1)** | - | **(1)** | - |
| Incurred credit loss provisions | | **-** | (3) | **-** | (2) |
| Trade receivables and contract assets, net of impairment losses | | **1,006** | 839 | **951** | 839 |

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

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Balance at 1 October | **3** | 3 | **2** | 3 |
| Remeasurement on adoption of IFRS 9 on 1 October 2018 | **2** | - | **2** | - |
| Impairment provision recognised/(reversed) in income statement | **4** | - | **4** | (1) |
| **Balance at 30 September** | **9** | 3 | **8** | 2 |

# Notes

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

## 16. Other financial assets

### Accounting policy

Other financial assets held by the group mainly comprise bonds and equities. These assets are designated as FVTPL and are measured at fair value, calculated by reference to their listed price at the year-end. Any resulting gain or loss on these assets classified as FVTPL is recognised in the income statement.

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Bonds | FVTPL | **34** | 37 | **-** | - |
| Equities | FVTPL | **13** | 12 | **-** | - |
| | | **47** | 49 | **-** | - |

## 17. 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Bank balances | **37** | 49 | **10** | 12 |

Committed borrowing facilities of £385 million (2018: £385 million) were available to the group at 30 September 2019. Actual amounts drawn were £220 million (2018: £31 million) by the group and £220 million (2018: £31 million) by the partnership. Of the facilities available as at 30 September 2019, £10 million (2018: £10 million) expires in one year or less, and the revolving credit facility of £375 million (2018: £375 million) is due to expire in January 2023.

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Short-term borrowings | **220** | 31 | **220** | 31 |

The borrowings are denominated in pounds sterling and interest is charged at 1% above LIBOR. Movements in the level of borrowings from year to year reflect entirely cash flow movements, either repayments or drawdowns under the revolving credit facility. Cash flow movements are presented net in the cash flow statement, with prior year comparatives also being re-presented on a net basis (impact on net cash flow from borrowing £nil).

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 2019 and 2018.

# Notes

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

## 18. 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Accruals | **278** | 301 | **163** | 157 |
| Contract liabilities | **286** | 259 | **257** | 238 |
| Other taxes and social security | **75** | 70 | **48** | 45 |
| Other payables | **15** | 7 | **5** | 3 |
| Trade payables | **15** | 21 | **14** | 19 |
| Amounts due to other UK group undertakings | **-** | - | **194** | 209 |
| Amounts due to other KPMG International member firms | **16** | 18 | **16** | 18 |
| | **685** | 676 | **697** | 689 |

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

## 19. Provisions

### Accounting policy

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and it can be reliably estimated. 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. Expected reimbursement is recognised once they become receivable. Where outflow of resources is considered probable and reliable estimates can be made, provision is made for the cost (including related legal costs) of settling professional service claims brought against the partnership and group by third parties and disciplinary proceedings brought by regulatory authorities.

Amounts provided for are based on management's assessment of the specific circumstances in each case. No separate disclosure is made of the detail of such claims and proceedings, or the costs recoverable by insurance, as to do so could seriously prejudice the position of the group.

# Notes

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

## 19. Provisions *(continued)*

### 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 2019 (2018: £75 million).

### 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 best estimate of probable amounts considered likely to be payable. At 30 September 2019, the provision for such claims amounts to £73 million (2018: £73 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 probable 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 2018 | 54 | 8 | 73 | 135 |
| Utilised during the year | **(4)** | **(1)** | **(19)** | **(24)** |
| Income statement: | | | | |
| Provisions made during the year | **5** | **1** | **19** | **25** |
| Unwinding of discounted amounts | **1** | **-** | **-** | **1** |
| **Balance at 30 September 2019** | **56** | **8** | **73** | **137** |
| Non-current | **53** | **8** | **52** | **113** |
| Current | **3** | **-** | **21** | **24** |

