UK Members' Report and Financial Statements 2021

In respect of the year ended 30 September 2021

Registered number OC301540

January 2022

kpmg.com/uk

Contents

Report to the members

The Board submits its report together with the audited consolidated financial statements of KPMG LLP and its subsidiary undertakings (the group) for the year ended 30 September 2021.

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 26).

Governance

During the year ended 30 September 2021, the governance structure of the partnership comprised:

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

— The Executive Committee: responsible for driving the board-approved strategy for the group and leading on issues that cut across the group.

Both the Board and Executive Committee are supported by various sub-committees; full details of the governance structures, including changes in year, as well as the composition and responsibilities of the Board, Executive Committee and sub-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:

Jon Holt (appointed 21 July 2021)

Jeremy Barton

Tim Jones

Bill Michael (resigned 28 February 2021)

Members' capital

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 generally remains stable from year to year. However, during the year, partners voted in favour of allocating £201 million of reserves to members' capital, for repayment only after retirement, thereby retaining funds in the business for future investment. As a result, members' capital increased to £258 million at 30 September 2021 (2020: £87 million).

Members' profit shares and drawings

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 Committee 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 behaviours consistent with our strategy and values, reflect an individual's medium-term value as well as current year performance against their goals. It also promotes clarity and transparency amongst members regarding their own remuneration and that of other members. A member's remuneration generally comprises two elements as described below based on target unit pay. The allocation of target units is communicated to members in November each year and is determined in relation to an individual's medium-term value to the group.

Each member's unit allocation 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:

Base Unit Pay – each member will receive 75% of their target units;

Bonus Unit Pay – each member will receive a multiplier of their remaining 25% bonus units based on their relative in-year performance against their performance metrics.

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 Committee and Board, as indicated by adverse Quality and Risk metrics.

Report to the members

(continued)

Financial performance during the year

Revenue grew by 6% year on year, to £2,433 million (2020: £2,303 million); on a like for like basis, excluding revenue of the restructuring and pensions businesses, net sales increased by 12% to £2,039 million (2020: £1,826 million). All four of our capabilities delivered strong growth, with growth in net sales of 5% in Audit, 8% in Tax & Legal, 13% in Consulting and 31% in Deal Advisory, the latter benefitting from an increase in M&A activity and other discretionary spend projects.

We continued to focus on operating in a lean and agile way as we adapted to remote and hybrid working. This focus resulted in a 29% growth in capability contribution, with growth across all four capabilities, and a 48% growth in profit for the financial year, excluding the profit on disposal of businesses in each year.

See note 3 for reconciliation between internal measures of capability performance – net sales and contribution – and revenue and profit for the financial year.

Financial position at the end of the year

The financial position of the group and partnership has strengthened considerably during the year. As set out on page 3, operations are generally financed by members' capital and other members' interests, which together totalled £697 million at 30 September 2021 (2020: £357 million) for the group and £595 million (2020: £277 million) for the partnership. Total members' interests increased as a result of improved profitability and the retention of profits arising on the disposal of the restructuring business.

Whilst bank facilities of £475 million were available to the group at 30 September 2021, the group and partnership held £465 million (2020: £139 million) and £428 million (2020: £101 million) of cash balances respectively and had no borrowings at the year end.

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 £833 million (2020: £740 million) for the group and £801 million (2020: £704 million) for the partnership.

Going concern

As set out on page 3, the group has access to considerable financial resources, namely members' capital, undistributed profits and borrowing facilities. 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 other wider economic impacts. The resilience measures taken by the group early in the pandemic, including cost containment and enhanced focus on working capital management, together with further measures taken to strengthen our capital structure in 2021, have improved the group's resilience both in the immediate and longer term.

Forecasts have been prepared for the group, for the purpose of assessing going concern through to 30 September 2023, reflecting the group's business plan. These forecasts reflect a range of downside scenarios and a Plausible but Severe scenario that incorporates a number of impacts, including those arising from a further deterioration of the economy, prolonged impact from COVID-19, regulatory and reputational matters. Whilst the Plausible but Severe scenario reflects a significantly reduced level of trading and revenue growth available to the group, it demonstrates that the group can withstand periods of reduced profitability, operating within borrowing facilities and covenants throughout the forecast period without reliance on cost mitigating or liquidity enhancing measures. Should the matters considered as part of the Plausible but Severe scenario significantly worsen, management has the option of reintroducing certain of the measures taken at the outset of the pandemic such as postponing investment spend or deferring payments to partners.

At 30 September 2021, the group had cash balances of £465 million (2020: £139 million) and undrawn facilities of £475 million (2020: £475 million) including an additional revolving credit facility of £90 million (2020: £90 million) agreed in April 2020 and expiring in October 2021. This level of cash and committed, undrawn funding provides strong financial resilience through continued disruption caused by any economic factors and allows the group to actively pursue, respond to and invest in opportunities in line with the group's business plan. Full details of the borrowing facilities are set out in note 16. Subsequent to the year end, the group has entered into new borrowing facilities as set out in note 27; as a result, unsecured borrowing facilities totalling £385 million are available to the group for five years.

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

Having considered the group's forecasts and the wider business risks faced by the group, (as set out in the group's separately published Transparency Report) including known events and conditions that may arise beyond the forecast period, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the going concern assessment period. Accordingly, the Board continues to adopt the going concern basis in preparing this report and financial statements.

Report to the members

(continued)

Brexit

The Brexit risk has reduced considerably since last year as we have taken significant steps to prepare the firm for the ongoing consequences of the UK leaving the European Union. However, uncertainty remains around the impact of new regulatory and other restrictions that may be implemented by EU member states in future periods and we will continue to evaluate the impact of Brexit on both the group's activities and those of our clients.

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 has policies and initiatives in place designed to minimise the impact of the group on the environment. We believe that sustainable growth is the only way to build a successful business and have a lasting impact on the world. Our published Impact Plan brings together all of KPMG UK's Environmental, Social and Governance (ESG) commitments and sets out our impact, the progress we are making and where we hold ourselves to account to go further.

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) in conformity with the requirements of the Companies Act 2006.

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 in conformity with the requirements of the Companies Act 2006;

— 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

Opinion

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 2021, 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 the 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the partnership financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the partnership to cease to continue as a going concern.

In our evaluation of the members' conclusions, we considered the inherent risks associated with the group's and the partnership's business model including effects arising from macro-economic uncertainties such as Brexit and COVID-19, we assessed and challenged the reasonableness of estimates made by the members and the related disclosures and analysed how those risks might affect the group's and partnership's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and partnership's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

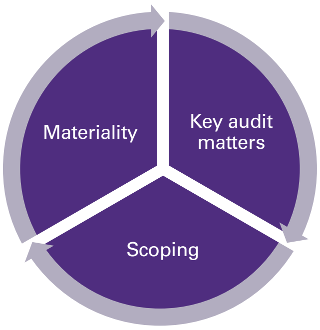
In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the members with respect to going concern are described in the 'Responsibilities of members for the financial statements' section of this report.

Independent auditor's report to the members of KPMG LLP

(continued)

Our approach to the audit



Overview of our audit approach

Overall materiality:

Group: £20 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; and

Partnership: £18 million, which represented 5% of the partnership's profit before taxation, disposal of business and members' profit share capped at 90% of group materiality, 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 (same as previous year); and
- Professional claims and regulatory matters (same as previous year); and
- Defined benefit scheme obligations (new)

Our auditor's report for the year ended 30 September 2020 included two key audit matters that have not been reported as key audit matters in our current year's report. These relate to going concern, as the Group's cash position has improved by £326m at 30 September 2021 and impairment where a market transaction indicates that the risk attached to the impairment of goodwill attributable to Microsoft Business Solutions has decreased.

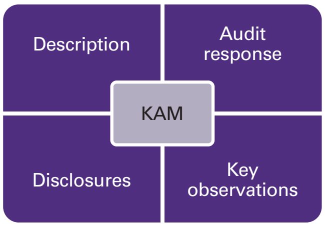
We performed a full scope audit of the financial statements of the partnership, which represents the majority of the group. We completed specified or analytical audit procedures on the financial information of all other group components.

Independent auditor's report to the members of KPMG LLP

(continued)

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.

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.

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
Revenue recognition includes the risk of fraud We identified revenue recognition includes the risk of fraud as one of the most significant assessed risks of material misstatement. The group's revenue amounted to £2,433 million (2020: £2,303 million). 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 contracts with complexities arising from variable consideration or where contracts remain open at the year end. We identified a population of significant contracts with specific risks or characteristics as set out above (such as variable consideration) with revenue recognised amounting to £231 million which, in our view, had a greater susceptibility to material misstatement arising from the risk of fraud or error. Relevant disclosures in the Financial Statements 2021 — Note 3, Revenue	In responding to the key audit matter, we performed the following audit procedures: — 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 relevant year end controls; — assessing the accounting policies and practices relating to revenue recognition employed by management to ensure compliance with IFRS 15; — testing a sample of engagements to assess that the right to consideration had been obtained through performance of the agreed services and that the associated revenues were appropriately recognised under the requirements of IFRS 15; — for the individually significant engagements where we identified specific risks or characteristics, discussing, challenging and corroborating the estimates applied by engagement and management teams in determining the level of revenue recognised in the consolidated income statement and the related contract assets and liabilities within the group and partnership statements of financial position; and — 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. Key observations Our audit testing did not identify any significant deficiencies in the revenue recognition policies and we did not identify a material misstatement in revenue recognition as a result of the risk of fraud or error. 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 3 to the financial statements appropriately discloses and describes the significant degree of inherent uncertainty in the assumptions and estimates used in determining the stage of completion of revenue contracts.

