



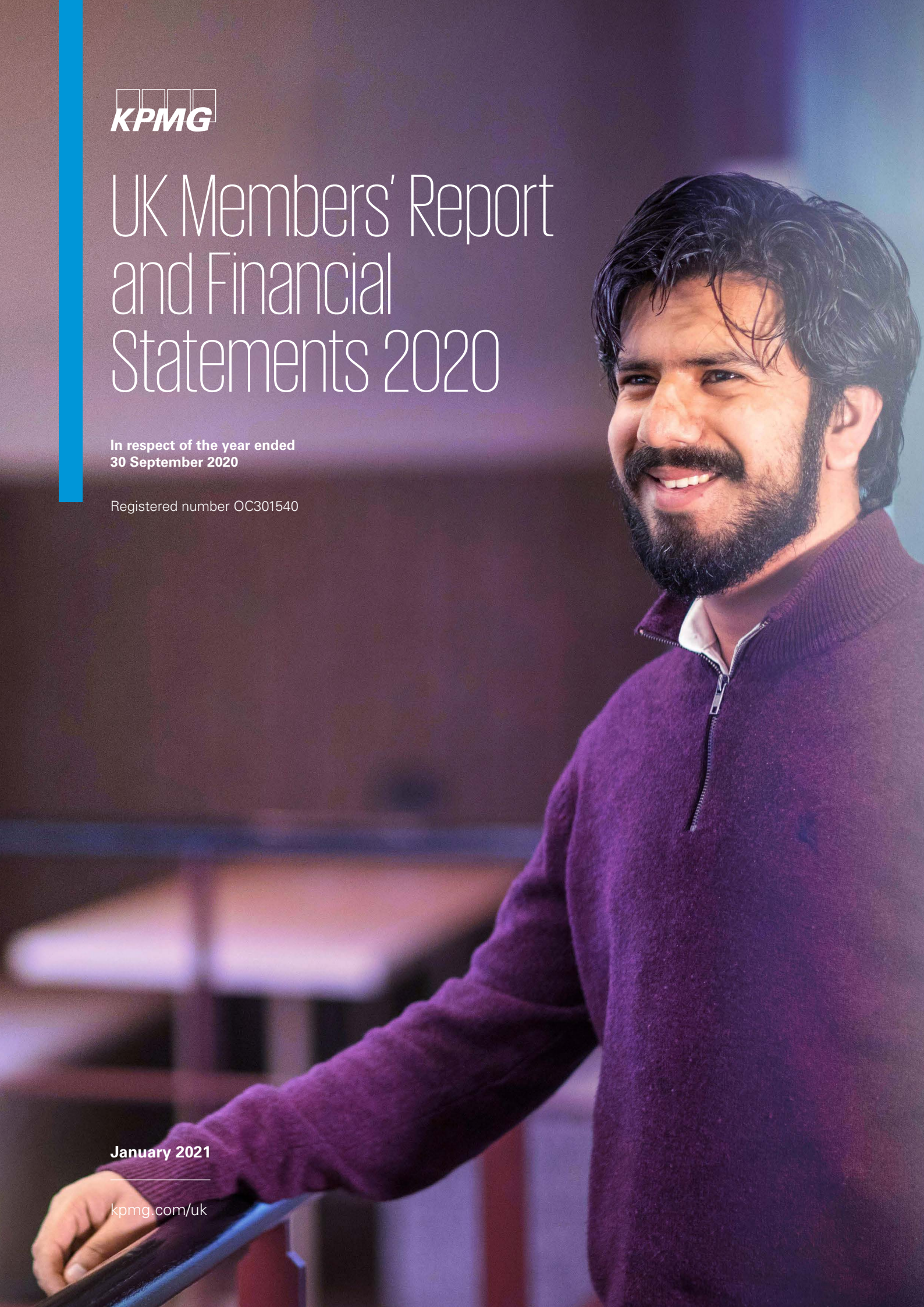
UK Members' Report and Financial Statements 2020

In respect of the year ended
30 September 2020

Registered number OC301540

January 2021

kpmg.com/uk



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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 2020.

Legal structure

KPMG LLP is the UK member firm of the KPMG global organisation of independent member firms affiliated with KPMG International. 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 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 2020, the governance structure of the partnership comprised:

- The Board, supported by various sub-committees including the Audit Committee, is 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, supported by four Executive Committees, is responsible for driving the board-approved strategy for the group and lead on issues that cut across the group.

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

Tim Jones

Sarah Willows (resigned 31 January 2020)

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)

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 fell to £2,303 million (2019: £2,398 million), a reduction of 4% year on year; on a like for like basis, allowing for the disposal of the pensions business, net sales reduced by 1% to £1,953 million (2019: £1,973 million), reflecting the impact of the COVID-19 pandemic on the second half of our financial year. Three of our four capabilities experienced a decline in net sales as client engagements were paused at the onset of the pandemic; only Audit achieved growth in net sales, at 3%. See note 4 for net sales and contribution by capability and reconciliation between revenue and net sales.

As the crisis started to unfold from April 2020, we implemented a set of operational and financial resilience measures to help offset the drop in revenue. Measures such as reducing contractors and temporary staff, pausing external hire, moving offices to skeleton operations and reducing discretionary spend all contributed to a profit before taxation and members' profit shares of £403 million (2019: £307 million), or £288 million excluding the profit on disposal of the pensions advisory business. On a like for like basis, this represented a 6% reduction in profit before taxation and a considerably better outturn than was forecast earlier in the pandemic.

Financial position at the end of the year

The financial position of the group remains strong at 30 September 2020. As set out on page 3, operations are generally financed by members' capital and other members' interests, which together totalled £357 million at 30 September 2020 (2019: £296 million) for the group and £277 million (2019: £225 million) for the partnership, having increased as a result of the retention of the profit arising on the disposal of the pensions advisory business.

Bank facilities of £475 million were also available to the group at 30 September 2020, having increased by £90 million in April 2020. The group's operating activities are generally cash generative; the borrowing of £220 million outstanding at 30 September 2019 has been repaid in full during the year.

The group's and partnership's gross assets have increased to £1,665 million (2019: £1,308 million) and £1,678 million (2019: £1,351 million) respectively as a result of the adoption of IFRS 16, bringing all significant leases on-balance sheet; gross liabilities have similarly increased to £1,313 million (2019: £1,016 million) for group and

£1,401 million (2019: £1,126 million) for partnership, reflecting the present value of the lease commitments.

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 £740 million (2019: £889 million) for the group and £704 million (2019: £853 million) for the partnership.

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, including those that have arisen as a result of COVID-19 and may arise as a result of Brexit. The resilience measures taken early in the pandemic, including liquidity enhancing measures such as deferral of payments to partners, have improved both our immediate and longer-term resilience. At the date of this report, the majority of our staff and partners continue to work remotely as we continue to follow guidance issued by the UK government. Despite these challenges, we do not expect client service delivery to be materially affected following the effective transition to remote working.

Forecasts have been prepared for the group for the 21 months through to 30 September 2022, reflecting on the COVID-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

At 30 September 2020, the group had undrawn facilities of £475 million (2019: £165 million) including an additional revolving credit facility of £90 million (2019: £nil) advanced in April 2020 and expiring in October 2021, with an option to extend to October 2022; this level of committed, undrawn funding provides strong financial resilience through continued disruption caused by the pandemic and when the time is right, 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.

Report to the members (continued)

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.

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 and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing this report and financial statements.

Brexit

We have taken significant steps to prepare the firm for the consequences of the UK leaving the European Union.

Whilst the longer term political and economic effect of leaving the EU will only become clearer over time, we do not expect either our ability to deliver services or the quality of services delivered to be significantly impacted under the future rules on trade, travel and business with the EU.

Environmental and sustainability

The group recognises the importance of its environmental responsibilities and have policies and initiatives in place designed to minimise the impact of the group on the environment.

The group's Energy and Carbon report is available alongside this report in the Appendix.

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 IFRSs 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.

Disclosure of information to the auditor

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

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 'partnership') and its subsidiaries (the 'group') for the year ended 30 September 2020, 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 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 partnership's affairs as at 30 September 2020 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 partnership financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied 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 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the members and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and the partnership's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and the partnership's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group and a partnership associated with these particular events.

Independent auditor's report to the members of KPMG LLP (continued)

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 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.

In our evaluation of the member's conclusions, we considered the risks associated with the group's and partnership's business, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the group's and partnership's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the partnership will continue in operation.

Overview of our audit approach

- Overall materiality: £11.5 million, which represented 5% of the group's profit before taxation, disposal of business and members' profit share, at the planning stage of the audit. We decided not to revise materiality once the final results were known;
- Key audit matters were identified as revenue recognition includes the risk of fraud, professional claims and regulatory matters, impairment of goodwill, and going concern; and
- We performed a full scope audit of the financial statements of the partnership and on the financial information of certain significant subsidiaries. We completed specified or analytical audit procedures on the financial information of all other subsidiaries.



Key audit matters

The 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.

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.

Independent auditor's report to the members of KPMG LLP (continued)

Key audit matter – group and partnership

How the matter was addressed in the audit – group and partnership

Revenue recognition includes the risk of fraud

The accounting policy and related disclosures in respect of revenue recognition are shown in note 4.

The group's revenue of £2,303 million (2019: £2,398 million) 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.

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.

In determining the timing of revenue to be recognised in accordance with IFRS 15 'Revenue from Contracts with Customers' each individual engagement team estimates the stage of completion and the right to consideration at the year-end for each contract. The level of judgement and estimation required is higher when related to revenues which remain unbilled to the customer at the year end. The value of revenue recognised at the year end, which remained unbilled, amounted to £310 million (2019: £334 million) for the group.

Within this population we identified a further population of significant contracts with specific risks or characteristics with unbilled revenue recognised amounting to £223 million for the group which, in our view, had a greater susceptibility to material misstatement arising from the risk of fraud or error.