### Partnership

| | Annuities £m | Property provisions £m | Professional claims and regulatory matters £m | **Total £m** |
|---|---|---|---|---|
| Balance at 1 October 2018 | 54 | 8 | 46 | 108 |
| Utilised during the year | **(4)** | **(1)** | **(3)** | **(8)** |
| Income statement: | | | | |
| Provisions made during the year | **5** | **1** | **25** | **31** |
| Unwinding of discounted amounts | **1** | **-** | **-** | **1** |
| **Balance at 30 September 2019** | **56** | **8** | **68** | **132** |
| Non-current | **53** | **8** | **52** | **113** |
| Current | **3** | **-** | **16** | **19** |

# Notes

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

## 19. 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 42).

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

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| Within 12 months of the year end | 3 | 4 |
| Between 1-5 years | 12 | 12 |
| Between 5-15 years | 22 | 21 |
| In more than 15 years | 19 | 17 |
| | 56 | 54 |

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:

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Discount rate | 1.60 | 2.70 |
| Inflation rate (retail price index) | 3.35 | 3.45 |

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 2019 and 30 September 2018 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 21).

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% | 3 | 5 |

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 for the group and for the partnership will 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. These provisions are expected mainly to be utilised within the next five years.

# Notes

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

## 20. 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 2018 | 5 | (1) |
| Deferred tax movement | - | - |
| **Balance at 30 September 2019** | **5** | **(1)** |

Deferred tax assets have been recognised at 30 September 2019, totalling £4.4 million in respect of temporary differences arising in the corporate entities (2018: £4.9 million) and £0.2 million in respect of tax losses of £1 million (2018: £0.4 million recognised in respect of tax losses totalling £2 million).

The deferred tax asset at 30 September 2019 has been calculated based on the rate of 17% being the average of the rates expected to be in force at the time the losses are anticipated to be utilised.

## 21. 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)*

## 21. Retirement benefits *(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 £85 million (2018: £83 million) are based on certain assumptions as to mortality, using current published tables (see page 52), 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 2018.

| | | 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% | **2** | **8** | **10** |
| Life expectancy | Increase by 1 year | **5** | **25** | **30** |

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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Contributions to defined contribution schemes | **43** | 39 | **-** | - |
| Past service cost for defined benefit pension plans | **2** | - | **-** | - |
| **Cost of retirement benefits** | **45** | 39 | **-** | - |

# Notes

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

## 21. Retirement benefits *(continued)*

The net financing cost of £2 million (2018: £3 million) and remeasurement losses of £3 million (2018: £21 million gains) relating to defined benefit pension plans are also considered to be a part of the net cost of retirement benefits.

### 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 to the defined contribution pension plans were outstanding at the end of either the current or prior financial year.

### 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 2019. 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 48). 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 2019. This valuation resulted in an actuarially assessed funding surplus of £8.9 million, including the value of the ABF agreement (see page 48). 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 2019 and 30 September 2018 by KPMG's professionally qualified in-house actuaries.

# Notes

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

## 21. Retirement benefits *(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 lower present value than the current deficit within the TMcL and pre-2000 plans. As such, no additional liability has been recognised for the TMcL plan (2018: £1.3 million) and no adjustment has been made for the pre-2000 fund (2018: £nil) at 30 September 2019.

### 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 SLP 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 trade receivables transferred to the SLP remains 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.

The High Court ruled on 26 October 2018 in the landmark Lloyds Banking Group case on the equalisation of Guaranteed Minimum Pensions (GMP). The judgement requires equalisation between men and women for the effect of unequal GMPs and the impact of this decision is accounted for at 30 September 2019.

# Notes

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

## 21. Retirement benefits *(continued)*

This does not affect the pre-2000 fund but does affect the TMcL plan, as this arrangement was contracted out of the State Earnings Related Pension Scheme. The group has not previously included an allowance for the impact of GMP equalisation within its accounting figures and therefore the estimated increase in liabilities has been recognised as a past service cost within the income statement for the year ended 30 September 2019. This past service cost has been estimated as a 1.2% uplift to the TMcL plan's defined benefit obligations as at 26 October 2018 (the date of the Lloyds case judgement) which equates to an additional liability of £1.9 million recognised as a past service cost in the income statement.