Independent auditor's report to the members of KPMG LLP

(continued)

Key audit matters (continued)

Key audit matter – group and partnership	How the matter was addressed in the audit – group and partnership
Professional claims and regulatory matters We identified professional claims and regulatory matters as one of the most significant assessed risks of material misstatement due to fraud or error. Group and partnership provisions in respect of professional claims and regulatory matters amount to £144 million (2020: £92 million) and £135 million (2020: £87 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. Determining whether a provision or contingent liability arises can be highly judgemental and estimating the level of costs likely to be incurred in defending and concluding such matters is characterised with a high level of estimation uncertainty. Relevant disclosures in the Financial Statements 2021 — Note 18, Provisions	In responding to the key audit matter, we performed the following audit procedures: — performing an assessment of the professional claim and regulatory matter notification process, and the identification and practice protection procedures in operation; — by engaging internal legal experts to assist us to challenge management as to whether the circumstances surrounding certain 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 and challenging management's key estimates 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, by reference to sanctions and claims levied against the group and its competitors and by reference to the underlying facts and circumstances of claims against the group; — 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; — determining whether the information obtained was complete through review of publicly available information and that held by the group's General Counsel; and — assessing 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 is toward the lower end of our own acceptable range where our range is a multiple of materiality. We consider that the disclosures in note 18 appropriately describe the significant degree of inherent uncertainty in the assumptions and estimates used in estimating the value of 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	How the matter was addressed in the audit – group and partnership
Defined benefit scheme obligations We identified defined benefit scheme obligations as one of the most significant assessed risks of material misstatement due to error. There are significant provisions for post-employment benefits, currently resulting in a defined benefit pension scheme deficit. The measurement of these liabilities in accordance with IAS 19 (Revised) 'Employee benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension liabilities being recognised in the financial statements. Relevant disclosures in the Financial Statements 2021 — Note 20, Retirement benefits	In responding to the key audit matter, we performed the following audit procedures: — assessing the objectivity, competence and capability of management's actuarial team; — in conjunction with our internal actuarial specialists, considering the appropriateness of the valuation methodologies and challenging the appropriateness of the valuation assumptions (including discount rates and mortality table usage); — assessing the appropriateness of information sources used for the valuation; and — consideration of the adequacy of the disclosures related to defined benefit pension schemes. Key observations Our audit work determined the valuation methodologies and the actuarial assumptions inherent within them to be consistent with the expectation of our actuarial specialists. We consider that the related disclosure in note 20 to the financial statements appropriately describes the significant degree of uncertainty in the underlying assumptions and estimates.

Independent auditor's report to the members of KPMG LLP

(continued)

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	Group	Partnership
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£20 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.	£18 million which represented 5% of the partnership's profit before taxation, disposal of business and members' profit share capped at 90% of group materiality, at the planning stage of the audit. We decided not to revise materiality once the final results were known.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the significant judgement that the selected benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members. This benchmark was agreed with the Audit Committee during the audit planning phase and has been consistently applied in the current and prior years. Materiality for the current year is higher than the level that we determined for the year ended 30 September 2020 to reflect the increase in the group's profit before taxation, disposal of business and members' profit share.	In determining materiality, we made the significant judgement that the selected benchmark is considered the most appropriate because it reflects the level of profits generated during the year available for distribution to the members. This benchmark was agreed with the Audit Committee during the audit planning phase and has been consistently applied in the current and prior years. Materiality for the current year is higher than the level that we determined for the year ended 30 September 2020 to reflect the increase in the partnership's profit before taxation, disposal of business and members' profit share.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£15 million, which is 75% of financial statement materiality.	£13.5 million, which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we considered all pertinent facts from prior period audits, including the low level of adjusted and unadjusted misstatements and the low level of control deficiencies.	In determining performance materiality, we considered all pertinent facts from prior period audits, including the low level of adjusted and unadjusted misstatements and the low level of control deficiencies.

Independent auditor's report to the members of KPMG LLP

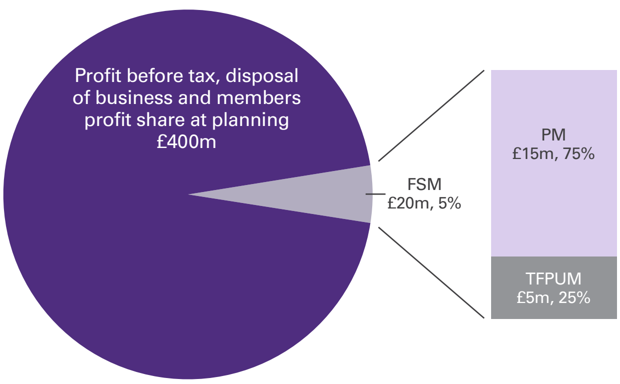
(continued)

Our application of materiality (continued)

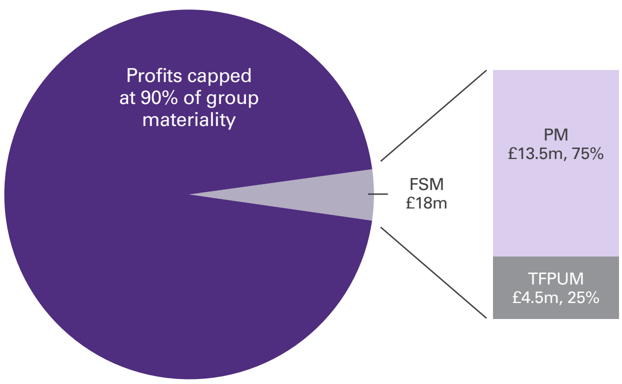
Materiality measure	Group	Partnership
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for certain areas such as key management profit share, average partner distribution and related party transactions.	We determined a lower level of specific materiality for certain areas such as key management profit share, average partner distribution and related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£1 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£0.9 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Partnership



FSM: Financial statements materiality PM: Performance materiality TFPUM: Tolerance for potential uncorrected misstatements

Independent auditor's report to the members of KPMG LLP

(continued)

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the partnership's business and in particular matters related to:

Understanding the group, its components and their environments, including group-wide controls

The engagement team obtained an understanding of the group and its environment, including the controls and the assessed risks of material misstatement. We performed interim and advanced audit procedures as well as an evaluation of the internal control environment, including the group's IT systems and controls.

Identifying significant components

The performance of the group is substantially derived from that of the partnership which is the only significant component of the group.

Our audit included an audit of the financial statements of the partnership, together with specified or analytical audit procedures for the rest of the group. 95% of the group's revenue, 92% of the group's total assets and 83% of the group's total liabilities were subject to an audit based upon the partnership's materiality, with the group's remaining assets and liabilities subject to specified or analytical audit procedures.

Type of work to be performed on financial information of partnership and other components

The group audit was conducted from one key location and as noted above included an audit of the financial statements of the partnership, together with specified or analytical audit procedures for the rest of the group.

The only component not audited by the group engagement team 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 specified audit procedures on 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 scope and nature of the audit and the group risks that should be addressed. We also communicated information required to be reported back to the group engagement team, together with the group materiality threshold (in the knowledge that this component is subject to local audit using a materiality set at a lower level than group financial statement materiality). We also evaluated the component auditor's working papers and held direct discussions with them regarding their findings and conclusions.

Performance of our audit

We evaluated certain relevant 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.

Changes in approach from previous period

There were no significant changes to the audit approach other than undertaking specified audit procedures on the financial information of QSM rather than designating it as a significant component.

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 in respect of the report to the members and the financial statements, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined the most significant laws and regulations to be:

— those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied to Limited Liability Partnerships).

— regulations governing auditors and accountants enforced by the FRC, ICAEW and PCAOB.

We understood how the group is complying with the relevant legal and regulatory frameworks by making enquiries of management and those charged with governance, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, legal correspondence, correspondence received from regulatory bodies and circularisation of external legal counsel.

We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur through:

— enquiry of management throughout the business to understand areas where they considered there was a risk of fraud.

— attendance at audit committee meetings throughout the year which included reporting by internal audit of the key findings of their work.

Independent auditor's report to the members of KPMG LLP

(continued)

We performed audit procedures to address each identified fraud risk. These included testing:

— journals which met a pre-defined criterion and corroborating to supporting documentation.

— key areas of estimation uncertainty or judgement pertaining to the provisioning for professional claims and regulatory matters by reference to the views of internal and external legal counsel and through challenge from our own legal experts (see Key audit matter for further details).

— open contracts with specific risks or characteristics (see Key audit matter for further details).

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The engagement partner has assessed that the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations and this was achieved through adherence to internal quality control procedures and through planning and stand back meetings to identify and follow up on non-compliance risks.

The impact of material non-compliance with laws and regulations and fraud are assessed and evaluated by management when making provision for professional claims and regulatory matters in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Our audit work thereon is considered a Key Audit Matter as described in this 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 2022

Grant Thornton

Consolidated income statement

For the year ended 30 September 2021

	Note	2021 £m	2020 £m
Revenue	3	**2,433**	2,303
Recoverable expenses		**(289)**	(304)
Net sales		**2,144**	1,999
Other operating income	4	**67**	67
Staff costs	5	**(1,160)**	(1,121)
Profit on disposal of business	9	**234**	115
Depreciation and amortisation	10,11	**(114)**	(146)
Impairment of trade receivables and contract assets	14	**11**	(10)
Other operating expenses	6	**(500)**	(483)
Operating profit		**682**	421
Financial income	7	**11**	13
Financial expense	7	**(23)**	(31)
Net financial expense		**(12)**	(18)
Profit before taxation and members' profit shares		**670**	403
Tax expense in corporate entities	8	**(21)**	(7)
Profit for the financial year before members' profit shares		**649**	396
Members' profit shares charged as an expense	5	**(511)**	(250)
Profit for the financial year available for discretionary division among members		**138**	146
Profit for the financial year available for discretionary division among members, attributable to:			
Members as owners of the parent entity		**139**	147
Non-controlling interests		**(1)**	(1)
		138	146

Consolidated statement of comprehensive income

For the year ended 30 September 2021

	Note	2021 £m	2020 £m
Profit for the financial year available for discretionary division among members		**138**	146
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plans	20	**23**	(27)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences		**(1)**	(1)
Other comprehensive income for the financial year, net of tax		**22**	(28)
Total comprehensive income for the financial year, net of tax		**160**	118
Total comprehensive income for the financial year, attributable to:			
Members as owners of the parent entity		**161**	119
Non-controlling interests		**(1)**	(1)
		160	118

Statements of financial position

At 30 September 2021

	Note	Group 2021 £m	Group 2020 £m	Partnership 2021 £m	Partnership 2020 £m
Assets, excluding members' interests					
Non-current assets					
Property, plant and equipment	10	**509**	584	**485**	553
Intangible assets	11	**34**	47	**6**	17
Investments	12	**1**	1	**16**	16
Other non-current assets	13	**7**	6	**87**	86
		551	638	**594**	672
Current assets, excluding members' interests					
Trade and other receivables	14	**993**	840	**1,043**	905
Other financial assets	15	**48**	48	**-**	-
Cash and cash equivalents	16	**465**	139	**428**	101
		1,506	1,027	**1,471**	1,006
Total assets, excluding members' interests		**2,057**	1,665	**2,065**	1,678
Liabilities, excluding members' interests					
Non-current liabilities					
Retirement benefits	20	**84**	109	**84**	109
Lease liabilities	23	**450**	496	**430**	470
Provisions	18	**108**	125	**105**	125
Deferred tax liability	19	**-**	1	**-**	-
Other non-current liabilities	13	**20**	-	**110**	90
		662	731	**729**	794
Current liabilities, excluding members' interests					
Trade and other payables	17	**551**	509	**602**	545
Tax payable		**3**	-	**-**	-
Lease liabilities	23	**37**	38	**32**	32
Provisions	18	**113**	35	**107**	30
		704	582	**741**	607
Total liabilities, excluding members' interests		**1,366**	1,313	**1,470**	1,401
Net assets attributable to members and non-controlling interests		**691**	352	**595**	277
Represented by:					
Amounts classified as current assets:					
Amounts due from members	21	**(43)**	(47)	**(43)**	(47)
Amounts classified as non-current liabilities:					
Members' capital	21	**181**	-	**181**	-
Amounts classified as current liabilities:					
Amounts due to members	21	**254**	178	**254**	178
Members' capital	21	**77**	87	**77**	87
		331	265	**331**	265
Amounts classified as equity:					
Other members' interests classified as equity		**228**	139	**126**	59
Total members' interests		**697**	357	**595**	277
Non-controlling interests		**(6)**	(5)	**-**	-
		691	352	**595**	277