We therefore identified revenue recognition includes the risk of fraud as a significant risk for this population of contracts which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- gaining an understanding of the processes and relevant controls implemented by management to identify, measure and recognise revenue, including unbilled revenue; assessing the design effectiveness of those processes and controls and testing the operating effectiveness of certain key controls;
- assessing the accounting policies and practices relating to revenue recognition to establish compliance with IFRS 15;
- performing substantive testing on a sample of engagements to assess that the right to consideration had been obtained through performance of the agreed services;
- for individually significant engagements where we identified specific risks or characteristics, discussing and challenging the estimates applied by engagement and management teams in determining the level of revenue recognised in the consolidated income statement and the unbilled revenue recognised within the group and partnership statements of financial position;
- making 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
- considering the adequacy of the disclosures related to revenue recognition.

Key observations

Our audit testing did not identify any significant deficiencies in the revenue recognition policies and practices and we did not identify a material misstatement in revenue recognition as a result of the risk of fraud.

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 group and partnership statements of financial position.

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 partnership

How the matter was addressed in the audit – group and partnership

Professional claims and regulatory matters

The accounting policy and disclosures in this respect of professional claims and regulatory matters are shown in note 19. Group and partnership provisions in this respect amounted to £92 million (2019: £73 million) and £87 million (2019: £68 million) respectively.

In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', a provision is made for the estimated costs for dealing with and settling professional 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.

We therefore assessed professional claims and regulatory matters as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- performing an assessment of the professional claim and regulatory matter notification process, and the identification and practice protection procedures in operation;
- considering and challenging management as to whether the circumstances surrounding known claims and regulatory matters met the IAS 37 criteria to require provision within the financial statements;
- considering those claims and regulatory matters in progress which are, or have the potential to be, material; challenging management's key assumptions and the underlying level of provision;
- developing our own auditor's estimate of the required level of provision by benchmarking provisions made for regulatory sanctions in the context of the regulatory environment and by reference to sanctions levied against the group and its competitors;
- considering the level of provision held for legal costs by reference to the historic run rate of such costs and the estimated period of time until settlement;
- considering whether the information obtained was complete through review of publicly available information and that held by the group's General Counsel; and
- considering the adequacy of the presentation and disclosures related to professional claims and regulatory matters.

Key observations

Our audit testing did not identify any significant deficiencies in the operation of the professional claim and regulatory matter notification, identification and practice protection procedures. We did not identify any material claims, regulatory matters or circumstances not already included in the internal reporting procedures.

The overall level of provision held within the financial statements fell within our own estimation range and we did not identify any material misstatements. 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 partnership

Impairment of goodwill

The accounting policy and related disclosures relating to goodwill with a carrying value of £27 million (2019: £33 million) for the group are shown in note 12.

Under IAS 36 'Impairment of Assets', goodwill must be subjected to an annual impairment review. In performing that impairment review, management compare the recoverable amount of the goodwill with its net book value. In the event that the recoverable amount is lower than the net book value a provision for impairment is made. The impairment assessment process, including the estimation of recoverable amount utilises both valuation techniques and forecasting models which include a number of estimates and uncertainties.

In the prior year financial statement disclosure note 12, it was noted that a reasonably possible change in the forecasts for one of the group's cash generating units, Microsoft Business Solutions ('MBS' formerly KPMG Crimsonwing) could result in an impairment of the carrying value of its goodwill. For the current year, the results for MBS were not in line with forecasts and as a result we identified an elevated risk of impairment in relation to its goodwill with a carrying value of £16 million before impairments recorded during the year of £6 million.

We therefore identified impairment of MBS goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – group and partnership

Our audit work included, but was not restricted to:

- considering management's assessment of the impairment of goodwill and determining whether appropriate judgements and estimates were taken into account in the impairment models;
- in conjunction with our internal valuation specialists, considering the appropriateness of the valuation methodologies and challenging the appropriateness of the impairment model assumptions;
- corroborating contracts and commercial opportunities that are reflected in the approved forecasts; and
- where appropriate, checking that appropriate disclosure of any impairment, the accounting treatment and associated judgements had been made within the financial statements.

Key observations

We found the arrangements in place for evaluating impairment of goodwill to be effective and did not identify any material misstatements in the carrying value of the MBS goodwill.

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.

Independent auditor's report to the members of KPMG LLP (continued)

Key audit matters (continued)

Key audit matter – group and partnership

Going concern

As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, COVID-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and the partnership and as such increases the extent of judgement and estimation uncertainty associated with the members' decision to adopt the going concern basis of accounting in the preparation of the financial statements.

As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – group and partnership

Our audit work included, but was not restricted to:

- obtaining management's forecasts covering the 21 month period to 30 September 2022 and through use of our internal financial modelling team assessing their integrity and suitability as a basis for management to assess going concern;
- comparing the forecast net cash position within the model to the actual net cash position as at 31 December 2020;
- corroborating the existence of total facilities available to the group of £475 million to September 2021 reducing to £385 million for the rest of the forecast period;
- considering the accuracy of management's prior period forecasting and the assumptions utilised to drive the base case and sensitised versions of the forecast model with particular reference to revenue, operating profit and cash generation;
- considering the severity and plausibility, in light of our knowledge of the business, of management's sensitivity analysis for various downside scenarios, including their assessment of the mitigating actions available to them in such scenarios to retain cash reserves within the group;
- verifying the availability and quantification of mitigation actions identified by management within their downside scenario assessment; and
- assessing the adequacy of the going concern disclosures included within the financial statements based on our knowledge of the forecasts.

Key observations

We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

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	Partnership
Financial statements as a whole	<p>£11.5 million which represents 5% of the group's profit before taxation, disposal of business and members' profit share, at the planning stage of the audit. We decided not to revise materiality once the final results were known. This benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members.</p> <p>This benchmark was agreed with the Audit Committee during our audit planning phase and has been consistently applied in the current and prior years.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 30 September 2019 to reflect the decrease in the group's profit before taxation, disposal of business and members' profit share.</p>	<p>£11.4 million which represents 5% of the partnership's profit before taxation, disposal of business and members' profit share, at the planning stage of the audit, restricted to its component materiality, being an amount below group materiality. This benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members.</p> <p>This benchmark was agreed with the Audit Committee during our audit planning phase and has been consistently applied in the current and prior years.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 30 September 2019 to reflect the decrease in the partnerships profit before taxation, disposal of business and members' profit share and the restriction to a percentage of group materiality referred to above, which was lower this year.</p>
Performance materiality used to drive the extent of our testing	75% of financial statement 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	£575,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£570,000 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 partnership, together with audits for group reporting purposes of the financial information of certain of its subsidiary undertakings detailed in note 27. 96% of the group's revenue, 96% of the group's total assets and 94% of the group's total liabilities were subject to an audit based upon group materiality, with the group's remaining assets and liabilities subject to specified or analytical audit procedures. Substantially all of the subsidiary undertakings are subject to audit by the group audit team, directly, as the group auditor.

The group audit was conducted from one key location and all material subsidiary undertakings 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 instructions. QSM does not generate any of the group's revenue and represents less than 3% of the group's total assets. We determined that a full scope audit of QSM was required to provide sufficient, appropriate audit evidence as a basis for our opinion on the group financial statements as a whole, as it makes provision for a number of professional claims and regulatory matters. Detailed audit instructions were sent to the component auditor of QSM setting out the full scope nature of the audit and the group risks that should be addressed. 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 were also communicated. We also evaluated 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 evaluated 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 members' report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the partnership 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 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 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 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 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 partnership and the 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

Crawley
29 January 2021



Consolidated income statement

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Revenue	4	2,303	2,398
Recoverable expenses		(304)	(333)
Net sales		1,999	2,065
Other operating income	5	67	76
Staff costs	6	(1,121)	(1,165)
Profit on disposal of business	10	115	-
Depreciation and amortisation	11,12	(146)	(64)
Impairment of trade receivables and contract assets	15	(10)	(4)
Other operating expenses	7	(483)	(600)
Operating profit		421	308
Financial income	8	13	11
Financial expense	8	(31)	(12)
Net financial expense		(18)	(1)
Profit before taxation and members' profit shares		403	307
Tax expense in corporate entities	9	(7)	(15)
Profit for the financial year before members' profit shares		396	292
Members' profit shares charged as an expense	6	(250)	(275)
Profit for the financial year available for discretionary division among members		146	17
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		147	20
Non-controlling interests		(1)	(3)
		146	17

Consolidated statement of comprehensive income

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Profit for the financial year available for discretionary division among members		146	17
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans	21	(27)	(3)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		(1)	-
Other comprehensive income for the financial year, net of tax		(28)	(3)
Total comprehensive income for the financial year, net of tax		118	14
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		119	17
Non-controlling interests		(1)	(3)
		118	14

Statements of financial position

At 30 September 2020

		Group		Partnership	
	Note	2020 £m	2019* £m	2020 £m	2019* £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	11	584	157	553	157
Intangible assets	12	47	68	17	28
Investments	13	1	1	16	16
Other non-current assets	14	6	5	86	86
		638	231	672	287
Current assets, excluding members' interests					
Trade and other receivables*	15	840	993	905	1,054
Other financial assets	16	48	47	-	-
Cash and cash equivalents	17	139	37	101	10
		1,027	1,077	1,006	1,064
Total assets, excluding members' interests		1,665	1,308	1,678	1,351
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	21	109	85	109	85
Lease liabilities	24	496	-	470	-
Provisions	19	125	113	125	113
Deferred tax liability	20	1	1	-	-
Other non-current liabilities	14	-	-	90	90
		731	199	794	288
Current liabilities, excluding members' interests					
Bank borrowings	17	-	220	-	220
Trade and other payables*	18	509	568	545	599
Tax payable		-	5	-	-
Lease liabilities	24	38	-	32	-
Provisions	19	35	24	30	19
		582	817	607	838
Total liabilities, excluding members' interests		1,313	1,016	1,401	1,126
Net assets attributable to members and non-controlling interests		352	292	277	225
Represented by:					
Amounts classified as current assets:					
Amounts due from members	22	(47)	(46)	(47)	(46)
Amounts classified as current liabilities:					
Amounts due to members	22	178	205	178	205
Members' capital	22	87	86	87	86
		265	291	265	291
Amounts classified as equity:					
Other members' interests classified as equity		139	51	59	(20)
Total members' interests		357	296	277	225
Non-controlling interests		(5)	(4)	-	-
		352	292	277	225

* Prior year comparatives have been restated as set out in notes 15 and 18 with no impact on net assets attributable to members.