### 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Quoted in an active market** | | | | |
| **Debt instruments** | | | | |
| UK government fixed interest | **17** | 28 | **131** | 165 |
| UK government index-linked | **26** | 21 | **55** | 65 |
| Corporate bonds | **122** | 18 | **521** | 80 |
| **Investment funds** | | | | |
| Diversified credit | **12** | 50 | **50** | 288 |
| **Cash and cash equivalents** | | | | |
| Cash | **18** | 28 | **59** | 23 |
| **Not quoted in an active market** | | | | |
| **Derivatives** | | | | |
| Credit contracts | **(30)** | - | **(110)** | (4) |
| **Investment funds** | | | | |
| Distressed debt fund | **3** | 3 | **11** | 13 |
| **Fair value of plan assets** | **168** | 148 | **717** | 630 |
| **Present value of funded defined benefit obligations** | **(174)** | (153) | **(796)** | (707) |
| **Net deficit** | **(6)** | (5) | **(79)** | (77) |
| Additional liability due to minimum funding requirements | **-** | (1) | **-** | - |
| **Net liability in the statement of financial position** | **(6)** | (6) | **(79)** | (77) |

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.

# Notes

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

## 21. Retirement benefits *(continued)*

The LDI portfolio (together with the wider ABF arrangement described on page 48) meant that at 30 September 2019 100% 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.

### 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Benefit obligation at 1 October | **(153)** | (161) | **(707)** | (745) |
| Current service cost | **-** | - | **-** | - |
| Past service cost | **(2)** | - | **-** | - |
| Interest on obligations | **(4)** | (4) | **(16)** | (16) |
| Remeasurement gain arising from changes in demographic assumptions | **3** | 1 | **13** | 3 |
| Remeasurement (loss)/gain arising from changes in financial assumptions | **(24)** | 4 | **(123)** | 19 |
| Benefits paid | **6** | 7 | **37** | 32 |
| **Benefit obligation at 30 September** | **(174)** | (153) | **(796)** | (707) |
| Of which: amounts owing to active members | **-** | - | **-** | - |
| Of which: amounts owing to deferred members | **(85)** | (75) | **(554)** | (492) |
| Of which: amounts owing to pensioner members | **(89)** | (78) | **(242)** | (215) |

During the reporting period there has been a plan amendment relating to GMP equalisation, resulting in a past service cost of £1.9 million recognised for the TMcL plan. There have been no other plan amendments, curtailments or settlements for either the TMcL or pre-2000 plan during either period.

### Movements in fair value of assets

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

| | TMcL plan | | Pre-2000 fund | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Fair value of plan assets at 1 October | **148** | 152 | **630** | 648 |
| Interest income | **4** | 3 | **14** | 14 |
| Return on plan assets, excluding interest income | **21** | (1) | **106** | (4) |
| Contributions by employer | **1** | 1 | **4** | 4 |
| Administrative expenses | **-** | - | **-** | - |
| Benefits paid | **(6)** | (7) | **(37)** | (32) |
| **Fair value of plan assets at 30 September** | **168** | 148 | **717** | 630 |

# Notes

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

## 21. Retirement benefits *(continued)*

### 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:

| | 2019 £m | 2018 £m |
|---|---|---|
| **Personnel costs** | | |
| Current service cost | - | - |
| Past service cost | 2 | - |
| **Finance income and expense** | | |
| Net interest expense on net defined benefit obligations | 2 | 3 |
| **Total expense recognised in the income statement** | 4 | 3 |

### 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 | |
|---|---|---|---|---|
| | 2019 £m | 2018 £m | 2019 £m | 2018 £m |
| Remeasurement gain arising from changes in demographic assumptions | 3 | 1 | 13 | 3 |
| Remeasurement (loss)/gain arising from changes in financial assumptions | (24) | 4 | (123) | 19 |
| Return on plan assets, excluding interest income | 21 | (1) | 106 | (4) |
| Change in additional liability due to minimum funding requirement | 1 | (1) | - | - |
| **Total remeasurements recognised in statement of comprehensive income** | 1 | 3 | (4) | 18 |

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.