The partnership reported a profit available for discretionary division among members for the year ended 30 September 2021 of £116 million (2020: £137 million). The financial statements on pages 17 to 74 were authorised for issue and signed on 29 January 2022 on behalf of the members of KPMG LLP, registered number OC301540 by:

Jon Holt
Chief Executive Officer

Tim Jones
Chief Operating Officer

Statements of changes in equity

For the year ended 30 September 2021

		Group				Partnership
	Note	Members' other reserves £m	Translation Reserve £m	Non-controlling interests £m	**Total £m**	**Members' other reserves £m**
Balance at 1 October 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	20	(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		(31)	-	-	(31)	(31)
Transactions with owners		(31)	-	-	(31)	(31)
Balance at 30 September 2020		136	3	(5)	134	59
Profit/(loss) for the financial year available for discretionary division among members		**139**	**-**	**(1)**	**138**	**116**
Remeasurement of defined benefit pension plans	20	**23**	**-**	**-**	**23**	**23**
Foreign exchange translation differences		**-**	**(1)**	**-**	**(1)**	**-**
Total comprehensive income		**162**	**(1)**	**(1)**	**160**	**139**
2020 profits available for discretionary division, allocated to members during the year		**(72)**	**-**	**-**	**(72)**	**(72)**
Total comprehensive income		**(72)**	**-**	**-**	**(72)**	**(72)**
Balance at 30 September 2021		**226**	**2**	**(6)**	**222**	**126**

Statements of cash flows

For the year ended 30 September 2021

		Group		Partnership	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Cash flows from operating activities					
Profit for the financial year after members' profit shares charged as an expense		**138**	146	**116**	137
Adjustments for:					
Tax expense	8	**21**	7	**-**	-
Depreciation and amortisation	10,11	**114**	146	**107**	130
Financial income	7	**(11)**	(13)	**(58)**	(68)
Financial expense	7	**23**	31	**25**	32
Impairment of trade receivables and contract assets	14	**(11)**	10	**(10)**	10
Profit on disposal of business	9	**(234)**	(115)	**(223)**	(110)
Members' profit shares charged as an expense	5	**511**	250	**511**	250
		551	462	**468**	381
(Increase)/decrease in trade and other receivables		**(184)**	133	**(165)**	122
Increase in trade and other payables		**48**	17	**63**	17
Increase in provisions and retirement benefits		**57**	17	**53**	17
Cash generated from operations		**472**	629	**419**	537
Net interest and other financial costs received/(paid)	7	**2**	(1)	**-**	(2)
Corporate taxes paid		**(20)**	(19)	**-**	-
Net cash flows from operating activities before transactions with members		**454**	609	**419**	535
Payments to members		**(302)**	(296)	**(302)**	(296)
Net cash flow from operating activities		**152**	313	**117**	239
Cash flows from investing activities					
Net proceeds from sale of business	9	**267**	121	**252**	121
Dividends received		**-**	-	**45**	52
Disposal/(acquisition) of other financial assets		**1**	(2)	**-**	-
Proceeds from sale of property, plant and equipment	10	**3**	4	**3**	3
Acquisition of property, plant and equipment	10	**(27)**	(36)	**(27)**	(35)
Development of intangible assets	11	**(2)**	(1)	**(2)**	(1)
Net cash flows from investing activities		**242**	86	**271**	140
Cash flows from financing activities					
Repayment of bank borrowings	16	**-**	(220)	**-**	(220)
Payment of lease liabilities	23	**(58)**	(65)	**(51)**	(56)
Capital introduced by members	21	**5**	5	**5**	5
Capital repayments to members	21	**(15)**	(17)	**(15)**	(17)
Net cash flows from financing activities		**(68)**	(297)	**(61)**	(288)
Net increase in cash and cash equivalents		**326**	102	**327**	91
Cash and cash equivalents at the beginning of the year		**139**	37	**101**	10
Cash and cash equivalents at the end of the year	16	**465**	139	**428**	101

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 in conformity with the requirements of the Companies Act 2006 (adopted IFRSs) 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.

A number of new interpretations and amendments to adopted IFRSs have effective dates such that they fall to be applied by the group. The following amendment is the only change of relevance to these financial statements that have been applied in the year ended 30 September 2021.

— Amendment to IFRS 16 'COVID-19 – related Rent Concessions': effective for periods beginning on or after 1 June 2020.

The group elected to early adopt the following IFRS and amendments in the year ended 30 September 2021:

— Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16): effective for periods beginning on or after 1 January 2021.

— Amendment to IFRS 16 'COVID-19 – related Rent Concessions beyond 30 June 2021': effective for periods beginning on or after 1 April 2021.

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. 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.

— 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 2024.

— Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting policies'; effective for periods beginning on or after 1 January 2023.

— Amendments to IAS 8 'Definition of Accounting Estimates'; effective for periods beginning on or after 1 January 2023.

— Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction': effective for periods beginning on or after 1 January 2023.

Based on preliminary assessments, the adoption of these amendments 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 other wider economic impacts. The resilience measures taken by the group early in the pandemic, including cost containment and enhanced focus on working capital management, together with further measures taken to strengthen our capital structure in 2021, have improved the group's resilience both in the immediate and longer term.

Forecasts have been prepared for the group, for the purpose of assessing going concern through to 30 September 2023, reflecting the group's business plan. These forecasts reflect a range of downside scenarios and a Plausible but Severe scenario that incorporates a number of impacts, including those arising from a further deterioration of the economy, prolonged impact from COVID-19, regulatory and reputational matters. Whilst the Plausible but Severe scenario reflects a significantly reduced level of trading and revenue growth available to the group, it demonstrates that the group can withstand periods of reduced profitability, operating within borrowing facilities and covenants throughout the forecast period without reliance on cost mitigating or liquidity enhancing measures. Should the matters considered as part of the Plausible but Severe scenario significantly worsen, management has the option of reintroducing certain of the measures taken at the outset of the pandemic such as postponing investment spend or deferring payments to partners.

At 30 September 2021, the group had cash balances of £465 million (2020: £139 million) and undrawn facilities of £475 million (2020: £475 million) including an additional revolving credit facility of £90 million (2020: £90 million) agreed in April 2020 and expiring in October 2021; this level of cash and committed, undrawn funding provides strong financial resilience through continued disruption caused by any economic factors and allows the group to actively pursue, respond to and invest in opportunities in line with the group's business plan. Full details of the borrowing facilities are set out in note 16.

Subsequent to the year end, the group has entered into new borrowing facilities as set out in note 27; as a result, unsecured borrowing facilities totalling £385 million are available to the group for five years.

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

Having considered the group's forecasts and the wider business risks faced by the group, (as set out in the group's separately published Transparency Report) including known events and conditions that may arise beyond the forecast period, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the going concern assessment period. 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. 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 2021 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 18).

— 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 13).

— Member retirement provisions: assessing whether a contractual or constructive obligation exists, resulting in a provision to be recognised (note 18).

— Consolidation of investee companies: assessing whether the group has control over certain subsidiaries despite minority shareholding (note 26).

— Leases: Establishing whether or not it is reasonably certain that a termination option will be exercised (note 23).

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 18).

— 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 3).

— Retirement benefits: determining the actuarial assumptions to be applied in estimating the net obligations of the group's pension plans, with the key actuarial assumptions being mortality, discount rates, and inflation (note 20).

— Leases: Estimating the future economic benefit to be derived from the asset (note 10).

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

Certain significant estimates were disclosed in the 2020 financial statements but, having reassessed, management have concluded that they no longer meet the requirements for disclosure:

— Trade and other receivables: whilst revenue from service contracts and amounts recognised for unbilled amounts for client work are both key sources of estimation uncertainty, recoverability of trade and other receivables is not considered to be a significant estimate, as evidenced by the low impact from changing assumptions set out in note 14.

— Impairment of intangible assets: recoverable amount of goodwill does not change significantly if underlying assumptions used in the calculation of value in use are changed, as indicated in note 11. Impairment of intangible assets is therefore no longer considered to be a key source of estimation uncertainty.

Notes

Forming part of the consolidated financial statements

3. Revenue

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

Accounting policy

Revenue is recognised when, or as, the group and partnership satisfy performance obligations, contained in contracts with clients, by transferring control of services to clients. Revenue is measured as the fair value of consideration received or receivable for satisfying those performance obligations, including recoverable expenses 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 as services are provided at 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 if a stand-alone selling price is not directly observable.

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'. Consideration received or amounts due in excess of revenue recognised by the group and partnership are classified as 'Contract liabilities' within 'Trade and other payables'. Contract assets are reclassified as trade receivables when invoiced or when the consideration becomes unconditional because only the passage of time is required before payment is due.

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 £339 million (2020: £329 million) for the group and £331 million (2020: £313 million) for the partnership at 30 September 2021. A 5% movement in contract assets would result in a change in revenue of £17 million for group and £16 million for partnership.

Notes

Forming part of the consolidated financial statements

3. 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 & Legal (T&L), Deal Advisory, Consulting, Technology, Coverage Central and KPMG Business Services (KBS) – and market informed, through the coverage groups National Markets, Financial Services and Corporates.

Information presented to the Chief Operating Decision Maker (CODM – considered to be the group's Executive Committee) covers both capabilities and coverage groups. However, the group's people and resources are 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 28 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 required under IFRS 8. Revenue by capability and coverage groups disclosed on pages 28 and 29 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 transforms our clients through a number of different services including reviews, assessments and internal audits; regulatory, risk, ESG and other specialist technical advice and assistance; design and implementation of operating models; technology and transformation programmes; digital migration and integration services; and the provision of managed service solutions.

