

KPMG United Kingdom Plc

Directors' report and financial statements

Registered number 03513178

30 September 2013

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Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2013

Certain aspects of reporting previously contained within the directors' report are now included within the strategic report on page 3. For completeness, the strategic report includes discussion on the following

- Strategy of the company
- Performance and development of the company during the period
- Financial position at the end of the period
- Future development and performance of the company
- The principal risks and uncertainties facing the company

Nature of the business

The activity of KPMG United Kingdom Plc is the provision of specialist advisory services, particularly one-off projects for clients overseas

Treasury policies

The company's treasury policies focus on ensuring that there are sufficient funds to finance the business. Full details of the impact for the company of these treasury policies and management of the associated risks are given in note 11 to the financial statements

Relationships and resources

Relationships with clients

Fundamental to the group's strategy is strengthening existing, and building new, relationships, with growth based on a quality sales culture. Relationships with clients are monitored through the group's routine client service reviews

Relationships with employees

The employees of the company comprise the directors, within the meaning of the Companies Act 2006 (as listed below), and the company secretary. The directors are separately members of KPMG LLP, the company's intermediate parent entity, and of KPMG Europe LLP (ELLP), the company's ultimate parent entity

Charges are received from KPMG UK Limited, a company set up for staff employment purposes, in respect of the services it provides in respect of employees working on assignments for KPMG United Kingdom Plc. Charges are also received from KPMG LLP in respect of services provided to the company by members of KPMG LLP

Every effort is made to ensure that there is no discrimination, direct or indirect, against disabled persons in any human resources policies or actions, including recruitment. Employees who become disabled will, wherever possible, be retained in employment with the same opportunities for training and career development

Considerable emphasis is placed on open and effective communication between the company's directors, product directors and the employees of KPMG UK Limited. This communication operates principally through regular meetings, newsletters and electronic mail bulletins

Relationships with the community

All community support work of the group in the UK is channelled through KPMG LLP. Similarly, environmental matters in the UK are managed through KPMG LLP. The company made no political or charitable contributions in either the current or prior year

Going concern

The financial position of the company, its cash flows and liquidity position are discussed in the strategic report on page 3. The company has access to a broad range of business expertise within the group and as a consequence, the Board believes that the company is well placed to manage its business risks successfully. After making enquiries, the Board has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements

Directors' report continued

Directors and directors' interests

The directors who held office during the year were as follows

SJ Collins

P Long

JW Marsh

The company is a wholly owned subsidiary of KPMG Holdings Limited, a company owned by KPMG LLP (see note 12). The company's ultimate controlling party is ELLP. The directors in office at the end of the financial year therefore had no direct interest in the shares of the company or any other members of the KPMG Holdings group but by virtue of their position as members of KPMG LLP and ELLP, had an indirect interest in the entire share capital of the company.

The company secretary is CG Cleaves

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Grant Thornton UK LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



CG Cleaves
Company Secretary

15 Canada Square
London
E14 5GL

28 March 2014

Strategic report

Strategy

KPMG United Kingdom Plc's strategy reflects that of ELLP, its ultimate controlling party at 30 September 2013 (see note 12). The purpose of the ELLP group (the group) is to turn knowledge into value for the benefit of its clients, its people and the capital markets. More specifically, the defined strategy for KPMG United Kingdom Plc is to focus on the quality and integrity of advisory services.

The group's business plan continues to focus on people, client relationships, quality and reputation, and profitable growth. Performance of the group is monitored regularly throughout the year using a range of key performance indicators (KPIs) including matters relevant to the group's advisory services (including those conducted through the company). There were therefore no specific KPI's relating solely to the performance of the company.

Performance and development during the year

Revenue increased significantly to £58,303,000 (2012 £34,973,000), the company continuing to benefit from a higher level of overseas work.

The company incurred an operating loss of £526,000 (2012 profit £336,000) as a result of the £1,000,000 investment write down charged in the year (see note 7).

The company's activities were cash generative during the year, largely as a result of the timing of payments to other UK group entities. Cash balances at 30 September 2013 totalled £3,920,000 (2012 £336,000).