The partnership reported a profit available for discretionary division among members for the year ended 30 September 2020 of £137 million (2019: £10 million). The financial statements on pages 15 to 73 were authorised for issue and signed on 29 January 2021 on behalf of the members of KPMG LLP, registered number OC301540 by:

Bill Michael
Chairman

Tim Jones
Chief Operating Officer

Statements of changes in equity

For the year ended 30 September 2020

		Group			Partnership	
	Note	Members' other reserves £m	Translation Reserve £m	Non-controlling interests £m	Members' other reserves £m	
Balance at 1 October 2018		81	4	(1)	84	24
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)
Profit/(loss) for the financial year available for discretionary division among members		147	-	(1)	146	137
Remeasurement of defined benefit pension plans	21	(27)	-	-	(27)	(27)
Foreign exchange translation differences		-	(1)	-	(1)	-
Total comprehensive income		120	(1)	(1)	118	110
2019 profits available for discretionary division, allocated to members during the year	6	(31)	-	-	(31)	(31)
Transactions with owners		(31)	-	-	(31)	(31)
Balance at 30 September 2020		136	3	(5)	134	59

Statements of cash flows

For the year ended 30 September 2020

		Group		Partnership	
	Note	2020 £m	2019* £m	2020 £m	2019* £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		146	17	137	10
Adjustments for:					
Tax expense	9	7	15	-	-
Depreciation and amortisation	11,12	146	64	130	57
Financial income	8	(13)	(11)	(68)	(48)
Financial expense	8	31	12	32	17
Impairment of trade receivables and contract assets	15	10	4	10	4
Profit on disposal of business	10	(115)	-	(110)	-
Members' profit shares	6	250	275	250	275
		462	376	381	315
Decrease/(increase) in trade and other receivables*		133	(124)	122	(122)
Increase/(decrease) in trade and other payables*		17	(7)	17	(3)
Increase/(decrease) in provisions and retirement benefits		17	(4)	17	18
Cash generated from operations		629	241	537	208
Net interest and other financial costs paid	8	(1)	-	(2)	(1)
Corporate taxes paid		(19)	(16)	-	-
Net cash flows from operating activities before transactions with members		609	225	535	207
Payments to members		(296)	(391)	(296)	(391)
Net cash flow from operating activities		313	(166)	239	(184)
Cash flows from investing activities					
Capital subscribed in subsidiary	13	-	-	-	(3)
Net proceeds from sale of business	10	121	-	121	-
Dividends received		-	-	52	34
(Acquisition)/disposal of other financial assets		(2)	2	-	-
Proceeds from sale of property, plant and equipment	11	4	3	3	2
Acquisition of property, plant and equipment	11	(36)	(34)	(35)	(34)
Development of intangible assets	12	(1)	(5)	(1)	(5)
Net cash flows from investing activities		86	(34)	140	(6)
Cash flows from financing activities					
Net repayment of bank borrowings	17	(220)	-	(220)	-
Net proceeds from new bank borrowings	17	-	189	-	189
Payment of lease liabilities	24	(65)	-	(56)	-
Capital introduced by members	22	5	8	5	8
Capital repayments to members	22	(17)	(9)	(17)	(9)
Net cash flows from financing activities		(297)	188	(288)	188
Net increase/(decrease) in cash and cash equivalents		102	(12)	91	(2)
Cash and cash equivalents at the beginning of the year		37	49	10	12
Cash and cash equivalents at the end of the year	17	139	37	101	10

* Prior year comparatives have been restated as set out in notes 15 and 18 with no impact on net assets attributable to members.

Notes

Forming part of the consolidated financial statements

1. Accounting policies

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

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

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

Accounting policies that relate to the financial statements as a whole are set out 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 2020:

- IFRS 16 'Leases' (IFRS 16): effective for periods beginning on or after 1 January 2019 (note 2).

The group elected to early adopt the following IFRSs and amendments in the year ended 30 September 2020:

- 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.

With the exception of the impact of adopting IFRS 16, 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 new interpretations and amendments issued by the International Accounting Standards Board (IASB) that are effective for financial statements after this reporting period but have either been endorsed by the European Union since 30 September 2020 or have not yet been endorsed by the European Union and so are not yet available for adoption by the group. The most relevant changes for the group and partnership are:

- Amendments to IFRS 3 'Reference to the Conceptual Framework': effective for periods beginning on or after 1 January 2022.
- Amendment to IFRS 16 'Covid 19- related Rent Concessions': effective for periods beginning on or after 1 June 2020.
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use': effective for periods beginning on or after 1 January 2022.
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract': effective for periods beginning on or after 1 January 2022.
- Annual improvements to IFRSs 2018-2020 Cycle: effective for periods beginning on or after 1 January 2022.
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current': effective for periods beginning on or after 1 January 2023.

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

Notes

Forming part of the consolidated financial statements

1. Accounting policies (continued)

Basis of preparation

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

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

Going Concern

As set out in the Report to the members, the group has access to considerable financial resources, namely members' capital, undistributed profits and borrowings. This funding, together with well-established relationships with many clients and suppliers across different geographic areas and industries, leaves the group well placed to manage the financial impact of our business risks, including those that have arisen as a result of COVID-19 and may arise as a result of Brexit. The resilience measures taken early in the pandemic, including liquidity enhancing measures such as deferral of payments to partners, have improved our immediate and longer-term resilience. At the date of this report, the majority of our staff and partners continue to work remotely as we continue to follow guidance issued by the UK government. Despite these challenges, we do not expect client service delivery to be materially affected following the effective transition to remote working.

Forecasts have been prepared for the group for the 21 months through to 30 September 2022, reflecting on the COVID-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

At 30 September 2020, the group had undrawn facilities of £475 million (2019: £165 million) including an additional revolving credit facility of £90 million (2019: £nil) advanced in April 2020 and expiring in October 2021, with an option to extend to October 2022; this level of committed, undrawn funding provides strong financial resilience through continued disruption caused by the pandemic and, when the time is right, 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.

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.

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 and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing this report and financial statements.

Foreign currency

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

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

Notes

Forming part of the consolidated financial statements

1. Accounting policies (continued)

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.

2. Changes in significant accounting policies

The group and partnership have initially applied IFRS 16 from 1 October 2019. As a result, the group and partnership have changed their accounting policy for lease contracts as detailed below.

IFRS 16 'Leases' (IFRS 16)

The group and partnership have initially applied IFRS 16 from 1 October 2019, using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 October 2019.

Definition of a lease

Previously, the group and partnership determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the group and partnership assess whether a contract is or contains a lease based on the definition of a lease, as explained in note 24.

On transition to IFRS 16, the group and partnership elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed as to whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 October 2019.

As a lessee

The group and partnership previously classified leases as operating leases based on its assessment that the lease did not transfer significantly all of the risks and rewards incidental to ownership of the underlying asset to the group and partnership. Under IFRS 16, the group and partnership recognise right-of-use assets and lease liabilities for most leases – these leases are therefore recognised on-balance sheet.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's and partnership's incremental borrowing rate as at 1 October 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the group and partnership applied this approach to all leases.

Notes

Forming part of the consolidated financial statements

2. Changes in significant accounting policies (continued)

The group and partnership used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases of low value assets (for example, IT equipment).
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a Lessor

The group and partnership are a sub-lessor (intermediate lessor) of certain right-of-use assets. Under IFRS 16, the group and partnership are required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the group and partnership reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The group and partnership concluded that the sub-lease is an operating lease under IFRS 16.

The group and partnership apply IFRS 15 'Revenue from Contracts with Customers' to allocate consideration in the contract to each lease and non-lease component.

Sale-and-leaseback

Under IFRS 16, the group and partnership continue to account for the disposal of the property interest at 15 Canada Square completed in January 2018 as a sale-and-leaseback transaction. The group and partnership recognised a right-of-use asset, after adjusting for the rent free amount (reflecting deferred profit) recognised as part of the sale and leaseback transaction, and a lease liability for the leaseback on 1 October 2019, measured in the same way as other right-of-use assets and lease liabilities at that date.

Impacts on financial statements

On transition to IFRS 16, the group recognised an additional £515 million of right-of-use assets (partnership: £476 million), adjusted for lease incentives received of £79 million (group: £79 million), and £573 million (partnership: £544 million) of lease liabilities, adjusted for amounts paid in advance at 1 October 2019.

When measuring lease liabilities the group and partnership discounted lease payments using its incremental borrowing rate at 1 October 2019. The weighted-average rate applied is 2.3% for group and 2.0% for the partnership.

The following table summarises the differences between the operating lease commitments disclosed under IAS 17 at 30 September 2019 in the group's and partnership's financial statements and the lease liabilities recognised at 1 October 2019:

	Group £m	Partnership £m
Operating lease commitments at 30 September 2019 under IAS 17 (restated*)	761	716
Discounted using the incremental borrowing rate at 1 October 2019	(126)	(112)
Recognition exemption for leases of low-value assets	(3)	(1)
Rentals paid in advance at 1 October 2019	(11)	(11)
Termination options reasonably certain to be exercised	(48)	(48)
Lease liabilities recognised as at 1 October 2019	573	544

* Based on our preliminary assessment of the impact of IFRS 16, we have restated the prior year group figure to include those contracts identified as containing a lease under IAS 17 'Leases'.