Notes

Forming part of the consolidated financial statements

3. Revenue (continued)

Information by segment is as follows:

2021	Audit £m	T&L £m	DA £m	Cons £m	**Total £m**
Net sales (as reported internally)	**634**	**402**	**357**	**646**	**2,039**
Recoverable expenses (as reported internally)	**42**	**100**	**36**	**116**	**294**
Gross sales (as reported internally)	**676**	**502**	**393**	**762**	**2,333**
Revenue of restructuring business disposed in year					**81**
Revenue of Microsoft Business Solutions					**41**
Elimination of intra-group trading and other financial adjustments					**(22)**
Total group revenue					**2,433**
Segmental contribution (as reported internally)	**216**	**164**	**164**	**194**	**738**
Members' remuneration adjustments					**214**
Contribution of restructuring business					**37**
Costs not allocated to segments					**(543)**
Profit on disposal of business (note 9)					**234**
Net financial expense (see note 7)					**(12)**
Profit before taxation of entities not reported internally					**2**
Total group profit before taxation and members' profit shares					**670**
Segmental assets (as reported internally)	**95**	**185**	**122**	**179**	**581**
Assets of entities not reported internally					**106**
Assets not allocated to segments					**1,370**
Total group assets, excluding members' interests					**2,057**

2020	Audit £m	T&L £m	DA £m	Cons £m	Total £m
Net sales (as reported internally)	606	373	273	574	1,826
Recoverable expenses (as reported internally)	52	102	57	90	301
Gross sales (as reported internally)	658	475	330	664	2,127
Revenue of pensions and restructuring business					159
Revenue of Microsoft Business Solutions					33
Elimination of intra-group trading and other financial adjustments					(16)
Total group revenue					2,303
Segmental contribution (as reported internally)	181	144	105	143	573
Members' remuneration adjustments					216
Contribution of pensions and restructuring business					68
Costs not allocated to segments					(558)
Profit on disposal of business (note 9)					115
Net financial expense (see note 7)					(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	88	139	470
Assets of entities not reported internally					57
Assets not allocated to segments					1,138
Total group assets, excluding members' interests					1,665

Notes

Forming part of the consolidated financial statements

3. Revenue (continued)

Figures previously presented for Deal Advisory (DA) have been restated to exclude the restructuring business, disposed in May 2021, in line with adjustments made to internal reporting through the year ended 30 September 2021.

Entities not reported internally throughout the year ended 30 September 2021 include Microsoft Business Solutions, 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 to the four capabilities are expenses within segmental contribution and reversed for financial reporting purposes. The prior year comparatives for segmental contribution and members' remuneration adjustments have been restated, in line with adjustments made to internal reporting throughout the year ended 30 September 2021, to reflect higher notional charges applied for 2021 and prior year comparatives reported internally.

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' on page 28.

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

The group operates almost entirely in the UK; subsidiary entities based outside the UK are immaterial for the purposes of presenting separate geographical segment information. The group generates 83% (2020: 82%) of its revenue from clients located in the UK; the remaining revenue is generated across clients located in a number of countries, the largest of which is the United States (2021: 4%; 2020: 4%).

Major clients

The group has no reliance on any one client – no more than 3% (2020: 3%) of group revenue and 3% (2020: 3%) of partnership revenue is attributable to the largest client.

Net sales by coverage group

As set out on page 27, the group organises its clients into coverage groups; net sales by coverage group (including net sales of the restructuring and pensions business but excluding Microsoft Business Solutions) is provided below for information:

	Group	
	2021 £m	2020 £m
National Markets	**714**	618
Financial Services	**803**	720
Corporates	**592**	633
Central	**8**	10
	2,117	1,981

3. 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 14 and 17).

At 30 September 2021, the aggregate amount of the transaction price allocated to fixed price, long-term contracts that were only partially complete was £128 million for the group and partnership (2020: £133 million for group and partnership). Management expects that 75% (2020: 59%) of the transaction price allocated to these unsatisfied contracts will be recognised as revenue during the financial year ending 30 September 2022 and 25% (2020: 41%) recognised in the financial year ending 30 September 2023. 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 2021, £71 million (2020: £86 million) of the group's and £73 million (2020: £90 million) of the partnership's contract liabilities held at 30 September 2020 were recognised as revenue.

4. Other operating income

Included in other operating income are the following items:

	Group	
	2021 £m	2020 £m
Charges to other KPMG International member firms	**58**	56
Other items including sub-let rental and shared service recharges	**9**	11
	67	67

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

5. Members and staff

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

	Group		Partnership	
	2021 Number	2020 Number	**2021 Number**	2020 Number
Members	**548**	592	**548**	592
Staff	**14,392**	15,595	**-**	-
	14,940	16,187	**548**	592

KPMG LLP employs no staff; all UK staff are employed by KPMG UK Limited, a subsidiary of the partnership (see note 26). The average number of members and staff by capability were as follows:

	Group	
	2021 Number	2020 Number
Audit	**5,216**	5,533
Tax & Legal	**2,180**	2,490
Deal Advisory	**1,496**	1,626
Consulting	**3,768**	3,510
KPMG Business Services, Technology and Coverage Central	**2,280**	3,028
	14,940	16,187

Deal Advisory included an average of 248 (2020: 467) members and staff of the restructuring business in 2021. In 2020, Tax & Legal included an average of 186 members and staff of the pensions business.

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 32).

	Group	
	2021 £m	2020 £m
Salaries (including bonuses)	**1,007**	975
Social security costs	**110**	102
Cost of retirement benefits (note 20)	**43**	44
Staff costs per income statement	**1,160**	1,121
Amounts charged to the income statement in respect of defined benefit pension plans (note 20)	**3**	2
Amounts recognised in the statement of comprehensive income in respect of defined benefit pension plans (note 20)	**(23)**	27
Total staff related costs	**1,140**	1,150

Notes

Forming part of the consolidated financial statements

5. Members and staff (continued)

Members' profit shares

Accounting policy

The LLP Partnership Agreement requires that 75% (2020: 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 25% (2020: 10%) of the adjusted group profits for the period. Any proposal of the Board to retain more than 25% (2020: 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 75% (2020: 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 75% (2020: 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 totalled £511 million for the year ended 30 September 2021, reflecting £310 million in respect of 75% adjusted group profits (2020: £250 million in respect of 90% of adjusted group profits) and £201 million of profit on disposal of the restructuring business, following member vote during the year to allocate this profit to members' capital (see note 21). Average partner distribution totalled £688,000 (2020: £572,000) reflecting distribution of adjusted group profits after taking into account amounts retained in reserves and excluding the allocation of profit on disposal of the restructuring business allocated to capital. Further disclosures are given in note 25 regarding transactions with members who are considered to be key management.

6. Other operating expenses

Other operating expenses of the group include property and IT costs, together £96 million (2020: £98 million), training and subscription costs of £50 million (2020: £48 million) and KPMG International Levy of £77 million (2020: £81 million). Travel and accommodation costs of £3 million (2020: £47 million) significantly reduced year on year as a result of restrictive COVID-19 measures in place during 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, communication and marketing.

	Group	
	2021 £000	2020 £000
Auditors' remuneration:		
Audit of partnership and consolidated financial statements	**376**	456
Amounts receivable by auditors, of the partnership, and their associates in respect of:		
Audit of financial statements of subsidiaries	**211**	201
Audit related assurance services provided to the group	**169**	224
Audit of certain group pension plans	**81**	77
Tax advisory services	**10**	8
	847	966

Audit related assurance services of £169,000 (2020: £224,000) included services that were not related to the statutory audit of the group and therefore considered to be non-audit services. These services included those assurance services provided in respect of sustainability reporting and in 2020 pensions controls work and property rental reporting. These services also included services provided overseas for local filing and tax reporting purposes and assurance services provided in respect of SOC 2 reporting on systems hosted by the group; these services were only provided to the extent that they were contracted and commenced prior to 15 December 2020.

Notes

Forming part of the consolidated financial statements

7. Financial income and expense

Accounting policy

Financial income comprises exchange gains, interest income and, if positive, net change in fair value of financial assets at fair value through 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	
	2021 £m	2020 £m
Interest income	**2**	1
Net change on fair value of financial assets at FVTPL	**1**	-
Exchange gains	**8**	12
Financial income	**11**	13
Net interest expense on defined benefit pension plan liabilities (note 20)	**1**	2
Unwinding discount on provisions (note 18)	**1**	1
Net change in fair value of financial assets at FVTPL	**-**	1
Interest expense on lease liabilities (note 23)	**12**	13
Interest expense on bank borrowings	**-**	2
Exchange losses	**9**	12
Financial expense	**23**	31

The total interest income on financial assets that were not classified as FVTPL was £2 million (2020: £1 million). The total interest expense on financial liabilities that were not classified as FVTPL was £12 million (2020: £15 million).

8. Tax expense in corporate entities

Accounting policy

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

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

Notes

Forming part of the consolidated financial statements

8. 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	
	2021 £m	2020 £m
Current tax expense:		
Current year	**19**	13
Adjustment in respect of prior years	**1**	(9)
Share of overseas taxes of joint operation	**3**	4
Deferred tax (see note 19)	**(2)**	(1)
Total tax expense in income statement	**21**	7

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

	Group	
	2021 £m	2020 £m
Profit before taxation and members' profit shares	**670**	403
Less profit arising in partnership, on which tax is payable by the members personally	**(627)**	(387)
Profit before taxation arising in group companies	**43**	16
Tax at 19% (2020: 19%) being the average rate of corporate taxes levied on the profits of group companies	**8**	3
Impact of tax exempt items	**9**	9
Adjustment in respect of prior years	**1**	(9)
Overseas taxes	**3**	4
Total tax expense in income statement	**21**	7

There was no tax charge/(credit) recognised in the statement of comprehensive income (2020: £nil).

Factors affecting the tax charge in future periods

In the March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the corporate subsidiaries' future current tax charges.

Notes

Forming part of the consolidated financial statements

9. Acquisitions and disposals

Accounting policy

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

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

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

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

Acquisitions and disposals

There were no acquisitions during the years ended 30 September 2021 and 2020.

Disposals – year ended 30 September 2021

In May 2021, KPMG LLP completed the disposal of its restructuring business, resulting in the transfer of 22 partners and approximately 550 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 restructuring business, the net consideration due to KPMG as a result of the sale was £282 million. After adjusting for net assets transferred of £33 million (primarily contract assets) and costs of disposal of £15 million, the profit on sale of the business was £234 million.

Had the disposal taken place at 1 October 2020, the revenue and contribution of the group and partnership would have been reduced by £81 million and £37 million respectively.

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.

10. Property, plant and equipment

Accounting policy

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

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

Office buildings	Life of lease
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.

Notes

Forming part of the consolidated financial statements

10. Property, plant and equipment (continued)

Significant estimate

The net book value of the group's and partnership's office buildings of £388 million and £370 million respectively (2020: £438 million and £414 million) 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. Included within the depreciation charge for the year is an impairment provision of £7 million at 30 September 2021 (2020: £11 million). The use of different assumptions would result in a different assessment of right-of-use asset, impairment and resulting net book value; there are reasonably possible changes to assumptions that could cause the carrying amount to materially exceed recoverable amount for any individual asset. See note 23 for further details.