# Notes

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

## 21. Retirement benefits *(continued)*

### 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

| | **2019 %** | 2018 % |
|---|---|---|
| Discount rate to calculate defined benefit obligation | **1.60** | 2.70 |
| Discount rate to calculate pension expense | **1.50** | 2.40 |
| Increase of pensions in payment (RPI linked) | **3.20** | 3.25 |

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 2019 were the SAPS Series 2 Light tables with CMI 2018 projections using a long-term trend rate of 1.25% p.a. and a smoothing parameter of 7.5 for both males and females (2018: 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).

These tables lead to life expectancies as follows:

| | **2019 Years** | 2018 Years |
|---|---|---|
| **Retiring today, age 60** | | |
| Males | **27.3** | 27.8 |
| Females | **28.4** | 28.9 |
| **Retiring at age 60, currently aged 45** | | |
| Males | **28.3** | 28.9 |
| Females | **29.5** | 30.0 |

# Notes

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

## 22. 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 Board. 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 Board. 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 21).

Other movements in reserves arising in the year ended 30 September 2018 predominantly related to elements of historical reserves that were either allocated to members during the year or were to be allocated to members during the following two years; following a members' vote approving the phased distribution of these reserves, unallocated amounts were 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 17). 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.

# Notes

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

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

Movements in members' capital were as follows:

| | 2019 Years |
|---|---|
| Balance at 1 October 2017 | 59 |
| Capital introduced by members | 8 |
| Transfer of reserves allocated to capital | 13 |
| Repayments of capital | (7) |
| Balance at 30 September 2018 | 73 |
| Capital introduced by members | **8** |
| Transfer of amounts due to members, allocated to capital | **14** |
| Repayments of capital | **(9)** |
| **Balance at 30 September 2019** | **86** |

### 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 | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Amounts due from members | **46** | 42 | **46** | 42 |
| Amounts due to members – non-current liabilities | **-** | (29) | **-** | (29) |
| Amounts due to members – current liabilities | **(205)** | (246) | **(205)** | (246) |
| | **(159)** | (233) | **(159)** | (233) |

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 were classified as non-current liabilities in the prior year related 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.

# Notes

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

## 23. Financial instruments

### Accounting policy – policy applicable from 1 October 2018

### Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group and partnership becomes a party to the contractual provisions of the instruments.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transactions costs that are directly attributable to its acquisition. A trade receivable without a significant financial component is initially measured at the transaction price.

### Classification and subsequent measurement

#### Financial assets

*(a) Classification*

On initial recognition, a financial asset is classified as measured at either amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held with the objective of collecting contractual cash flows; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income (FVOCI) are measured at FVTPL. This includes all derivative financial assets.

Financial assets that are managed and whose performance is evaluated on a fair value basis are also measured at FVTPL.

*(b) Subsequent measurement and gains and losses*

Financial assets at FVTPL – these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

#### Financial liabilities

*Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### Derivative financial instruments

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 the group's 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.

# Notes

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

## 23. Financial instruments *(continued)*

### Accounting policy – policy applicable before 1 October 2018

The group initially recognised loans and receivables on the date that they 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.

The group and partnership classified financial assets as measured at FVTPL or loans and receivables. Financial assets at FVTPL, including derivatives not designated as hedging instruments, were measured at fair value and changes therein, including interest or dividend income, were recognised in profit or loss.

Loans and receivables were measured at amortised cost using effective interest method.

Other financial liabilities were classified as measured at amortised cost using effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### Risk management framework

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.

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, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Further quantitative disclosures are included throughout these financial statements.

### a) Accounting classifications and fair values

The estimated fair values of the group's financial assets and liabilities approximate their carrying values at 30 September 2019 and 2018, largely owing to their short maturity. The bases for determining fair values are disclosed throughout these financial statements.

The table on page 57 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 the table on page 57; the partnership has only non-current amounts due from other UK group undertakings carried at fair value at 30 September 2019 (classified as loans and receivables at 30 September 2018).