Notes

Forming part of the consolidated financial statements

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 2020 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).
- Leases: Establishing whether or not it is reasonably certain that a termination option will be exercised (note 24).

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).
- Trade and other receivables: estimating expected credit losses on trade receivables and assessing appropriate forward looking factors, particularly in light of COVID-19 (note 15).
- Leases: Estimating the future economic benefit to be derived from the asset (note 11).

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.

Notes

Forming part of the consolidated financial statements

4. Revenue

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

Accounting policy

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

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, consideration 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 & 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. A different assessment of these estimates may impact the carrying value of contract assets recognised of £329 million (2019: £356 million) for the group and £313 million (2019: £341 million) for the partnership at 30 September 2020.

Notes

Forming part of the consolidated financial statements

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 and Legal (T&L), Deal Advisory, Consulting, Technology, 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 generate revenue from principal activities, through four of the group's capabilities, considered to be operating segments under IFRS 8: Audit, T&L, Deal Advisory and Consulting. The remaining three capabilities – Technology, 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 27 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 page 27 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 & Legal (T&L) – Provision of advice and support to help clients understand and comply with tax 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) – Consulting offers advice and support on issues organisations face: conducting reviews and assessments; regulatory, risk and specialist technical advice and assistance; options analysis, recommendations and other advice; design and implementation of operating models, technology and transformation programmes; delivery of services.

Notes

Forming part of the consolidated financial statements

4. Revenue (continued)

Information by segment is as follows:

	Audit £m	T&L £m	DA £m	Cons £m	Total £m
2020					
Net sales (as reported internally)	606	373	400	574	1,953
Recoverable expenses (as reported internally)	52	102	60	95	309
Gross sales (as reported internally)	658	475	460	669	2,262
Revenue of pensions business disposed in year					24
Revenue of entities not reported internally					33
Elimination of intra-group trading and other financial adjustments					(16)
Total group revenue					2,303
Segmental contribution (as reported internally)	204	162	187	164	717
Members' remuneration adjustments					152
Contribution of pensions business					11
Costs not allocated to segments					(581)
Profit on disposal of business (note 10)					115
Net financial expense (see note 8)					(18)
Profit before taxation of entities not reported internally					7
Total group profit before taxation and members' profit shares					403
Segmental assets (as reported internally)	95	148	118	147	508
Assets of entities not reported internally					57
Assets not allocated to segments					1,100
Total group assets, excluding members' interests					1,665
2019					
Net sales (as reported internally)	587	397	406	583	1,973
Recoverable expenses (as reported internally)	60	97	49	127	333
Gross sales (as reported internally)	647	494	455	710	2,306
Revenue of pensions business					73
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)	197	159	184	173	713
Members' remuneration adjustments					156
Contribution of pensions business					33
Costs not allocated to segments					(577)
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)	134	167	144	178	623
Assets of entities not reported internally					45
Assets not allocated to segments					640
Total group assets, excluding members' interests					1,308

Notes

Forming part of the consolidated financial statements

4. Revenue (continued)

Figures previously presented for Tax, pensions & legal (TPL) have been restated to exclude the pensions business, disposed in March 2020, in line with adjustments made to internal reporting through the year ended 30 September 2020.

Entities not reported internally include Microsoft Business Solutions (formerly 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 Technology, 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 82% (2019: 83%) 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 (2020: 4%; 2019: 4%).

Major clients

The group has no reliance on any one client – no more than 3% (2019: 2%) of group revenue and 3% (2019: 2%) of partnership revenue is attributable to the largest client.

Net sales by coverage group

As set out on page 26, the group organises its clients into coverage groups; net sales by coverage group (including net sales of the pensions advisory business) is provided below for information:

		Group
	2020 £m	2019 £m
National Markets	752	827
Financial Services	731	709
Corporates	488	500
Central	10	10
	1,981	2,046

Notes

Forming part of the consolidated financial statements

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 2020, the aggregate amount of the transaction price allocated to fixed price, long-term contracts that were only partially complete was £133 million for the group and partnership (2019: £186 million for group and partnership). Management expects that 59% (2019: 40%) of the transaction price allocated to these unsatisfied contracts will be recognised as revenue during the financial year ending 30 September 2021 and 41% (2019: 39%) recognised in the financial year ending 30 September 2022. 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 have 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.

During the financial year ended 30 September 2020, £86 million (2019: £176 million) of the group's and £90 million (2019: £169 million) of the partnership's contract liabilities held at 30 September 2019 were recognised as revenue.

5. Other operating income

Included in other operating income are the following items:

		Group
	2020 £m	2019 £m
Charges to other KPMG International member firms	56	62
Other items including sub-let rental and shared service recharges	11	14
	67	76

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

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	
	2020 Number	2019 Number	2020 Number	2019 Number
Members	592	621	592	621
Staff	15,595	15,864	-	-
	16,187	16,485	592	621

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	
	2020 Number	2019 Number
Audit	5,533	4,795
Tax & Legal	2,490	2,744
Deal Advisory	1,626	1,611
Consulting	3,510	3,526
KPMG Business Services, Technology and Coverage Central	3,028	3,809
	16,187	16,485

Tax and legal included an average of 186 members and staff of the pensions business in 2020 (2019: 444)

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 31).

	Group	
	2020 £m	2019 £m
Salaries (including bonuses)	975	1,016
Social security costs	102	104
Cost of retirement benefits (note 21)	44	45
Staff costs per income statement	1,121	1,165
Net financing cost charged to the income statement in respect of defined benefit pension plans (note 21)	2	2
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)	27	3
Total staff related costs	1,150	1,172

Notes

Forming part of the consolidated financial statements

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 and profit arising on significant disposals of property or business (adjusted group profits) must be allocated to members; the Board's discretion in respect of retentions is subject to a maximum retention of 10% of the adjusted group profits for the period. Any proposal of the Board to retain more than 10% of the adjusted group profits 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 adjusted group profits 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 adjusted group profits and totalled £250 million for the year ended 30 September 2020, excluding profit on disposal of the pensions business (2019: £275 million).

Average partner distribution totalled £572,000 (2019: £640,000) 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 £98 million (2019: £128 million); the reduction year on year predominantly due to the adoption of IFRS 16 and the recognition of depreciation on the right-of-use asset rather than rental expense. Employee training costs of £38 million (2019: £53 million) also reduced year on year as a result of restrictive COVID-19 measures in place during the second half of the year. 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	
	2020 £000	2019 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	310	372
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
Audit of financial statements of subsidiaries	202	182
Audit related assurance services provided to the group	224	181
Audit of certain group pension plans	77	55
Tax advisory services	8	3
	821	793

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 and assurance services were 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

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 (FVTPL).

Financial expense comprises exchange losses, interest expense on bank borrowings, net interest expense on defined benefit pension plan liabilities, interest expense on lease liabilities and unwinding discount on provisions. If negative, net change in fair value of financial assets at FVTPL is classified as a financial expense. All borrowing costs are recognised in the income statement using the effective interest method.

	Group	
	2020 £m	2019 £m
Interest income	1	2
Exchange gains	12	9
Financial income	13	11
Net interest expense on defined benefit pension plan liabilities (note 21)	2	2
Unwinding discount on provisions (note 19)	1	1
Net change in fair value of financial assets at FVTPL	1	-
Interest expense on lease liabilities (note 24)	13	-
Interest expense on bank borrowings	2	2
Exchange losses	12	7
Financial expense	31	12

The total interest income on financial assets that were not classified as FVTPL was £1 million (2019: £2 million). The total interest expense on financial liabilities that were not classified as FVTPL was £15 million (2019: £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

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
	2020 £m	2019 £m
Current tax expense:		
Current year	13	10
Adjustment in respect of prior years	(9)	-
Overseas taxes	-	1
Share of overseas taxes of joint operation	4	4
Deferred tax (see note 20)	(1)	-
Total tax expense in income statement	7	15

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

		Group
	2020 £m	2019 £m
Profit before taxation and members' profit shares	403	307
Less profit arising in partnership, on which tax is payable by the members personally	(387)	(285)
Profit before taxation arising in group companies	16	22
Tax at 19% (2019: 19%) being the average rate of corporate taxes levied on the profits of group companies	3	4
Impact of tax exempt items	10	6
Adjustment in respect of prior years	(9)	-
Recognition of deductible temporary differences	(1)	-
Overseas taxes	4	5
Total tax expense in income statement	7	15

There was no tax charge/(credit) recognised in the statement of comprehensive income (2019: £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. The March 2020 budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the corporate subsidiaries' future current tax charge accordingly.

Notes

Forming part of the consolidated financial statements

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

There were no acquisitions during the year ended 30 September 2020, and no acquisitions or disposals in the year ended 30 September 2019.

Disposals – year ended 30 September 2020

In December 2019, KPMG LLP entered into a conditional agreement to sell its pensions advisory business. The conditions for sale were met during 2020 and the sale completed on 2 March 2020, resulting in the transfer of 20 partners and approximately 500 staff employed by the business at the date of completion, together with certain client contracts and related contract assets.

After allowing for amounts paid to partners of the pensions advisory business, the net consideration due to KPMG as a result of the sale was £128 million. After adjusting for net assets transferred and costs of disposal, the profit on sale of the business was £115 million.

Had the disposal taken place at 1 October 2019, the revenue and contribution of the group and partnership would have been reduced by £24 million and £11 million respectively.

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.

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:

	Life of lease
Office buildings	
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.

Significant Estimate

The net book value of the group's and partnership's office buildings of £438 million and £414 million respectively is based on certain assumptions as to economic benefits to be derived from those properties in future periods, until the expected lease end date as assessed under IFRS 16. The use of different assumptions would result in a different assessment of right of use asset, impairment and resulting net book value; we consider it unlikely that there would be reasonably possible changes in key assumptions that would cause the carrying amount to materially exceed recoverable amount for any individual asset. See note 24 for further details.