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 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
Additions	**-**	**18**	**8**	**3**	**29**
Disposals	**-**	**(22)**	**(1)**	**(5)**	**(28)**
Exchange difference	**(2)**	**-**	**-**	**-**	**(2)**
Balance at 30 September 2021	**490**	**117**	**291**	**28**	**926**
Depreciation and impairment					
Balance at 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
Charge for the year	**48**	**10**	**34**	**7**	**99**
Disposals	**-**	**(21)**	**(1)**	**(3)**	**(25)**
Balance at 30 September 2021	**102**	**94**	**202**	**19**	**417**
Net book value					
At 1 October 2019	492	29	130	21	672
At 30 September 2020	438	16	115	15	584
At 30 September 2021	**388**	**23**	**89**	**9**	**509**

Notes

Forming part of the consolidated financial statements

10. 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 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
Additions	**-**	**18**	**8**	**3**	**29**
Disposals	**-**	**(22)**	**(1)**	**(5)**	**(28)**
Balance at 30 September 2021	**463**	**115**	**284**	**28**	**890**
Depreciation and impairment					
Balance at 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
Charge for the year	**44**	**10**	**33**	**7**	**94**
Disposals	**-**	**(21)**	**(1)**	**(3)**	**(25)**
Balance at 30 September 2021	**93**	**93**	**200**	**19**	**405**
Net book value					
At 1 October 2019	461	28	123	21	633
At 30 September 2020	414	15	109	15	553
At 30 September 2021	**370**	**22**	**84**	**9**	**485**

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
	At 30 September 2021	**388**	**4**	**5**	**3**	**400**
Partnership:	At 30 September 2020	414	2	-	8	424
	At 30 September 2021	**370**	**3**	**-**	**3**	**376**

Notes

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11. Intangible assets

Accounting policy

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

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

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGUs), where the CGU reflects the level at which the individual acquired business is now managed 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 2021, the carrying value of goodwill totalled £26 million (2020: £27 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 the higher of its value in use or fair value less costs of disposal. In assessing value in use, the group applies a growth rate to the relevant CGU, as set out on page 40. 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 for value in use calculations. An impairment of £1 million has been recognised in respect of KPMG CIO Advisory Limited and we consider it unlikely that there would be reasonably possible changes in the key assumptions set out on page 40 that would cause the carrying amount to exceed the recoverable amount for any other individual goodwill asset. Accordingly, this is no longer considered to be a significant estimate (see note 2).

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11. Intangible assets (continued)

Group

	Internally generated software £m	Customer relationships and similar items £m	Goodwill £m	**Total £m**
Cost				
Balance at 1 October 2019	111	27	40	178
Additions	1	-	-	1
Write off	-	(6)	(7)	(13)
Balance at 30 September 2020	112	21	33	166
Additions	**2**	**-**	**-**	**2**
Write off	**(17)**	**-**	**(1)**	**(18)**
Balance at 30 September 2021	**97**	**21**	**32**	**150**
Amortisation and impairment				
Balance at 1 October 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
Charge for the year	**13**	**1**	**1**	**15**
Write off	**(17)**	**-**	**(1)**	**(18)**
Balance at 30 September 2021	**91**	**19**	**6**	**116**
Net book value				
At 1 October 2019	30	5	33	68
At 30 September 2020	17	3	27	47
At 30 September 2021	**6**	**2**	**26**	**34**

At 30 September 2021, goodwill reflects the following business acquisitions:

Acquired business	Year of acquisition	Goodwill £m
KPMG Nunwood (CGU Connected Customer)	30 September 2015	10
KPMG Boxwood	30 September 2015	4
HRSD practice of Towers Watson (CGU People and Change)	30 September 2015	2
Microsoft Business Solutions (formerly KPMG Crimsonwing)	30 September 2016	10

An impairment loss of £1 million was recognised during the year ended 30 September 2021 in respect of KPMG CIO Advisory Limited. An impairment loss of £6 million was recognised in the prior year in respect of the Microsoft Business Solutions sub-group.

11. Intangible assets (continued)

The acquired businesses listed on page 39 all form part of the group's Consulting capability; the Consulting business is managed and performance monitored across a number of CGUs. Goodwill has been allocated to individual CGUs reflecting either an individual acquired business (KPMG Boxwood and Microsoft Business Solutions) or as part of a larger business unit if the acquired business is no longer reviewed on a stand-alone basis ('Connected Customer' for KPMG Nunwood and 'People and Change' for the HRSD Practice of Towers Watson). The recoverable amount of the CGU is calculated with reference to the higher of its value in use or fair value less costs of disposal. In the case of value in use, forecasts of the relevant CGU are based on current levels of activity and known plans for that particular part of the business, assuming a 2% growth in contribution year on year for the next five years and 0% thereafter. The discount rate applied for the year ended 30 September 2021 was 9.2% (2020: 9.2% - 12.3%). 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 forecast period.

For Microsoft Business Solutions, the recoverable amount of the CGU is calculated with reference to its fair value less costs of disposal. The fair value (assessed as a measurement level 2) reflects the enterprise value calculated for the purpose of the group's acquisition of the minority interest from KPMG Netherlands and KPMG Malta, which completed following the disposal of KPMG Crimsonwing BV in November 2021.

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 where value in use has been used as the basis for recoverable amount. Applying an expected cashflow approach, using multiple weighted cashflow projections, goodwill impairment of £1 million arises in respect of goodwill relating to KPMG CIO Advisory Limited and has been recognised during the year ended 30 September 2021.

Partnership

	Internally generated software £m
Cost	
Balance at 1 October 2019	105
Additions	1
Write off	-
Balance at 30 September 2020	106
Additions	**2**
Write off	**(15)**
Balance at 30 September 2021	**93**
Amortisation and impairment	
Balance at 1 October 2019	77
Charge for the year	12
Write off	-
Balance at 30 September 2020	89
Charge for the year	**13**
Write off	**(15)**
Balance at 30 September 2021	**87**
Net book value	
At 1 October 2019	28
At 30 September 2020	17
At 30 September 2021	**6**

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12. Investments

Accounting policy

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £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 26.

13. Other non-current assets and liabilities

Accounting policy

Non-current loans and receivables are initially recognised at fair value, based upon the estimated present value of future cash flows discounted at the market rate of interest at the date of initial recognition. Subsequent to initial recognition, non-current loans and receivables are recorded at amortised cost less impairment losses, except the amount due from other UK group undertakings which is recorded at FVTPL as set out below.

Judgement

As set out in more detail on page 42, under the Asset Backed Funding (ABF) agreement, the partnership has a receivable from the Scottish Limited Partnership (SLP) of £41 million (2020: £39 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 £41 million (2020: £39 million) is calculated based on cashflows, discounted at the rate inherent in the ABF agreement.

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Other prepayments	**-**	-	**46**	47
Amounts due from other UK group undertakings	**-**	-	**41**	39
Deferred tax assets (see note 19)	**7**	6	**-**	-
Other non-current assets	**7**	6	**87**	86
Amounts due to other UK group undertakings	**-**	-	**90**	90
Other liabilities (see note 21)	**20**	-	**20**	-
Other non-current liabilities	**20**	-	**110**	90

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

Partnership

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

At 30 September 2021, the prepayment was £50 million (2020: £51 million); £46 million (2020: £47 million) is non-current, whilst the remaining £4 million (2020: £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 2021, a receivable balance of £41 million is classified as amounts due from other UK undertakings within other non-current assets with the discount unwinding through financial income (2020: £39 million).

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

14. Trade and other receivables

Accounting policy

Trade and other receivables (except contract assets) are initially recognised at their transaction price as defined by IFRS 15. Subsequent to initial recognition, trade and other receivables are recorded at amortised cost less expected credit losses (ECLs).

Contract assets represents revenues recognised in satisfying performance obligations where consideration is conditional on something other than the passage of time. Contract assets are recognised at their transaction price as defined by IFRS 15 (in accordance with the revenue accounting policy set out in note 3) less provision for foreseeable losses and net of amounts billed on account.

Significant Estimate

In calculating the loss allowance for ECLs on trade receivables and contract assets, 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. At 30 September 2021, the ECL was assessed to be £6 million for the group (2020: £19 million) and £6 million for the partnership (2020: £18 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 £7 million of ECL for both group and partnership. Accordingly, this is no longer considered to be a significant estimate (see note 2).

Impairment

The group and partnership recognise loss allowances for 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 consider 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.

14. Trade and other receivables (continued)

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Client receivables	**430**	357	**412**	342
Amounts due from other KPMG International member firms	**64**	54	**58**	49
Trade receivables	**494**	411	**470**	391
Contract assets	**339**	329	**331**	313
Amounts due from other UK group undertakings	**-**	-	**89**	121
Corporation tax receivable	**-**	7	**-**	-
Other prepayments	**33**	23	**36**	26
Other receivables	**127**	70	**117**	54
	993	840	**1,043**	905

Trade and other receivables are due within 12 months. Contract assets include £14 million (2020: £19 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 £6 million (2020: £19 million) for the group and £6 million (2020: £18 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.

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Balance at 1 October	**19**	9	**18**	8
Utilised during the year	**(2)**	-	**(2)**	-
Impairment provision (reversed)/ recognised in income statement	**(11)**	10	**(10)**	10
Balance at 30 September	**6**	19	**6**	18

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.

14. Trade and other receivables (continued)

The table below provides information about the exposure to credit risk and ECLs for trade receivables as at 30 September 2021:

		Group		Partnership	
	Weighted average loss rate	**Gross 2021 £m**	Gross 2020 £m	**Gross 2021 £m**	Gross 2020 £m
Trade receivables					
Current (not past due)	0.15%	**381**	303	**363**	289
31-60 days	0.40%	**57**	56	**53**	53
61-90 days	0.89%	**33**	32	**31**	30
91-120 days	2.12%	**15**	14	**15**	14
121-150 days	5.54%	**7**	5	**7**	5
151-180 days	9.72%	**2**	3	**2**	3
181-360 days	30.70%	**3**	6	**3**	6
More than 360 days	100%	**2**	4	**2**	3
Gross trade receivables		**500**	423	**476**	403
Gross contract assets	0.08%	**339**	336	**331**	319
		839	759	**807**	722
Expected credit losses		**(6)**	(16)	**(6)**	(15)
Other impairment provisions		**-**	(3)	**-**	(3)
Trade receivables and contract assets, net of impairment losses		**833**	740	**801**	704

15. 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	
		2021 £m	2020 £m	**2021 £m**	2020 £m
Bonds	FVTPL	**35**	35	**-**	-
Equities	FVTPL	**13**	13	**-**	-
		48	48	**-**	-

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16. Cash and borrowings

Accounting policy

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

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Short term deposits	**90**	8	**90**	8
Bank balances	**375**	131	**338**	93
Cash and cash equivalents	**465**	139	**428**	101

Committed borrowing facilities of £475 million (2020: £475 million) were available to the group at 30 September 2021; there were no amounts drawn against the facilities at either 30 September 2021 or 30 September 2020. Of the facilities available as at 30 September 2021, £10 million (2020: £10 million) expires in one year or less, the revolving credit facility of £375 million (2020: £375 million) is due to expire in January 2023 and the additional revolving credit facility of £90 million (2020: £90 million) advanced in April 2020 expires in October 2021. This revolving credit facility is unsecured and availability of the facility is dependent on certain conditions, including a minimum level of members' capital, all of which were satisfied at 30 September 2021 and 2020. Subsequent to the year end, in December 2021, the group has entered into a new borrowing facility for £375 million on terms commensurate with the facility in place at year end (see note 27).