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 and non-current amounts due from other UK group undertakings which are classified as Level 3. There have been no transfers between Level 1 and 2 during the current or prior year.

# Notes

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

### **23. Financial instruments** *(continued)*

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | Note | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **At amortised cost (2018: loans and receivables)** | | | | | |
| Trade receivables | 15 | **533** | 526 | **512** | 499 |
| Contract assets | 15 | **473** | 367 | **439** | 340 |
| Cash and cash equivalents | 17 | **37** | 49 | **10** | 12 |
| Amounts due from members | 22c | **46** | 42 | **46** | 42 |
| Other receivables | 15 | **63** | 32 | **39** | 15 |
| Amounts due from other UK group undertakings | 15 | **-** | - | **117** | 118 |
| **Total financial assets at amortised cost** | | **1,152** | 1,016 | **1,163** | 1,026 |
| **Financial assets designated as at fair value through profit or loss** | | | | | |
| Bonds | 16 | **34** | 37 | **-** | - |
| Equities | 16 | **13** | 12 | **-** | - |
| Amounts due from other UK group undertakings – non-current | 14 | **-** | - | **37** | 35 |
| Other investments | 13 | **1** | 1 | **-** | - |
| **Total financial assets at fair value through profit or loss** | | **48** | 50 | **37** | 35 |
| **Total financial assets** | | **1,200** | 1,066 | **1,200** | 1,061 |
| **Non-derivative financial liabilities measured at amortised cost** | | | | | |
| Amounts due to members | 22c | **205** | 275 | **205** | 275 |
| Bank borrowings | 17 | **220** | 31 | **220** | 31 |
| Members' capital | 22b | **86** | 73 | **86** | 73 |
| Other payables | 18 | **15** | 7 | **5** | 3 |
| Trade payables | 18 | **15** | 21 | **14** | 19 |
| Amounts due to other UK group undertakings | 18 | **-** | - | **194** | 209 |
| Amounts due to other KPMG International member firms | 18 | **16** | 18 | **16** | 18 |
| Amounts due to other UK group undertakings – non-current | 14 | **-** | - | **90** | 90 |
| **Total non-derivative financial liabilities measured at amortised cost** | | **557** | 425 | **830** | 718 |
| **Total financial liabilities** | | **557** | 425 | **830** | 718 |
| **Total net financial instruments** | | **643** | 641 | **370** | 343 |

# Notes

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

## 23. 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 2019 or at 30 September 2018.

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

| | | Group | | Partnership | |
|---|---|---|---|---|---|
| | Note | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| **Fixed rate instruments** | | | | | |
| Bonds | 16 | **34** | 37 | **-** | - |
| **Variable rate instruments** | | | | | |
| Bank borrowings | 17 | **(220)** | (31) | **(220)** | (31) |
| Cash and cash equivalents | 17 | **37** | 49 | **10** | 12 |
| | | **(183)** | 18 | **(210)** | (19) |

#### 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 £1 million (2018: £2 million) and increased or decreased partnership profit by £1 million (2018: £2 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, if appropriate, uses 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 2019 the group had receivable and payable balances, denominated in non-functional currencies as set out on page 59.

# Notes

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

## 23. Financial instruments *(continued)*

| Receivables | Group 2019 £m | Group 2018 £m | Partnership 2019 £m | Partnership 2018 £m |
|---|---|---|---|---|
| US dollar | **29** | 24 | **27** | 22 |
| Euro | **18** | 19 | **15** | 11 |

| Payables | Group 2019 £m | Group 2018 £m | Partnership 2019 £m | Partnership 2018 £m |
|---|---|---|---|---|
| US dollar | **6** | 11 | **6** | 11 |
| Euro | **6** | 4 | **6** | 4 |

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

| | Group 2019 £m | Group 2018 £m | Partnership 2019 £m | Partnership 2018 £m |
|---|---|---|---|---|
| US dollar | **5** | 16 | **5** | 16 |
| Euro | **7** | 5 | **7** | 5 |

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 (2018: £2 million and £1 million) and partnership profit by £1 million and £1 million (2018: £1 million and £1 million), respectively.