Notes

Forming part of the consolidated financial statements

11. Property, plant and equipment (continued)

Group

	Office buildings £m	Computer and communication equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
Balance at 1 October 2018	-	96	240	18	354
Additions	-	17	12	5	34
Disposals	-	-	-	(5)	(5)
Balance at 30 September and 1 October 2019	-	113	252	18	383
Recognition of right-of-use assets on initial application of IFRS 16 (see notes 2 & 24)	492	5	7	11	515
Adjusted balance at 1 October 2019	492	118	259	29	898
Additions	16	4	29	7	56
Disposals	(14)	(1)	(4)	(6)	(25)
Exchange difference	(2)	-	-	-	(2)
Balance at 30 September 2020	492	121	284	30	927
Depreciation and impairment					
Balance at 1 October 2018	-	71	105	8	184
Charge for the year	-	18	24	3	45
Disposals	-	-	-	(3)	(3)
Balance at 30 September and 1 October 2019	-	89	129	8	226
Charge for the year	54	16	44	10	124
Disposals	-	-	(4)	(3)	(7)
Balance at 30 September 2020	54	105	169	15	343
Net book value					
At 1 October 2018	-	25	135	10	170
Adjusted at 1 October 2019	492	29	130	21	672
At 30 September 2020	438	16	115	15	584

Notes

Forming part of the consolidated financial statements

11. Property, plant and equipment (continued)

Partnership

	Office buildings £m	Computer and communication equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
Balance at 1 October 2018	-	95	239	18	352
Additions	-	17	12	5	34
Disposals	-	-	-	(5)	(5)
Balance at 30 September and 1 October 2019	-	112	251	18	381
Recognition of right-of-use assets on initial application of IFRS 16 (see notes 2 & 24)	461	4	-	11	476
Adjusted balance at 1 October 2019	461	116	251	29	857
Additions	16	3	29	7	55
Disposals	(14)	-	(3)	(6)	(23)
Balance at 30 September 2020	463	119	277	30	889
Depreciation and impairment					
Balance at 1 October 2018	-	70	104	8	182
Charge for the year	-	18	24	3	45
Disposals	-	-	-	(3)	(3)
Balance at 30 September and 1 October 2019	-	88	128	8	224
Charge for the year	49	16	43	10	118
Disposals	-	-	(3)	(3)	(6)
Balance at 30 September 2020	49	104	168	15	336
Net book value					
At 1 October 2018	-	25	135	10	170
Adjusted at 1 October 2019	461	28	123	21	633
At 30 September 2020	414	15	109	15	553

At 30 September 2020 property, plant and equipment includes right-of-use assets as follows:

	Office buildings £m	Computer and communication equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	Total £m
Right-of-use asset					
Group: At 30 September 2020	438	3	6	8	455
Partnership: At 30 September 2020	414	2	-	8	424

There were no items of property, plant and equipment classified as finance leases under IAS 17 in the prior year.

Notes

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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. At 30 September 2020, the carrying value of goodwill totalled £27 million (2019: £33 million). 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 39. 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 the key assumptions set out on page 39 that would cause the carrying amount to exceed the recoverable amount for any individual goodwill asset except in the case of goodwill relating to Microsoft Business Solutions (formerly KPMG Crimsonwing) (see page 39).

Notes

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12. Intangible assets (continued)

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	Total £m
Cost				
Balance at 1 October 2018	111	27	40	178
Additions	5	-	-	5
Write off	(5)	-	-	(5)
Balance at 30 September 2019	111	27	40	178
Additions	1	-	-	1
Write off	-	(6)	(7)	(13)
Balance at 30 September 2020	112	21	33	166
Amortisation and impairment				
Balance at 1 October 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
Charge for the year	14	2	6	22
Write off	-	(6)	(7)	(13)
Balance at 30 September 2020	95	18	6	119
Net book value				
At 1 October 2018	37	7	38	82
At 30 September 2019	30	5	33	68
At 30 September 2020	17	3	27	47

Goodwill, pre-impairment, has been recognised in respect of the following business acquisitions:

Acquisition	Year of acquisition	Goodwill £m
KPMG CIO Advisory Limited	30 September 2012	2
KPMG Nunwood Investments Limited (KPMG Nunwood sub-group)	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 fully during the prior year following annual impairment testing. The goodwill previously recognised and impaired in respect of Makinson Cowell (£7 million) has been written off in the current year following a decision taken to wind down the operations of Makinson Cowell.

An impairment loss of £6 million has been recognised in the year ended 30 September 2020 in respect of the KPMG Crimsonwing sub-group (see page 39).

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12. Intangible assets (continued)

Goodwill after impairment has been allocated to the individual CGU's within the group's Consulting capability. The CGU's in each case reflect the level at which the business is managed and performance monitored, either reflecting an individual acquired business basis or a larger business unit if the acquired business is no longer managed on a stand alone basis. The recoverable amount of the CGU has been calculated with reference to its value in use, using cash flow projections of the relevant CGU based on budgets approved by management. The key assumptions of this calculation are determined using values reflecting past experience: the initial 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:

	2020	2019
Period on which management approved forecasts are based	4 years	4 years
Growth rate applied beyond approved forecast period	0-2%	0%
Discount rate	9.2-12.3%	8.4-9.6%

The growth rates used in the value in use calculation reflect a conservative view given the past performance of these CGUs and uncertainties around further market growth in these capabilities beyond the initial 4 year forecast period.

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 Microsoft Business Solutions (formerly 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 any delay in returning to profitable trading or 50% reduction in the level of future growth compared to forecasts would result in an impairment arising against the carrying value of goodwill. Applying an expected cashflow approach, using multiple weighted cashflow projections, goodwill impairment of £6 million arises and has been recognised during the year ended 30 September 2020.

Notes

Forming part of the consolidated financial statements

12. Intangible assets (continued)

Partnership

Internally generated software
£m

Cost	
Balance at 1 October 2018	105
Additions	5
Write off	(5)
Balance at 30 September 2019	105
Additions	1
Write off	-
Balance at 30 September 2020	106
Amortisation and impairment	
Balance at 1 October 2018	70
Charge for the year	12
Write off	(5)
Balance at 30 September 2019	77
Charge for the year	12
Write off	-
Balance at 30 September 2020	89
Net book value	
At 1 October 2018	35
At 30 September 2019	28
At 30 September 2020	17

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 were as follows:

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
Shares in subsidiary undertakings	-	-	16	16
Other investments	1	1	-	-
	1	1	16	16

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

During the prior year, the partnership subscribed £3 million capital to the UK Cell of Queen Street Mutual, the group's insurance entity (see note 27).

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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) of £39 million (2019: £37 million).

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 of £39 million (2019: £37 million) is calculated based on cashflows, discounted at the rate inherent in the ABF agreement.

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
Other prepayments	-	-	47	49
Amounts due from other UK group undertakings	-	-	39	37
Deferred tax assets (see note 20)	6	5	-	-
Other non-current assets	6	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 2020, the prepayment was £51 million (2019: £53 million); £47 million (2019: £49 million) is non-current, whilst the remaining £4 million (2019: £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 2020, a receivable balance of £39 million is classified as amounts due from other UK undertakings within other non-current assets with the discount unwinding through financial income (2019: £37 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.

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15. Trade and other receivables

Accounting policy

Trade and other receivables (except contract assets) are initially recognised at their transaction price. 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.

Significant Estimate

In calculating the loss allowance for expected credit losses (ECLs) on trade receivables, the group and partnership have made certain assumptions as to the probability of default of specific clients and clients within certain industries, assessed by reference to data published by external credit rating agencies, particularly those most significantly impacted by COVID-19. At 30 September 2020, the ECL was assessed to be £19 million for the group (2019: £9 million) and £18 million for the partnership (2019: £8 million). However, a different assessment of the probability of default in respect of these clients and industries would result in a different level of ECL; an increase in the weighted average loss rate by 1% would result in recognition of a further £9 million of ECL for both group and partnership.

Impairment

The group and partnership recognise 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	
	2020 £m	2019* £m	2020 £m	2019* £m
Client receivables	357	462	342	449
Amounts due from other KPMG International member firms	54	71	49	63
Trade receivables	411	533	391	512
Contract assets	329	356	313	341
Amounts due from other UK group undertakings	-	-	121	117
Corporation tax receivable	7	-	-	-
Other prepayments	23	41	26	45
Other receivables	70	63	54	39
	840	993	905	1,054

* Prior year contract assets have been restated to correct an overstatement arising as a result of certain contract liabilities not being netted against the related contract asset where the rights and obligations are interdependent, as required under IFRS 15. As a result, both contract assets and contract liabilities (see note 18) have been reduced by £117 million for the group and £98 million for the partnership to reflect this net presentation. Opening contract assets and contract liabilities at 1 October 2018 would also have been reduced by £102 million for the group and £87 million for the partnership; a third balance sheet is not presented as this adjustment has no impact on net assets attributable to members and accordingly it is considered that the provision of a third balance sheet would not provide additional information material to these financial statements.

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15. Trade and other receivables (continued)

Trade and other receivables are due within 12 months. Contract assets include £19 million (2019: £22 million) relating to contract fulfilment costs where recovery is considered probable against future revenue forecasts

Trade receivables and contract assets are shown net of impairment losses totalling £19 million (2019: £9 million) for the group and £18 million (2019: £8 million) for the partnership. The movement for the year is recognised in the income statement. An aged analysis of trade receivables and the movement in the allowance for impairment in respect of trade receivables are given below. Other trade and other receivables balances are not in scope of the ECL model.

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. In addition, ECLs are measured using forward looking information as to probability of default due to specific industry and economic factors.