Liabilities arising from financing activities

Members' capital, lease liabilities and borrowings are all liabilities arising from financing activities, being those liabilities for which cash flows are classified as cash flows from financing activities in the group and partnership cash flow statement. As set out above, neither the group nor the partnership had any borrowings at either 30 September 2021 or 30 September 2020.

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Members' capital	**258**	87	**258**	87
Lease liabilities	**487**	534	**462**	502
	745	621	**720**	589

16. Cash and borrowings (continued)

The following table illustrates the movements in liabilities arising from financing activities, including both changes arising from cash and non-cash flows:

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Cash flows from financing activities:				
Capital introduced by members	**5**	5	**5**	5
Repayments of capital	**(15)**	(17)	**(15)**	(17)
Payment of lease liabilities	**(58)**	(65)	**(51)**	(56)
Non-cash flows from financing activities:				
Transfer of amounts due to members allocated to capital	**-**	13	**-**	13
Allocation of profits arising in year	**181**	-	**181**	-
Interest expense on lease liabilities	**12**	13	**10**	10
Additions to lease liabilities	**1**	16	**1**	4
Exchange differences	**(2)**	(3)	**-**	-
Net increase/(decrease) in liabilities arising from financing activities	**124**	(38)	**131**	(41)
Liabilities arising from financing activities at the beginning of the year	**621**	659	**589**	630
	745	621	**720**	589

Further details on members' capital and lease liabilities are set out in notes 21 and 23 respectively.

17. Trade and other payables

Accounting policy

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Accruals	**265**	172	**103**	79
Contract liabilities	**159**	163	**153**	150
Other taxes and social security	**63**	126	**36**	100
Other payables	**7**	12	**4**	10
Trade payables	**41**	27	**38**	21
Amounts due to other UK group undertakings	**-**	-	**252**	176
Amounts due to other KPMG International member firms	**16**	9	**16**	9
	551	509	**602**	545

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

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18. Provisions

Provisions and contingent liabilities

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. The unwinding of the discount is presented in the income statement as a financial expense.

Contingent liabilities arise where the outflow of resources is considered less than probable or cannot be measured reliably.

Property provisions

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. Property provisions are recognised for dilapidation costs anticipated on exiting properties leased by the group and partnership.

Partner annuities

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 payment of former members' annuities is shown as a movement against the provision.

Judgement

In addition to former partner annuities, the Operating Provisions of the partnership allow for one-off member retirement payments to current retiring partners in certain circumstances, subject to prior approval by the Executive Committee. Management have assessed that no provision is required for future member retirement payments as these payments reflect an additional profit share and as such there is no additional outflow of resources required to settle the obligation. A different judgement taken in this respect would result in recognition of a liability classified as Amounts due to members; a high-level actuarial exercise estimates that such a provision could be around £66 million at 30 September 2021 (2020: £60 million).

Professional claims and regulatory matters

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 where an outflow of resources is considered probable and reliable estimates can be made, a provision is made for the best estimate of probable 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.

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. Reimbursement under insurance contracts is recognised when the recovery becomes virtually certain.

Judgement

Management have determined whether a provision, contingent liability or neither arises at the balance sheet date in respect of each individual matter and whether disclosure of the relevant matter would be seriously prejudicial to the position of the group. These judgements are taken by management based on all the specific circumstances in each case, taking account of all available evidence including the opinion of experts where relevant.

These professional service claims and regulatory matters, or indeed pre-action claims in some cases, are at various stages in lengthy and complex processes that have a variety of possible outcomes. The Official Receiver for Carillion is in the process of pursuing a claim against KPMG. This is in early stages and KPMG will appropriately defend any claim received.

The likely outcome in any professional service claim or regulatory matter can be difficult to predict based on the evidence available, resulting in a significant level of uncertainty inherent in any assessment as to whether a provision exists at the year end. These uncertainties also mean that it is not always possible to give a reliable estimate of contingent liabilities arising from such professional service claims and regulatory matters.

No separate disclosure is made of the detail of such claims, regulatory matters and proceedings, the methodology used to measure the amount that has been provided, the uncertainties relating to the range of possible outcomes considered or the costs recoverable by insurance, because, in management's view, to do so could seriously prejudice the position of both the group and partnership.

18. Provisions and contingent liabilities (continued)

Provisions of £144 million (2020: £92 million) for the group and £135 million (2020: £87 million) for the partnership have been recognised in respect of all known professional claims and regulatory matters. A different judgement taken as to whether a provision, contingent liability or neither arises at the balance sheet date may affect whether a provision is recognised and the disclosures within these financial statements.

Significant estimates

At 30 September 2021, the provision for professional claims and regulatory matters amounts to £144 million (2020: £92 million) for group and £135 million (2020: £87 million) for partnership. Inevitably, these estimates depend on the outcome and timing of future events and may need to be revised as circumstances change. As set out above, these provisions are inherently difficult to estimate. 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; there are reasonably possible changes to assumptions that could result in a material adjustment to the provision recognised in a future period.

Group

	Annuities £m	Property provisions £m	Professional claims and regulatory matters £m	**Total £m**
Balance at 1 October 2020	49	19	92	160
Utilised during the year	**(4)**	**(1)**	**(20)**	**(25)**
Provisions made during the year	**6**	**7**	**72**	**85**
Unwinding of discounted amounts	**1**	**-**	**-**	**1**
Balance at 30 September 2021	**52**	**25**	**144**	**221**
Non-current	**49**	**25**	**34**	**108**
Current	**3**	**-**	**110**	**113**

Partnership

	Annuities £m	Property provisions £m	Professional claims and regulatory matters £m	**Total £m**
Balance at 1 October 2020	49	19	87	155
Utilised during the year	**(4)**	**(1)**	**(20)**	**(25)**
Provisions made during the year	**6**	**7**	**68**	**81**
Unwinding of discounted amounts	**1**	**-**	**-**	**1**
Balance at 30 September 2021	**52**	**25**	**135**	**212**
Non-current	**49**	**25**	**31**	**105**
Current	**3**	**-**	**104**	**107**

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18. Provisions and contingent liabilities (continued)

Group and partnership

Property provisions for the group and for the partnership are expected to be utilised within the next ten years whilst provisions for professional claims and regulatory matters are expected to be utilised within the next five years.

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

	2021 £m	2020 £m
Within 12 months of the year-end	**3**	3
Between 1-5 years	**12**	11
Between 5-15 years	**20**	19
In more than 15 years	**17**	16
	52	49

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:

	2021 %	2020 %
Discount rate	**1.95**	1.55
Inflation rate (retail price index)	**3.55**	2.90

The tables adopted as at 30 September 2021 were the SAPS Series 3 tables with CMI 2020 projections (2020: SAPS Series 3 tables with CMI 2019 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 20).

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

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

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19. Deferred tax

Accounting policy

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

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

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

	Group	
	Assets £m	Liabilities £m
Balance at 1 October 2020	6	(1)
Deferred tax movement	1	1
Balance at 30 September 2021	**7**	**-**

Deferred tax assets have been recognised at 30 September 2021, totalling £7 million in respect of temporary differences arising in the corporate entities (2020: £6 million). No deferred tax assets arise in respect of tax losses at 30 September 2021 or 30 September 2020.

20. Retirement benefits

Accounting policy

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

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

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

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

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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20. 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 £84 million (2020: £109 million) are based on certain assumptions as to mortality, using current published tables (see page 57), 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 2020.

		Impact on plan liability (decrease)/increase		
Assumption	Change in assumption	TMcL plan £m	Pre-2000 fund £m	**Total £m**
Discount rate	Increase by 0.25%	**(5)**	**(29)**	**(34)**
Increase of pensions in payment (RPI linked)	Increase by 0.25%	**2**	**8**	**10**
Life expectancy	Increase by 1 year	**4**	**19**	**23**

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:

	2021 £m	2020 £m
Contributions to defined contribution schemes	**43**	44
Past service cost for defined benefit pension plans	**-**	-
Cost of retirement benefits	**43**	44

The net financing cost of £1 million (2020: £2 million), administration costs of £2 million (2020: £nil) and remeasurement gains of £23 million (2020: £27 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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20. Retirement benefits (continued)

Defined contribution plans

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

Contributions of £nil 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 was completed by Matt Collinson of Isio Group Limited, the Scheme Actuary, as at 31 March 2020. The results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2021. This valuation resulted in an actuarially assessed funding surplus, including the value of the Asset Backed Funding (ABF) agreement (see page 53). Analysis carried out by the Scheme Actuary has also informed the revised demographic assumptions used in these financial disclosures.

Following completion of the 2020 funding valuation it was agreed that expenses and administrative costs (including levies paid to the Pension Protection Fund and other bodies) are payable from the pre-2000 fund assets.

The KMG Thomson McLintock Pension Scheme

The KMG Thomson McLintock Pension Scheme (the TMcL plan) is a defined benefit plan providing benefits based on final pensionable pay. It is closed to new entrants and ceased future service accrual on 1 April 2016. The weighted average duration of the defined benefit obligation for the TMcL plan is approximately 13 years.

An actuarial valuation of the TMcL plan was completed by Matt Collinson of Isio Group Limited, the Scheme Actuary, as at 31 March 2020. The results of this valuation were used in the preparation of these disclosures and have been updated to 30 September 2021. This valuation resulted in an actuarially assessed funding surplus including the value of the ABF agreement (see page 53). 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 are met by the plan and this practice has continued following the completion of the 2020 valuation.

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 2021 and 30 September 2020 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 (2020: £nil) at 30 September 2021.

Notes

Forming part of the consolidated financial statements

20. 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. The group has updated their mortality assumption as at 30 September 2021 to reflect the latest available data from the CMI, however, no explicit change has been made for the potential effects of COVID-19 as there remains uncertainty around the impact the pandemic will have on long term mortality rates for the pension plan members.