The following significant exchange rates were applied during the year:

| | Average rate 2019 | Average rate 2018 | Reporting date spot rate 2019 | Reporting date spot rate 2018 |
|---|---|---|---|---|
| US dollar | **1.2762** | 1.3515 | **1.2302** | 1.3135 |
| Euro | **1.1340** | 1.1378 | **1.1278** | 1.1237 |

### 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 the Head of Finance or Chief Financial Officer.

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 £13 million (2018: £12 million) and other investments of £1 million (2018: £1 million).

# Notes

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

## 23. 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 expected credit losses in respect of trade and other receivables and investments.

Impairment information is included in note 15. 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 on page 57.

### 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 17). 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 on page 57. 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 amounts due to members of £nil million (2018: £29 million which was due in 18 months). In the case of the partnership only, non-current amounts due to other UK group undertakings of £90 million (2018: £90 million) has a maturity of 20 years but is matched by non-current and current receivables.

## 24. 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 was the property interest at 15 Canada Square, held until January 2018 when it was sold under a sale and leaseback transaction (see note 11).

# Notes

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

## 24. Leases *(continued)*

### Non-cancellable operating lease rentals

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

| | Group | | Partnership | |
|---|---|---|---|---|
| | **2019 £m** | 2018 £m | **2019 £m** | 2018 £m |
| Within one year | **60** | 59 | **59** | 59 |
| Between 1-5 years | **199** | 195 | **198** | 194 |
| More than five years | **459** | 486 | **459** | 486 |
| | **718** | 740 | **716** | 739 |

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 11). 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

| | **2019 £m** | 2018 £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' | **45** | 42 |
| Operating lease income for the year in 'Other operating income' | **1** | 1 |

## 25. 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 £8 million (2018: £5 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 19), 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. No separate disclosure is made of the details of such claims or proceedings, or any related recoveries, as to do so could seriously prejudice the position of the group.

# Notes

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

## 26. Related parties

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

### Transactions with key management

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

As set out in note 6, the partnership does not finalise the division of 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 £21 million. The actual profit allocated in respect of the previous year was £27 million.

The estimated total profit share payable to the highest paid member is £1.9 million (2018: highest paid £2.1 million).

There were no balances due to or from key management at 30 September 2019 or 2018 save in respect of relevant shares of profit (or related taxation), shares of historical reserves and members' capital.

As discussed in note 6, 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:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Amounts due from key management | **3** | 2 |
| Amounts due to key management | **(25)** | (24) |
| | **(22)** | (22) |

Total members' capital invested by key management in the partnership amounted to £4 million at 30 September 2019 (2018: £4 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 |
| **2019** | | | | |
| UK group undertakings – services provided | **71** | **22** | **95** | **-** |
| KPMG UK Limited – provision of staff | **1,196** | **-** | **-** | **172** |
| 2018 | | | | |
| UK group undertakings – services provided | 51 | 23 | 105 | - |
| KPMG UK Limited – provision of staff | 1,128 | - | - | 196 |

# Notes

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

## 27. 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 the group. A judgement is required as to whether the group 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: the group 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.

The group has assessed that these are both subsidiaries but 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 2019 are listed in the table on page 64.

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)*

## 27. 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 (Transatlantic) LLC (formerly KPMG UK (Americas) Inc) | United States of America[6] | Internal 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] |
| 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)*

## 27. 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 21).

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.

## 28. Events after year end

Subsequent to the year end, KPMG LLP entered into a conditional agreement with a private equity firm to sell the pensions advisory business. The sale is expected to complete early in 2020, once all completion conditions are satisfied, and will result in the transfer of 20 partners and approximately 500 staff currently employed by the business, together with relevant client contracts.

The pensions advisory business generated net sales of £73 million in the year ended 30 September 2019; the impact on the TPL revenue for the year ending 30 September 2020 will be dependent on the date of completion and the extent to which client contracts are novated during the year.

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.

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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
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