A dividend of £949,000 (2012 £nil) was received from the company's subsidiary entity during the year. A dividend of £411,000 (2012 £nil) was paid to the company's intermediate parent entity, KPMG Holdings Limited, during the year. No profit share was received in the year ended 30 September 2013 from KPMG LLP, in which the company is a corporate member (2012 £5,075,000).

Financial position at the end of the year

The financial position of the company remains satisfactory, with net assets of £1,607,000 at 30 September 2013 (2012 £1,661,000).

The level of trade receivables and unbilled amounts for client work increased, reflecting the higher volume of activity during the year. These assets are monitored regularly as part of the working capital management of the group.

Future development and performance

Risk management and internal control systems exist within the group to ensure that risks affecting the future development and performance of the group are mitigated. A number of risks generic to the accounting profession are also relevant to the future development and performance of the company.

- Regulatory changes – the ability of the company, and of the group, to react to future changes in regulation,
- Failure to win key clients – the ability of the company, and of the group, to win and maintain key client relationships,
- Failure to maintain service quality – the ability of the company to consistently deliver high standards of client service.

Each of these risk areas is considered by the board of ELLP as part of the overall risk management of the group.

By order of the Board



CG Cleaves
Company Secretary

15 Canada Square
London
E14 5GL

28 March 2014

Statement of directors' responsibilities in respect of the directors' report, strategic report and the financial statements

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

Under company law the directors 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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of KPMG United Kingdom Plc

We have audited the financial statements of KPMG United Kingdom Plc for the year ended 30 September 2013, which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the statement of director's responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standard for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report and strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

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

London
31 March 2014



Income statement
for the year ended 30 September 2013

	<i>Note</i>	2013 £000	2012 £000
Revenue		58,302	34,973
Personnel costs	4	(19,874)	(15,030)
Other operating expenses	3	(38,954)	(19,607)
		<hr/>	<hr/>
Operating (loss)/profit		(526)	336
		<hr/>	<hr/>
Financial income	5	1,112	5,106
Financial expense	5	(131)	(119)
		<hr/>	<hr/>
Net financial income		981	4,987
		<hr/>	<hr/>
Profit before taxation		455	5,323
Tax expense	6	(98)	(5,130)
		<hr/>	<hr/>
Profit for the financial year		357	193
		<hr/>	<hr/>

Statement of comprehensive income
for the year ended 30 September 2013

	2013 £000	2012 £000
Profit for the financial year	357	193
	<hr/>	<hr/>
Total comprehensive income for the year	357	193
	<hr/>	<hr/>

Statement of financial position
at 30 September 2013

	<i>Note</i>	2013 £000	2012 £000
Assets			
Non-current assets			
Investments	7	1,000	2,000
Current assets			
Trade and other receivables	8	21,751	17,588
Cash and cash equivalents bank balances		3,920	336
		25,671	17,924
Total assets		26,671	19,924
Equity and liabilities			
Equity			
Share capital	10	1,250	1,250
Retained earnings		357	411
		1,607	1,661
Current liabilities			
Trade and other payables	9	24,771	18,212
Corporation tax payable		293	51
		25,064	18,263
Total equity and liabilities		26,671	19,924

These financial statements on pages 6 to 20 were approved by the board of directors on **28** March 2014 and were signed on its behalf by



Paul Long
Director

KPMG United Kingdom Plc: 03513178

Statement of changes in equity
for the year ended 30 September 2013

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
Balance at 30 September 2011		1,250	218	1,468
Total comprehensive income – profit for the financial year		-	193	193
		<hr/>	<hr/>	<hr/>
Balance at 30 September 2012		1,250	411	1,661
Total comprehensive income – profit for the financial year		-	357	357
Dividends paid	12	-	(411)	(411)
		<hr/>	<hr/>	<hr/>
Balance at 30 September 2013		1,250	357	1,607
		<hr/>	<hr/>	<hr/>