The table below provides information about the exposure to credit risk and ECLs for trade receivables as at 30 September 2020:

		Group		Partnership	
	Weighted average loss rate	Gross 2020 £m	Gross 2019 £m	Gross 2020 £m	Gross 2019 £m
Trade receivables					
Current (not past due)	0.12%	303	402	289	385
31 - 60 days	0.29%	56	62	53	61
61 - 90 days	0.59%	32	41	30	40
91 - 120 days	1.49%	14	19	14	17
121 - 150 days	3.58%	5	7	5	7
151 - 180 days	7.92%	3	2	3	2
181 - 360 days	55.88%	6	4	6	3
More than 360 days	100%	4	5	3	5
Gross trade receivables		423	542	403	520
Gross contract assets	1.54%	336	356	319	341
		759	898	722	861
Expected credit losses		(16)	(8)	(15)	(7)
Other impairment provisions		(3)	(1)	(3)	(1)
Trade receivables and contract assets, net of impairment losses		740	889	704	853

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

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 October	9	3	8	2
Remeasurement on adoption of IFRS 9 on 1 October 2018	-	2	-	2
Impairment provision recognised in income statement	10	4	10	4
Balance at 30 September	19	9	18	8

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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	
		2020 £m	2019 £m	2020 £m	2019 £m
Bonds	FVTPL	35	34	-	-
Equities	FVTPL	13	13	-	-
		48	47	-	-

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	
		2020 £m	2019 £m	2020 £m	2019 £m
Short term deposits		8	-	8	-
Bank balances		131	37	93	10
Cash and cash equivalents		139	37	101	10

Committed borrowing facilities of £475 million (2019: £385 million) were available to the group at 30 September 2020. Actual amounts drawn were £nil million (2019: £220 million) by the group and £nil million (2019: £220 million) by the partnership. Of the facilities available as at 30 September 2020, £10 million (2019: £10 million) expires in one year or less, the revolving credit facility of £375 million (2019: £375 million) is due to expire in January 2023 and the additional revolving credit facility of £90 million (2019: £nil) advanced in April 2020 expires in October 2021, with an option to extend to October 2022.

		Group		Partnership	
		2020 £m	2019 £m	2020 £m	2019 £m
Short term borrowings		-	220	-	220

The borrowings are predominantly 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.

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 2020 and 2019.

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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	
	2020 £m	2019* £m	2020 £m	2019* £m
Accruals	172	278	79	163
Contract liabilities	163	169	150	159
Other taxes and social security	126	75	100	48
Other payables	12	15	10	5
Trade payables	27	15	21	14
Amounts due to other UK group undertakings	-	-	176	194
Amounts due to other KPMG International member firms	9	16	9	16
	509	568	545	599

* Prior year contract liabilities have been restated, reducing by £117 million for the group and £98 million for the partnership as set out in note 15.

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.

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.

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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 £60 million at 30 September 2020 (2019: £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 2020, the provision for such claims amounts to £92 million (2019: £73 million) for group and £87 million (2019: £68 million) for partnership. 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 2019	56	8	73	137
Utilised during the year	(4)	(1)	(13)	(18)
Income statement:				
Provisions (reversed)/made during the year	(4)	12	32	40
Unwinding of discounted amounts	1	-	-	1
Balance at 30 September 2020	49	19	92	160
Non-current	46	19	60	125
Current	3	-	32	35

Partnership

	Annuities £m	Property provisions £m	Professional claims and regulatory matters £m	Total £m
Balance at 1 October 2019	56	8	68	132
Utilised during the year	(4)	(1)	(13)	(18)
Income statement:				
Provisions (reversed)/made during the year	(4)	12	32	40
Unwinding of discounted amounts	1	-	-	1
Balance at 30 September 2020	49	19	87	155
Non-current	46	19	60	125
Current	3	-	27	30

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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 45).

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

	2020 £m	2019 £m
Within 12 months of the year-end	3	3
Between 1-5 years	11	12
Between 5-15 years	19	22
In more than 15 years	16	19
	49	56

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

	2020 %	2019 %
Discount rate	1.55	1.60
Inflation rate (retail price index)	2.90	3.35

The tables adopted as at 30 September 2020 were the SAPS Series 3 tables with CMI 2019 projections (2019: SAPS Series 2 tables with CMI 2018 projections) with a loading of 143%/108% applied to the underlying mortality rates in respect of males/females in each case. 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.

Assumption	Change in assumption	Impact on annuity provision (decrease)/increase	
		£m	%
Discount rate	Increase by 0.25%	(1)	(3)
Inflation rate	Increase by 0.25%	2	4

Property provisions represent dilapidation costs anticipated on exiting properties leased by the group and partnership. Provision is made for the net obligation under such leases; property provisions for the group and for the partnership are expected to be utilised within the next ten 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.

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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 2019	5	(1)
Deferred tax movement	1	-
Balance at 30 September 2020	6	(1)

Deferred tax assets have been recognised at 30 September 2020, totalling £6.2 million in respect of temporary differences arising in the corporate entities (2019: £4.4 million). No deferred tax assets arise in respect of tax losses at 30 September 2020 (2019: £0.2 million recognised in respect of tax losses totalling £1 million).

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.

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.

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21. Retirement benefits (continued)

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 £109 million (2019: £85 million) are based on certain assumptions as to mortality, using current published tables (see page 55), 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 principal 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 2019.

Assumption	Change in assumption	Impact on plan liability (decrease)/increase		
		TMcL plan £m	Pre-2000 fund £m	Total £m
Discount rate	Increase by 0.25%	(5)	(31)	(36)
Increase of pensions in payment (RPI linked)	Increase by 0.25%	2	8	10
Life expectancy	Increase by 1 year	6	28	34

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 of the group for the year was:

	2020 £m	2019 £m
Contributions to defined contribution schemes	44	43
Past service cost for defined benefit pension plans	-	2
Cost of retirement benefits	44	45

The net financing cost of £2 million (2019: £2 million) and remeasurement losses of £27 million (2019: £3 million losses) relating to defined benefit pension plans are also considered to be a part of the net cost of retirement benefits.

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21. Retirement benefits (continued)

Defined contribution plans

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

Contributions of £nil 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 15 years.

An actuarial valuation of the pre-2000 fund is currently being undertaken by Matt Collinson of Isio Group Limited, the scheme actuary, as at 31 March 2020. The preliminary

results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2020. This valuation resulted in an actuarially assessed funding surplus, including the value of the Asset Backed Funding (ABF) agreement (see page 51). Analysis carried out by the Scheme Actuary has also informed the revised demographic assumptions used in these financial disclosures.

Expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are currently payable directly by the group.

The KMGThomson McLintock Pension Scheme

The KMGThomson 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 13 years.

An actuarial valuation of the TMCL plan is currently being undertaken by Matt Collinson of Isio Group Limited, the scheme actuary, as at 31 March 2020. The preliminary results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2020. This valuation resulted in an actuarially assessed funding surplus including the value of the ABF agreement (see page 51). Analysis carried out by the scheme actuary has also informed the revised demographic assumptions used in these financial disclosures. The Trustee of the TMCL plan and the group agreed at the time of the 2017 valuation that future expenses for the TMCL plan would continue to be met by the plan.

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 2020 and 30 September 2019 by KPMG's professionally qualified in-house actuaries.

Minimum funding requirements

The group and partnership have determined that, in accordance with the terms and conditions of the defined benefit plans, the group has an unconditional right to a refund of surplus from the TMCL plan under IFRIC 14.11 (b), assuming the gradual settlement of plan liabilities over time until all members have left the plan. The group does not have an unconditional right to a refund of surplus from the pre-2000 fund. However, since both the defined benefit plans are in deficit and the deficit in the pre-2000 fund exceeds the present value of future committed contributions, IFRIC 14 has no impact on the pension liabilities or disclosures (2019: £nil) at 30 September 2020.

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21. Retirement benefits (continued)

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 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 was accounted for at 30 September 2019.

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 included an allowance of 1.2% of the TMcL plan's defined benefit obligation for the impact of the GMP equalisation at 30 September 2019 and the estimated increase in liabilities was recognised as a past service cost within the income statement for the year ended 30 September 2019. The same approach has been taken to derive the TMcL plan defined benefit obligation at 30 September 2020. On 20 November 2020, the High Court handed down a further judgement confirming that defined benefit schemes which provide GMPs need to revisit and, where necessary, top up historical cash equivalent transfer values that were calculated based on unequalised benefits. We consider that this latest judgement creates an additional obligation for the TMcL plan from the date of the judgement.

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Forming part of the consolidated financial statements

21. Retirement benefits (continued)

We anticipate this additional obligation for the TMcL plan to be recognised in the year ending 30 September 2021, however, this is not expected to be material. We consider this event to be a non-adjusting post balance sheet event for the year ended 30 September 2020.

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	
	2020 £m	2019 £m	2020 £m	2019 £m
Quoted in an active market				
Debt instruments				
UK government fixed interest	22	17	152	131
UK government index-linked	28	26	54	55
Corporate bonds	120	122	516	521
Investment funds				
High yield	11	12	48	50
Cash and cash equivalents				
Cash	21	18	68	59
Not quoted in an active market				
Derivatives				
Credit contracts	(39)	(30)	(127)	(110)
Investment funds				
Distressed debt fund	2	3	9	11
Fair value of plan assets	165	168	720	717
Present value of funded defined benefit obligations	(169)	(174)	(825)	(796)
Net liability in the statement of financial position	(4)	(6)	(105)	(79)

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. The LDI portfolio (together with the wider ABF arrangement described on page 51) meant that at 30 September 2020 the interest-rate risks and inflation risks of the TMcL plan and the pre-2000 fund were fully hedged on the triennial funding valuation basis.