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 (GMPs). The judgement requires equalisation between men and women for the effect of unequal GMPs and the impact of this decision was accounted for in the disclosures. This did not affect the pre-2000 fund but affects the TMcL plan, as this arrangement was contracted out of the State Earnings Related Pension Scheme. On 20 November 2020, the High Court handed down a further judgment 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. The group has allowed for this additional liability of £0.2m as a past service cost recognised in the income statement in the current year.

20. Retirement benefits (continued)

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Quoted in an active market				
Debt instruments				
UK government fixed interest	**60**	22	**371**	152
UK government index-linked	**49**	28	**113**	54
Corporate bonds	**86**	120	**369**	516
Investment funds				
High yield	**12**	11	**49**	48
Cash and cash equivalents				
Cash	**19**	21	**69**	68
Derivatives				
Credit contracts	**(69)**	(39)	**(300)**	(127)
Not quoted in an active market				
Investment funds				
Distressed debt fund	**2**	2	**9**	9
Fair value of plan assets	**159**	165	**680**	720
Present value of funded defined benefit obligations	**(160)**	(169)	**(763)**	(825)
Net liability in the statement of financial position	**(1)**	(4)	**(83)**	(105)

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) whose values 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 53) meant that at 30 September 2021 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

20. Retirement benefits (continued)

Movements in present value of obligations

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

	TMcL plan		Pre-2000 fund	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Benefit obligation at 1 October	**(169)**	(174)	**(825)**	(796)
Current service cost	**-**	-	**-**	-
Past service cost	**-**	-	**-**	-
Interest on obligations	**(2)**	(2)	**(10)**	(12)
Remeasurement gain/(loss) arising from changes in demographic assumptions	**-**	-	**1**	(15)
Remeasurement gain arising from changes in financial assumptions	**4**	2	**25**	5
Remeasurement (loss)/gain arising from experience on the plan's liabilities	**-**	(2)	**13**	(34)
Benefits paid	**7**	7	**33**	27
Benefit obligation at 30 September	**(160)**	(169)	**(763)**	(825)
Of which: amounts owing to active members	**-**	-	**-**	-
Of which: amounts owing to deferred members	**(59)**	(62)	**(458)**	(494)
Of which: amounts owing to pensioner members	**(101)**	(107)	**(305)**	(331)

There have been no 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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Fair value of plan assets at 1 October	**165**	168	**720**	717
Interest income	**2**	2	**9**	10
Return on plan assets, excluding interest income	**(1)**	1	**(19)**	16
Contributions by employer	**1**	1	**4**	4
Administrative expenses	**(1)**	-	**(1)**	-
Benefits paid	**(7)**	(7)	**(33)**	(27)
Fair value of plan assets at 30 September	**159**	165	**680**	720

20. 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:

	2021 £m	2020 £m
Personnel costs – Current service cost	-	-
Other operating expenses – Administration costs	2	-
Finance income and expense – Net interest expense on net defined benefit obligations (note 7)	1	2
Total expense recognised in the income statement	3	2

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Remeasurement gain/(loss) arising from changes in demographic assumptions	-	-	1	(15)
Remeasurement gain arising from changes in financial assumptions	4	2	25	5
Remeasurement gain/(loss) arising from experience on the plan's liabilities	-	(2)	13	(34)
Return on plan assets, excluding interest income	(1)	1	(19)	16
Total remeasurements recognised in statement of comprehensive income	3	1	20	(28)

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

20. 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

	2021 %	2020 %
Discount rate to calculate defined benefit obligation	**1.95**	1.55
Discount rate to calculate pension expense	**1.65**	1.30
Increase of pensions in payment (RPI linked)	**3.45**	2.85

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 2021 were 93% pre 2000-fund and 94% TMcL plan of the SAPS Series 3 tables with CMI 2020 projections using a long term trend rate of 1.25% p.a., a smoothing parameter of 7.0 and an initial addition parameter of 0.25% and 2020 weight parameter of 0% for both males and females (2020: 93%/94% 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).

These tables lead to life expectancies as follows:

	2021 Years	2020 Years
Retiring today, age 60		
Males	**27.4**	27.3
Females	**29.9**	29.8
Retiring at age 60, currently aged 45		
Males	**28.4**	28.4
Females	**31.0**	30.9

Notes

Forming part of the consolidated financial statements

21. Equity, members' capital and other interests

Accounting policy

Members' capital

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

No interest is paid on capital except on certain 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 (except as noted below), unless other arrangements have been agreed between the member and the Executive Committee. Members' capital is therefore considered a current liability and is stated at its nominal value, being the amount repayable.

During the year ended 30 September 2021, the partners voted to allocate £201 million of profits arising in year on disposal of the restructuring business to individual members' capital. No interest is payable on these balances which are repayable over three years commencing on the second anniversary of leaving the partnership. These balances are considered a non-current liability to partners and are reclassified to non-current third-party liabilities upon retirement.

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 20).

Members' capital

Group and partnership

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

Movements in members' capital were as follows:

	£m
Balance at 1 October 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
Capital introduced by members	**5**
Allocation of profits arising in year	**181**
Repayments of capital	**(15)**
Balance at 30 September 2021	**258**
Non-current	**181**
Current	**77**

At 30 September 2021, £20 million of members' capital owed to former partners was classified as a non-current liability (see note 13).

Notes

Forming part of the consolidated financial statements

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

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Amounts due from members	**43**	47	**43**	47
Amounts due to members	**(254)**	(178)	**(254)**	(178)
	(211)	(131)	**(211)**	(131)

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, 75% (2020: 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

22. 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 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.

Financial assets are derecognised when substantially all the risks and rewards of ownership of the asset are transferred to another entity or the contractual rights to cash flows from the asset expire. 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.

Financial liabilities are derecognised when obligations are fully discharged, cancelled or expired. Any gain or loss on derecognition is also recognised in profit or loss.

22. 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 2021 and 2020, largely owing to their short maturity. The bases for determining fair values are disclosed throughout these financial statements.

The table on page 62 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 62; the partnership has only non-current amounts due from other UK group undertakings carried at fair value at 30 September 2021.

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).

22. Financial instruments (continued)

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.

		Group		Partnership	
	Note	**2021 £m**	2020* £m	**2021 £m**	2020* £m
At amortised cost					
Trade receivables	14	**494**	411	**470**	391
Contract assets	14	**339**	329	**331**	313
Cash and cash equivalents	16	**465**	139	**428**	101
Amounts due from members	21	**43**	47	**43**	47
Other receivables	14	**127**	70	**117**	54
Amounts due from other UK group undertakings	14	**-**	-	**89**	121
Total financial assets at amortised cost		**1,468**	996	**1,478**	1,027
Financial assets designated as at fair value through profit or loss					
Bonds	15	**35**	35	**-**	-
Equities	15	**13**	13	**-**	-
Amounts due from other UK group undertakings – non-current	13	**-**	-	**41**	39
Other investments	12	**1**	1	**-**	-
Total financial assets at fair value through profit or loss		**49**	49	**41**	39
Total financial assets		**1,517**	1,045	**1,519**	1,066
Non-derivative financial liabilities measured at amortised cost					
Amounts due to members	21	**254**	178	**254**	178
Lease liabilities	23	**487**	534	**462**	502
Members' capital – current and non-current	21	**258**	87	**258**	87
Accruals	17	**142**	109	**101**	71
Other payables	17	**7**	12	**4**	10
Trade payables	17	**41**	27	**38**	21
Amounts due to other UK group undertakings	17	**-**	-	**252**	176
Amounts due to other KPMG International member firms	17	**16**	9	**16**	9
Other non-current liabilities	13	**20**	-	**20**	-
Amounts due to other UK group undertakings – non-current	13	**-**	-	**90**	90
Total non-derivative financial liabilities measured at amortised cost		**1,225**	956	**1,495**	1,144
Total financial liabilities		**1,225**	956	**1,495**	1,144
Total net financial instruments		**292**	89	**24**	(78)

* Prior year figures have been restated to include Accruals, not previously included as a financial liability.

Notes

Forming part of the consolidated financial statements

22. Financial instruments (continued)

b) Market risk

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

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

Interest rate risk

The group faces interest rate risks from investing and financing activities. The positions held are closely monitored by the Treasury function and proposals are discussed to align the positions with market expectations.

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

		Group		Partnership	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Fixed rate instruments					
Lease liabilities	23	**(487)**	(534)	**(462)**	(502)
Bonds	15	**35**	35	**-**	-
Variable rate instruments					
Cash and cash equivalents	16	**465**	139	**428**	101

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 £3 million (2020: £nil million) and increased or decreased partnership profit by £3 million (2020: £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.

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 2021 the group had receivable and payable balances, denominated in non-functional currencies as set out on page 64.

22. Financial instruments (continued)

	Group		Partnership	
Receivables	**2021 £m**	2020 £m	**2021 £m**	2020 £m
US dollar	**26**	27	**24**	27
Euro	**12**	24	**11**	14

	Group		Partnership	
Payables	**2021 £m**	2020 £m	**2021 £m**	2020 £m
US dollar	**9**	4	**9**	3
Euro	**3**	3	**3**	3

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
US dollar	**14**	7	**14**	7
Euro	**3**	8	**3**	8

A 5% movement in the US dollar or euro closing exchange rates would have increased or decreased group profit by £2 million and £1 million (2020: £2 million and £2 million) and partnership profit by £2 million and £1 million (2020: £2 million and £1 million), respectively.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2021	2020	**2021**	2020
US dollar	**1.3692**	1.2756	**1.3511**	1.2868
Euro	**1.1503**	1.1449	**1.1641**	1.1049

Equity price risk

Equity price risk arises from FVTPL equity securities. Material investments within the portfolio are managed in line with an agreed investment strategy.

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 (2020: £13 million) and other investments of £1 million (2020: £1 million).

Notes

Forming part of the consolidated financial statements

22. Financial instruments (continued)

c) Credit risk

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

Trade and other receivables

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

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

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

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

Securities, other investments and derivatives

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

The maximum exposure to credit risk is represented by the carrying amount of the group's and partnership's financial assets as set out in the table in section a) on page 62.

d) Liquidity risk

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

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

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

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

The group has access to committed overdraft and revolving credit facilities which are drawn down as required (see note 16).

The group and partnership have non-derivative financial liabilities as set out in the table on page 62. All of those financial liabilities are measured at amortised cost. In each case except lease liabilities (see note 23), the carrying amount reflects the contractual cash flows due to the short maturity. In the case of the partnership only, non-current amounts due to other UK group undertakings of £90 million (2020: £90 million) has a maturity of 18 years but is matched by non-current and current receivables.

23. Leases

Accounting policy

At the inception of a contract, the group and partnership assess whether a contract is, or contains, a lease as defined in IFRS 16.

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.

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.

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;
- 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 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.

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.

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'.