Statement of cash flows
for the year ended 30 September 2013

	<i>Note</i>	2013 £000	2012 £000
Cash flows from operating activities			
Profit for the financial year		357	193
<i>Adjustments for</i>			
Financial income	5	(1,112)	(5,106)
Financial expense	5	131	119
Tax expense	6	98	5,130
Impairment losses on investment	7	1,000	-
		<hr/>	<hr/>
		474	336
Increase in trade and other receivables		(4,136)	(8,690)
Increase in trade and other payables		6,775	4,923
		<hr/>	<hr/>
Cash generated from/(absorbed by) operations		3,113	(3,431)
Tax paid		(9)	(5,142)
Group relief received		-	161
Compensation payments (made)/received from group undertakings		(62)	47
		<hr/>	<hr/>
Net cash generated by/(absorbed by) operating activities		3,042	(8,365)
		<hr/>	<hr/>
Cash flows from investing activities			
Profit share received	5	-	5,075
Interest received	5	4	5
Dividends received	5	949	-
Acquisition of investment	7	-	(350)
		<hr/>	<hr/>
Net cash flows from investing activities		953	4,730
		<hr/>	<hr/>
Cash flows from financing activities			
Dividends paid	12	(411)	-
		<hr/>	<hr/>
Net cash flows from financing activities		(411)	-
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		3,584	(3,635)
Cash and cash equivalents at the beginning of the year		336	3,971
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		3,920	336
		<hr/>	<hr/>

Notes

forming part of the financial statements

1 Accounting policies

KPMG United Kingdom Plc (the company) is a company incorporated in the United Kingdom

The company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (adopted IFRSs) and have been approved by the directors

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Recent changes to adopted IFRSs have resulted in a number of new standards, amendments and interpretations with effective dates such that they fail to be applied by the company. Most notably for these financial statements, the following amendment to published standards is reflected for the first time:

- Amendment to IAS 1 'Presentation of items of other comprehensive income' effective for periods beginning on or after 1 July 2012

There are no other adopted IFRSs, amendments or interpretations that require mandatory application. The company has also early adopted the following IFRSs and related amendments and interpretations in the year ended 30 September 2013:

- Improvements to IFRSs (issued by the IASB in May 2012) effective for periods beginning on or after 1 January 2013
- IFRS 13 'Fair value measurement' effective for periods beginning on or after 1 January 2013

These amendments have had minimal impact on these financial statements.

Future developments

A number of standards and amendments have been endorsed for future adoption – the following are of particular relevance and will be adopted by the company in future periods:

- IFRS 12 'Disclosures of Interests in other Entities' and subsequent amendments, effective for periods beginning on or after 1 January 2014
- IAS 27 'Separate Financial Statements' and subsequent amendments, effective for periods beginning on or after 1 January 2014
- Amendment to IFRS 7 'Disclosures - Offsetting financial assets and liabilities' effective for periods beginning on or after 1 January 2014
- IAS 32 'Offsetting financial assets and liabilities' effective for periods beginning on or after 1 January 2014

These amendments will have minimal impact on these financial statements.

Basis of preparation

The financial position of the company, its cash flows and liquidity position are discussed in the strategic report on page 3. The company has access to a broad range of business expertise within the group and as a consequence, the Board believes that the company is well placed to manage its business risks successfully. After making enquiries, the Board has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The functional and presentation currency of the company is pounds sterling. The financial statements are presented in thousands of pounds (£000) unless stated otherwise.

Notes continued

1 Accounting policies continued

Foreign currency

Transactions in foreign currencies are recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are translated 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.

Revenue

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

Where the outcome of a transaction cannot be estimated reliably, revenue is recognised only to the extent that the costs of providing the service are recoverable. No revenue is recognised where there are significant uncertainties regarding recovery of the consideration due or where the right to receive payment is contingent on events outside the control of the company. Expected losses are recognised as soon as they become probable based on latest estimates of revenue and costs.

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

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement or statement of comprehensive income under the relevant heading and any related balances are carried as tax payable or receivable in the statement of financial position.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, including any adjustment to tax payable in respect of previous years.

Deferred tax 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 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 the year end.

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.

Financial income and expense

Financial income and expense comprises profit share and dividends received, bank interest and expenses and foreign exchange gains and losses. Interest income and expense is recognised as it accrues, using the effective interest method.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, unbilled amounts for client work, cash and cash equivalents and trade and other payables.

Investments

The company's investments in subsidiaries are stated at cost less provision for impairment.