Notes

Forming part of the consolidated financial statements

21. Retirement benefits (continued)

Movements in present value of obligations

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

	TMcL plan		Pre-2000 fund	
	2020 £m	2019 £m	2020 £m	2019 £m
Benefit obligation at 1 October	(174)	(153)	(796)	(707)
Current service cost	-	-	-	-
Past service cost	-	(2)	-	-
Interest on obligations	(2)	(4)	(12)	(16)
Remeasurement gain/(loss) arising from changes in demographic assumptions	-	3	(15)	13
Remeasurement gain/(loss) arising from changes in financial assumptions	2	(24)	5	(123)
Remeasurement loss arising from experience on the plan's liabilities	(2)	-	(34)	-
Benefits paid	7	6	27	37
Benefit obligation at 30 September	(169)	(174)	(825)	(796)
Of which: amounts owing to active members	-	-	-	-
Of which: amounts owing to deferred members	(62)	(85)	(494)	(554)
Of which: amounts owing to pensioner members	(107)	(89)	(331)	(242)

During the prior reporting period there had 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	
	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of plan assets at 1 October	168	148	717	630
Interest income	2	4	10	14
Return on plan assets, excluding interest income	1	21	16	106
Contributions by employer	1	1	4	4
Administrative expenses	-	-	-	-
Benefits paid	(7)	(6)	(27)	(37)
Fair value of plan assets at 30 September	165	168	720	717

Notes

Forming part of the consolidated financial statements

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:

	2020 £m	2019 £m
Personnel costs		
Current service cost	-	-
Past service cost	-	2
Finance income and expense		
Net interest expense on net defined benefit obligations	2	2
Total expense recognised in the income statement	2	4

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	
	2020 £m	2019 £m	2020 £m	2019 £m
Remeasurement gain/(loss) arising from changes in demographic assumptions	-	3	(15)	13
Remeasurement gain/(loss) arising from changes in financial assumptions	2	(24)	5	(123)
Remeasurement loss arising from experience on the plan's liabilities	(2)	-	(34)	-
Return on plan assets, excluding interest income	1	21	16	106
Change in additional liability due to minimum funding requirement	-	1	-	-
Total remeasurements recognised in statement of comprehensive income	1	1	(28)	(4)

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

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

	2020 %	2019 %
Discount rate to calculate defined benefit obligation	1.55	1.60
Discount rate to calculate pension expense	1.30	1.50
Increase of pensions in payment (RPI linked)	2.85	3.20

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 2020 were the SAPS Series 3 tables with CMI 2019 projections using a long term trend rate of 1.25% p.a. and a smoothing parameter of 7.0 and an initial addition parameter of 0.25% for both males and females (2019: 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 and an addition parameter of 0% for both males and females).

These tables lead to life expectancies as follows:

	2020 Years	2019 Years
Retiring today, age 60		
Males	27.3	27.3
Females	29.7	28.4
Retiring at age 60, currently aged 45		
Males	28.3	28.3
Females	30.8	29.5

Notes

Forming part of the consolidated financial statements

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 historic reserve balances allocated to members' capital (rather than being paid on allocation) between 2018 and 2020, following a members' vote taken in 2018 approving the phased distribution of these reserves; 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.

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).

Notes

Forming part of the consolidated financial statements

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

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.

Movements in members' capital were as follows:

	£m
Balance at 1 October 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
Capital introduced by members	5
Transfer of amounts due to members, allocated to capital	13
Repayments of capital	(17)
Balance at 30 September 2020	87

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	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts due from members	47	46	47	46
Amounts due to members	(178)	(205)	(178)	(205)
	(131)	(159)	(131)	(159)

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 allocated to members following a member vote, less amounts paid to members during the year as drawings or profit shares. 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

23. Financial instruments

Accounting policy

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 become 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

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.

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.

Notes

Forming part of the consolidated financial statements

23. Financial instruments (continued)

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.

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 2020 and 2019, largely owing to their short maturity. The bases for determining fair values are disclosed throughout these financial statements.

The table on page 60 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 60; the partnership has only non-current amounts due from other UK group undertakings carried at fair value at 30 September 2020.

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 and valued using discounted cash flows. There have been no transfers between Level 1 and 2 during the current or prior year.

Notes

Forming part of the consolidated financial statements

23. Financial instruments (continued)

		Group		Partnership	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
At amortised cost					
Trade receivables	15	411	533	391	512
Contract assets	15	329	356	313	341
Cash and cash equivalents	17	139	37	101	10
Amounts due from members	22	47	46	47	46
Other receivables	15	70	63	54	39
Amounts due from other UK group undertakings	15	-	-	121	117
Total financial assets at amortised cost		996	1,035	1,027	1,065
Financial assets designated as at fair value through profit or loss					
Bonds	16	35	34	-	-
Equities	16	13	13	-	-
Amounts due from other UK group undertakings – non-current	14	-	-	39	37
Other investments	13	1	1	-	-
Total financial assets at fair value through profit or loss		49	48	39	37
Total financial assets		1,045	1,083	1,066	1,102
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	22	178	205	178	205
Bank borrowings	17	-	220	-	220
Lease liabilities	24	534	-	502	-
Members' capital	22	87	86	87	86
Other payables	18	12	15	10	5
Trade payables	18	27	15	21	14
Amounts due to other UK group undertakings	18	-	-	176	194
Amounts due to other KPMG International member firms	18	9	16	9	16
Amounts due to other UK group undertakings – non-current	14	-	-	90	90
Total non-derivative financial liabilities measured at amortised cost		847	557	1,073	830
Total financial liabilities		847	557	1,073	830
Total net financial instruments		198	526	(7)	272

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.

Notes

Forming part of the consolidated financial statements

23. Financial instruments (continued)

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

	Note	Group		Partnership	
		2020 £m	2019 £m	2020 £m	2019 £m
Fixed rate instruments					
Bonds	16	35	34	-	-
Variable rate instruments					
Bank borrowings	17	-	(220)	-	(220)
Cash and cash equivalents	17	139	37	101	10
		139	(183)	101	(210)

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 £nil million (2019: £1 million) and increased or decreased partnership profit by £1 million (2019: £1 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 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.

Notes

Forming part of the consolidated financial statements

23. Financial instruments (continued)

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 2020 the group had receivable and payable balances, denominated in non-functional currencies as set out on page 61.

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
Receivables				
US dollar	27	29	27	27
Euro	24	18	14	15

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
Payables				
US dollar	4	6	3	6
Euro	3	6	3	6

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

	Group		Partnership	
	2020 £m	2019 £m	2020 £m	2019 £m
US dollar	7	5	7	5
Euro	8	7	8	7

A 5% movement in the US dollar or euro closing exchange rates would have increased or decreased group profit by £2 million and £2 million (2019: £2 million and £1 million) and partnership profit by £2 million and £1 million (2019: £1 million and £1 million), respectively.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
US dollar	1.2756	1.2762	1.2868	1.2302
Euro	1.1449	1.1340	1.1049	1.1278

Equity price risk

Equity price risk arises from FVTPL 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 (2019: £13 million) and other investments of £1 million (2019: £1 million).

Notes

Forming part of the consolidated financial statements

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 in section a) on page 60.

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 60. All of those financial liabilities are measured at amortised cost. In each case except lease liabilities (see note 24), the carrying amount reflects the contractual cash flows due to the short maturity; they are all due for payment within 12 months. In the case of the partnership only, non-current amounts due to other UK group undertakings of £90 million (2019: £90 million) has a maturity of 19 years but is matched by non-current and current receivables.

Notes

Forming part of the consolidated financial statements

24. Leases

The group and partnership have applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 2.

Accounting policy – policy applicable from 1 October 2019

At the inception of a contract, the group and partnership assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group and partnership assess whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The group and partnership have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The group and partnership have the right to direct the use of the asset. The group and partnership have this right as a result of the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the group and partnership have the right to direct the use of the asset if either:
 - The group and partnership have the right to operate the asset; or
 - The group and partnership designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into or changed after 1 October 2019.

Contracts entered into before 1 October 2019

For contracts entered into before 1 October 2019, the group and partnership determine whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specified asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - The group and partnership had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - The group and partnership had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of the output.

As a lessee

The group and partnership recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and, if relevant, an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The estimated useful life of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes

Forming part of the consolidated financial statements

24. Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group and partnership's incremental borrowing rate. Generally, the group and partnership use its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the group and partnership are reasonably certain to exercise, lease payments in an optional renewal period if the group and partnership are reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group and partnership are reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the group and partnership's estimate of the amount expected to be payable under a residual value guarantee, or if the group and partnership changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'non-current liabilities' and 'current liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The group and partnership have elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The group and partnership recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period, all leases were classified as operating leases and were not recognised in the group and partnership's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

As an intermediate lessor, the group and partnership accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the group and partnership applied the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the group and partnership apply IFRS 15 to allocate the consideration in the contract.

The group and partnership recognise lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Under IAS 17

In the comparative period, the group and partnership classified the sub-lease with reference to the underlying head-lease – all sub-leases were classified as operating leases.

Notes

Forming part of the consolidated financial statements

24. Leases (continued)

Judgement

When the group and partnership have the option to extend or terminate a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend or terminate is not taken, to help them determine the lease term.

The most significant impact of management's assessment regarding the exercise of the extension or terminate options relates to office buildings. Where practicable, the group and partnership seek to include an extension or terminate option in new leases to provide operational flexibility. The extension and termination options held are exercisable only by the group and partnership and not by the lessors. The group and partnership assess at lease commencement whether it is reasonably certain to exercise either the extension or termination options. The group and partnership reassess whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances during the life of the lease.

During the year ended 30 September 2020, the group and partnership have reassessed the likely future use of property currently leased as a result of a number of factors including the restructuring of certain business areas, such as the closure of Makinson Cowell in the UK and the US and the exit of the pensions business. Taking into account these factors and the impact of COVID-19 more generally, management have determined that it is more likely that termination options will be invoked in certain properties and certain property assets have been impaired (see page 67), reflecting an expectation as to the exercise of termination options and future use of the property (see note 11). A different assessment as to the expectation around future use of these properties would result in a different net book value for the assets and lease liabilities recognised at 30 September 2020 by up to £48 million (see note 2).