Notes

Forming part of the consolidated financial statements

23. 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 2021, the group and partnership have reassessed the likely future use of property currently leased as a result of a number of factors including the exit of the restructuring business and moves to hybrid working. Taking into account these factors 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 68), reflecting a commitment as to the exercise of termination options and future use of the property. A different assessment as to the exit of these properties would result in a different net book value for the assets and lease liabilities recognised at 30 September 2021.

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.

23. Leases (continued)

Right-of-use assets

At 30 September 2021 property, plant and equipment includes right-of-use assets as follows:

Net book values	Office buildings £m	Computer and communication equipment £m	Office furniture, fittings and equipment £m	Motor vehicles £m	**Total £m**
Group					
Balance at 1 October 2019	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 2020	438	3	6	8	455
Additions	**-**	**2**	**-**	**-**	**2**
Disposals	**-**	**-**	**-**	**-**	**-**
Depreciation charge for the year	**(48)**	**(1)**	**(1)**	**(5)**	**(55)**
Exchange differences	**(2)**	**-**	**-**	**-**	**(2)**
Balance at 30 September 2021	**388**	**4**	**5**	**3**	**400**

Partnership					
Balance at 1 October 2019	461	4	-	11	476
Additions	16	-	-	4	20
Disposals	(14)	-	-	-	(14)
Depreciation charge for the year	(49)	(2)	-	(7)	(58)
Balance at 30 September 2020	414	2	-	8	424
Additions	**-**	**2**	**-**	**-**	**2**
Disposals	**-**	**-**	**-**	**-**	**-**
Depreciation charge for the year	**(44)**	**(1)**	**-**	**(5)**	**(50)**
Balance at 30 September 2021	**370**	**3**	**-**	**3**	**376**

Depreciation charge for the year ended 30 September 2021 included £7 million (2020: £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.

23. Leases (continued)

Lease liabilities

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Within 1 year	**47**	49	**41**	42
Between 1-5 years	**180**	201	**161**	178
More than 5 years	**350**	386	**345**	377
Total undiscounted lease liabilities at 30 September	**577**	636	**547**	597
Lease liabilities included in the statement of financial position at 30 September:	**487**	534	**462**	502
Current	**37**	38	**32**	32
Non-current	**450**	496	**430**	470

Movement in lease liabilities

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

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Recognised on 1 October	**534**	573	**502**	544
Additions and adjustments	**1**	16	**1**	4
Lease payments	**(58)**	(65)	**(51)**	(56)
Interest expense on lease liabilities	**12**	13	**10**	10
Exchange differences	**(2)**	(3)	**-**	-
	487	534	**462**	502

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss:

	Group		Partnership	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Interest expense on lease liabilities	**12**	13	**10**	10
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**	1	**-**	-

23. Leases (continued)

Amounts recognised in the statement of cash flows

	Group		Partnership	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Total cash outflow for leases	**58**	65	**51**	56

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 an earlier break in November 2021.

24. Commitments

Capital commitments for contracted purchases of property, plant and equipment at the end of the financial year, for which no provision has been made, were £8 million (2020: £1 million) for both the group and partnership. These commitments are expected to be settled in the following financial year.

25. Related parties

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

Transactions with key management

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

As set out in note 5, the partnership does not 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 £24.8 million. The actual profit allocated in respect of the previous year was £17.6 million.

There were no balances due to or from key management at 30 September 2021 or 2020 save in respect of relevant shares of profit (or related taxation), shares of historical reserves and members' capital.

As discussed in note 5, members receive monthly drawings and other distributions representing payments on account of current year profits. Any such amounts paid in excess of the liability recognised in respect of 75% 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 75% of adjusted group profits treated as a liability. All amounts are expected to be paid in the short term.

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Forming part of the consolidated financial statements

25. Related parties (continued)

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

	2021 £m	2020 £m
Amounts due from key management	**2**	2
Amounts due to key management	**(30)**	(21)
	(28)	(19)

Total members' capital invested by key management in the partnership amounted to £14 million at 30 September 2021 (2020: £3 million).

Transactions with fellow group entities

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

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

	Partnership			
	Services provided by fellow group entities £m	Services provided to fellow group entities £m	Amounts due from fellow group entities £m	Amounts due to fellow group entities £m
2021				
UK group undertakings – services provided	**79**	**13**	**68**	**-**
KPMG UK Limited – provision of staff	**1,243**	**-**	**-**	**231**
2020				
UK group undertakings – services provided	83	19	106	-
KPMG UK Limited – provision of staff	1,187	-	-	161

26. Group undertakings

Accounting policy

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

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

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

Judgement

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

— Queen Street Mutual (QSM): no ownership but power to control through power to appoint majority board members and right to entitlement to benefit from future profits or existing retained reserves;

— Operations in India: the group and other shareholding partners are the recipients of substantially all the services provided by the entities and will be the only source of funding to settle the entities' liabilities.

The group have assessed that QSM is a subsidiary and operations in India fall to be treated as joint operations but a different assessment of the agreements in place could 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 2021 are listed in the table on page 73.

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

26. Group undertakings (continued)

	Incorporated in	Principal activity	Regulatory status	% of ordinary shares held
Subsidiary undertakings				
KPMG Holdings Limited	England[4]	Holding company	UK registered auditor	100
KPMG Audit Holdings Limited	England[4]	Holding company	UK registered auditor	100[3]
KPMG Audit Plc	England[4]	Statutory audits and related services	UK registered auditor	100[3]
KPMG United Kingdom Plc	England[4]	Advisory services	None	100[3]
KPMG UK Limited[1]	England[4]	Employment company	None	100[3]
KPMG IT Advisory Limited	England[4]	Dormant	None	100
KPMG Business Intelligence Limited	England[4]	In liquidation	None	100[3]
KPMG Sourcing Limited	England[4]	In liquidation	None	100[3]
KPMG CIO Advisory Limited	England[4]	Dormant	None	100[3]
KPMG Overseas Services Limited	England[4]	Advisory services	UK registered auditor	100[3]
Makinson Cowell Limited	England[4]	Dormant	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]	In liquidation	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]	In liquidation	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	Gibraltar registered auditor	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

26. Group undertakings (continued)

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

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

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

27. Events after the year end

In December 2021, the group completed a refinancing exercise, securing a new unsecured facility of £375 million, maturing in December 2026.

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 Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT

8 Portico Building, Marina Street, Pietà, Malta

9 Lignum House, Aldo Moro Road, Marsa, MRS9065, Malta

10 Laan van Langerhuiza 1, 1186 DS Amstelveen, Netherlands

11 3B Leisure Island Business Centre, Ocean Village, Gibraltar

12 5th Floor, Tower C, Building No 10, DLF Cyber City, Phase – II Gurgaon, Gurgaon HR 122002, 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

Energy and Carbon Report

The Energy and Carbon Report (ECR) covers the reporting period 1 October 2020 to 30 September 2021, 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 September 2021 we received re-certification to the ISO14001, the standard for Environmental Management Systems (EMS). Alongside our certification to ISO50001, the standard for Energy Management Systems, we are able to monitor and report energy consumption and total environmental impact more effectively, as well as identify areas for continual improvement.

Despite the challenge of the pandemic emissions reduction activities have been implemented across our offices including a Building Management System upgrade in our Leeds office, LED implementation in our Canary Wharf Head Office and upgrades to our Air Handling Units. Our engineers also benefit from an auto approval mechanism for projects with a three-year payback, this allows them to capitalise on opportunities across the estate.

This year the business continued to deploy a predominantly remote-working model, necessitated by the global pandemic. From September 2021 onwards, the business entered a 'Reconnection Phase', introducing hybrid-working to the firm with employees able to attend KPMG offices four days a fortnight. Use of collaboration technology has continued in earnest, with a 99% uptake across the firm in Microsoft Teams. This is now established as the default method of business communication and interaction, with this intended to remain the case for a period of time as society continues to live with the global pandemic. This has seen a significant shift in mindset and behaviours, with business travel reducing considerably as a result of the pandemic.

In the reporting period, we have seen trends of significant reduction in our electricity and gas consumption, as well as in the production of waste in our different waste streams. This is as a result of low occupation of KPMG offices due to government and business requirements to stay at home and work remotely as a result of the global pandemic. Similarly, our business travel across all forms of transport has reduced due to the effects of the global pandemic. Across some of our offices we have seen an increase in water consumption, owing to the need to regularly flush taps, bathrooms, kitchen facilities and vending machines across our estate. This is due to them not being used in a regular capacity by the volumes of colleagues which have traditionally occupied the offices.

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, in line with the Scope 1 and 2 elements of our Science-Based Targets. We're pleased to report 82% of the electricity we consume is purchased with Guarantees of Origin from renewable sources and we continue to engage our remaining landlords to transition over to procuring REGO-backed renewable electricity in the short-term. For full details of our environmental performance please visit Our Impact website.

Energy and Carbon Report

(continued)

SECR KPI	2021	2020
Scope 1		
Natural gas (kWh)	8,431,803	11,349,922
Natural gas (kgCO2e)	1,544,324	2,086,910
KPMG owned/leased car travel (kWh)	38,409	364,287
KPMG owned/leased vehicles (kgCO2e)	156,241	1,525,469
Total – Scope 1 (kgCO2e)	**1,582,733**	**2,451,197**
Scope 2		
Electricity consumption (kWh)	16,776,352	18,445,331
Electricity emissions (location-based) (kgCO2e)	3,562,123	4,300,345
Electricity emissions (market-based) (kgCO2e)	957,072	946,441
Total – Scope 2 (kgCO2e)	**957,072**	**946,441**
Total – Scope 1 & 2 emissions (location-based) (kgCO2e)	**5,144,856**	**6,751,542**
Total – Scope 1 & 2 emissions (market-based) (kgCO2e)	**2,539,805**	**3,397,638**
Scope 3		
Business-related car travel (kgCO2e)	104,392	1,097,768
Air travel – total (kgCO2e)	1,032,931	12,808,901
Rail travel (kgCO2e)	33,449	565,113
Transmission and distribution electricity (kgCO2e)	315,228	369,829
Well to tank (kgCO2e)	421,790	2,163,378
Total – Scope 3 (kgCO2e)	**1,907,788**	**17,004,989**
Total – Scopes 1, 2 & 3 (location-based)	**7,052,644**	**23,756,530**
Total – Scopes 1, 2 & 3 (market-based)	**4,447,593**	**20,402,626**
Intensity ratio – Scopes 1,2 & 3 location-based emissions per FTE (kgCO2e/FTE)	**473**	**1,503**
Intensity ratio – Scopes 1 & 2 location-based emissions per FTE (kgCO2e/FTE)	**345**	**427**
Full-time equivalent (FTE)	**14,896**	**15,806**

The Energy and Carbon Report was authorised for issue and signed on 29 January 2022 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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