Leases as a lessee

The group and partnership lease a number of office facilities. 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 IT equipment, IT data storage facilities, office equipment and motor vehicles. These leases typically run for a period of four years. With the exception of short-term leases and leases of low-value assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

The lease agreements do not impose any covenants, but each lease imposes a restriction that, unless there is a contractual right for the group and partnership to sublet the asset to another party, the right-of-use asset can only be used by the group and partnership. Leases are either non-cancellable or may be cancelled by exercising an earlier break date.

Some leases contain an option to extend the lease for a further term. The group and partnership are prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the group and partnership must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the group and partnership must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The group and partnership sub-lease certain properties under operating leases.

Notes

Forming part of the consolidated financial statements

24. Leases (continued)

Right-of-use assets

At 30 September 2020 property, plant and equipment includes right-of-use assets as follows:

	Office buildings £m	Computer and communication equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	Total £m
Group					
Balance at 1 October (on adoption of IFRS 16)	492	5	7	11	515
Additions	16	-	-	4	20
Disposals	(14)	-	-	-	(14)
Depreciation charge for the year	(54)	(2)	(1)	(7)	(64)
Exchange differences	(2)	-	-	-	(2)
Balance at 30 September	438	3	6	8	455
Partnership					
Balance at 1 October (on adoption of IFRS 16)	461	4	-	11	476
Additions	16	-	-	4	20
Disposals	(14)	-	-	-	(14)
Depreciation charge for the year	(49)	(2)	-	(7)	(58)
Balance at 30 September	414	2	-	8	424

Depreciation charge for the year ended 30 September 2020 included £11 million for the partnership and group in respect of impairment losses recognised on right of use assets. These impairment losses reflect the amount by which the right of use asset value exceeds the recoverable amount taking into account the expected utilisation of certain office space during the remaining lease term, following assessment as set out on page 66.

Lease liabilities

Maturity analysis – contractual undiscounted cash flows are set out as follows:

	Group 2020 £m	Partnership 2020 £m
Within 1 year	49	42
Between 1-5 years	201	178
More than 5 years	386	377
Total undiscounted lease liabilities at 30 September	636	597
Lease liabilities included in the statement of financial position at 30 September:	534	502
Current	38	32
Non-current	496	470

Notes

Forming part of the consolidated financial statements

24. Leases (continued)

Movement in lease liabilities

Movements in lease liabilities during the year are as set out below:

	Group £m	Partnership £m
Recognised on adoption of IFRS 16 on 1 October 2019	573	544
Additions and adjustments	16	4
Lease payments	(65)	(56)
Interest expense on lease liabilities	13	10
Exchange differences	(3)	-
	534	502

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the group and partnership is a lessee:

	Group 2020 £m	Partnership 2020 £m
Interest expense on lease liabilities	13	11
Expenses relating to short-term leases	1	1
Expenses relating to leases of low-value assets accounted, excluding short-term leases of low-value assets	1	-

	Group and Partnership 2019 £m
Operating lease expense in 'Other operating expenses'	45
Sub-lease income presented in 'Other operating income'	1

Amounts recognised in the statement of cash flows

	Group 2020 £m	Partnership 2020 £m
Total cash outflow for leases	65	56

Notes

Forming part of the consolidated financial statements

24. Leases (continued)

Leases as a lessor

The group and partnership sub-lease a small amount of space that it previously occupied and over which it still has the head-lease. The group and partnership has classified these sub leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets; rent receivable in this respect is £269,000 per annum under a lease set to expire in November 2026, but with earlier break in November 2021.

Group and Partnership
2019
£m

Operating leases under IAS 17 – Amounts receivable from sub-let properties:	
Within 1 year	-
Within 2-5 years	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 £1 million (2019: £8 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 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.

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 £17.6 million. The actual profit allocated in respect of the previous year was £21.3 million.

The estimated total profit share payable to the highest paid member is £2.1 million, of which normal remuneration for the period represented £1.1 million (2019: highest paid £1.9 million) and the balance an additional amount paid under the firm's partner retirement provisions.

There were no balances due to or from key management at 30 September 2020 or 2019 save in respect of relevant shares of profit (or related taxation), shares of historical reserves and members' capital.

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Forming part of the consolidated financial statements

26. Related parties (continued)

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 adjusted group profits 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:

	2020 £m	2019 £m
Amounts due from key management	2	3
Amounts due to key management	(21)	(25)
	(19)	(22)

Total members' capital invested by key management in the partnership amounted to £3 million at 30 September 2020 (2019: £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.

	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts due from fellow group entities £m	Partnership Amounts due to fellow group entities £m
2020				
UK group undertakings – services provided	83	19	106	-
KPMG UK Limited – provision of staff	1,187	-	-	161
2019				
UK group undertakings – services provided	71	22	95	-
KPMG UK Limited – provision of staff	1,196	-	-	172

Notes

Forming part of the consolidated financial statements

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 or whether a joint arrangement exists:

- 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 have 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 2020 are listed in the table on page 72.

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

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	Dormant	None	100
KPMG Business Intelligence Limited	England ⁴	In liquidation	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	Internal 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	Dormant	None	100 ³
KPMG UK (Transatlantic) LLC	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	In liquidation	None	100
Daymer International Limited	England ⁴	Dormant	None	100 ³
KPMG Investments Malta Limited	Malta ⁸	Holding company	None	75 ³
Crimsonwing Limited	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	16 ³

Notes

Forming part of the consolidated financial statements

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.

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

Registered offices:

- 4 15 Canada Square, Canary Wharf, London, E14 5GL
- 5 Citypoint, 65 Haymarket Terrace, Edinburgh, E112 5HD
- 6 The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801
- 7 Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT
- 8 Portico Building, Marina Street, Pieta, Malta
- 9 Lignum House, Aldo Moro Road, Marsa, MRS9065, Malta
- 10 Laan van Langerbuiza 1, 1186 DS Amstelveen, Netherlands
- 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, India
- 13 Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda
- 14 C/o Trident Trust Company (Mauritius) Limited, 5th Floor, Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Mauritius
- 15 6th Floor, Tower C, Building No 10, DLF Cyber City, Phase – II Gurgaon, Gurgaon HR 122002, India
- 16 3 Chestnut Ridge Road, Montvale, New Jersey, USA 07645

Appendix: Energy and Carbon Report

The Energy and Carbon Report (ECR) covers the reporting period 1 October 2019 to 30 September 2020, data for the comparative reporting period in 2019 has also been included. The scope of the report includes KPMG's operations in the UK excluding the Channel Islands and Gibraltar. We use electronic data collection processes to gather our data. Where data does not exist for a full 12 month reporting period we have estimated outstanding data by extrapolating known data. Our method for calculating Greenhouse Gas (GHG) emissions is based on the GHG Protocol standards and guidance documents. We use carbon conversion factors issued annually by the Department for Business, Energy & Industrial Strategy (BEIS) to report carbon emissions.

Energy consumption and associated carbon emissions in this period has been materially affected by the impact of COVID-19, however we have continued to work proactively to reduce our energy consumption and our carbon emissions where possible. In November 2019, we achieved certification to ISO50001, the standard for Energy Management Systems (EnMS). The development

of the system has enabled us to monitor and report energy consumption more effectively and identify areas for continual improvement. Our electricity consumption has reduced 20% against 2019 due to the reduced use of our office estate during the pandemic. However, our natural gas has remained broadly the same as the lockdown occurred during the warmer months.

This year we also deployed remote collaboration technology across the firm. In the first half of the year this reduced the amount of business travel being conducted and in the second half of the year, in response to the pandemic, became the default method of business communication and interaction. We continue to purchase renewable energy for our managed estate, and this year collaborated with our landlords in our leased buildings on renewable energy purchasing. We're pleased to report 85% of the electricity we consume is purchased with Guarantees of Origin from renewable sources. For full details of our environmental performance please see our annual CR report, which is available at <https://home.kpmg/uk/en/home/about/annual-review-2020>.

ECR KPI	2020	2019
Scope 1		
Natural gas (kWh)	11,349,922	12,031,497
Natural gas (kgCO ₂ e)	2,086,910	2,211,291
KPMG owned/leased car travel (kWh)	1,525,469	–
KPMG owned/leased vehicles (kgCO ₂ e)	364,287	906,271
Total – Scope 1 (kgCO₂e)	2,451,197	3,118,262
Scope 2		
Electricity consumption (kWh)	18,445,331	23,382,774
Electricity emissions (location-based) (kgCO ₂ e)	4,300,345	5,981,898
Electricity emissions (market-based) (kgCO ₂ e)	946,441	1,117,083
Total – Scope 2 (kgCO₂e)	946,441	1,117,083
Total – Scope 1 & 2 emissions (location-based) (kgCO₂e)	6,751,542	9,100,160
Total – Scope 1 & 2 emissions (market-based) (kgCO₂e)	3,397,638	4,235,345

Appendix: Energy and Carbon Report

ECR KPI	2020	2019
Scope 3		
Business-related car travel (kgCO ₂ e)	1,097,768	2,287,572
Air travel – total (kgCO ₂ e)	12,808,901	34,956,968
Rail travel (kgCO ₂ e)	565,113	1,570,335
Transmission and distribution electricity (kgCO ₂ e)	369,829	507,406
Well to tank (kgCO ₂ e)	2,163,378	5,234,537
Total – Scope 3 (kgCO₂e)	17,004,988	44,556,818
Total – Scopes 1, 2 & 3 (market-based)	20,402,626	48,792,164
Total – Scopes 1, 2 & 3 (location-based)	23,756,530	53,656,978
Intensity ratio – Scopes 1,2 & 3 location-based emissions per FTE (kgCO₂e/FTE)	1,503	3,257
Intensity ratio – Scopes 1 & 2 location-based emissions per FTE (kgCO₂e/FTE)	427	552
Full-time equivalent (FTE)	15,806	16,472

The Energy and Carbon Report was authorised for issue and signed on 29 January 2021 on behalf of the members of KPMG LLP (a full list of members is published online with Companies House), registered number OC301540 by:

Tim Jones
Designated Member



kpmg.com/uk

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