Trade and other receivables

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

Notes continued

1 Accounting policies continued

Unbilled amounts for client work

Unbilled amounts for client work relate to service contract receivables on completed work where the fee has yet to be issued or where the service contract is such that work performed falls into a different accounting period

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

Cash and cash equivalents

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.

Trade and other payables

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

Impairment

The carrying amounts of the company's assets are reviewed at each year end to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amounts are estimated.

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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.

Insurance arrangements

Insurance cover is maintained by the group in respect of professional negligence claims. This cover is principally written through mutual insurance companies. Premiums are expensed as they fall due with prepayments or accruals being recognised accordingly.

Where appropriate, provision is made for the uninsured cost to the company of settling negligence claims. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure would be seriously prejudicial to the position of the company in any dispute with other parties.

Staff costs

Staff costs represent the charges for services provided by KPMG UK Limited, a company set up by KPMG LLP for staff employment purposes, and for the time of members of KPMG LLP.

Property, plant and equipment and depreciation

The company does not own or lease any property, plant and equipment. The property and equipment which it uses in the course of its business are provided by KPMG LLP. KPMG LLP renders charges to the company which include the use of such assets.

Notes continued

2 Accounting estimates and judgements

The directors of the company do not consider there to be any critical accounting judgements in applying the company's accounting policies. However, there are the following key sources of estimation uncertainty:

Revenue on service contracts

In calculating revenue on service contracts, the company makes certain estimates as to the stage of completion of those contracts. In doing so, the company estimates the remaining time and external costs to be incurred in completing contracts and the client's willingness and ability to pay for the services provided. A different assessment of the outturn on a contract may result in a different value being determined for revenue and also a different carrying value being determined for unbilled amounts for client work.

Trade and other receivables

The total carrying amount of trade receivables and unbilled amounts for client work is £21,567,000 (2012: £16,110,000) net of impairment losses on trade receivables and after giving consideration to the clients' willingness to pay those amounts accrued in respect of incomplete contracts. A different assessment of the recoverability of either balance may result in different values being determined.

Claims

The company from time to time receives claims in respect of professional negligence. It defends such claims vigorously but makes provision for the possible amounts considered likely to be payable, up to the deductible under related insurance arrangements. A different assessment of the settlement prospects of each case or of the possible cost involved may result in a different provision and cost.

3 Other operating expenses

Other operating expenses include recoverable expenses incurred on client assignments and amounts paid to KPMG LLP for services rendered (see note 12). Amounts paid to the auditors in respect of the audit of these financial statements totalled £15,000 (2012: £10,000). The auditors provided no non-audit services during either year.

4 Personnel numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2013 Number	2012 Number
Statutory directors	3	4
Company secretary	1	1
	<hr/>	<hr/>
	4	5
	<hr/>	<hr/>

No payroll costs (including directors' emoluments) were payable by the company in either year, in respect of these persons. No pension contributions are payable by the company.

As explained in note 1, KPMG United Kingdom Plc is charged for the use of services provided by KPMG UK Limited and for the time of members of KPMG LLP. The total amount charged to the company in respect of the year was £19,874,000 (2012: £15,030,000).

Notes continued

5 Financial income and expense

Recognised in profit or loss.	2013 £000	2012 £000
Bank interest income	4	5
Profit share received	-	5,075
Dividends received	949	-
Exchange gains	159	26
Financial income	1,112	5,106
Financial expense exchange losses	(131)	(119)

The total interest income arising from financial assets that were not classified as fair value through profit or loss was £4,000 (2012 £5,000)

6 Tax expense

Analysis of charge in the year

	2013 £000	2012 £000
Current year		
UK corporation tax on profits of the year at 23.5% (2012 25%)	317	68
Compensation payments receivable	(236)	(6)
UK corporation tax adjustments in respect of the prior year	59	5,000
Compensation payments/group relief adjustments in respect of the prior year	(42)	68
Tax expense in income statement	98	5,130
Current tax reconciliation		
Profit before taxation	455	5,323
Profit multiplied by the average standard rate of corporation tax in the UK of 23.5% (2012 25%)	107	1,331
Impact of items not taxable	8	(1,269)
Adjustment in respect of prior periods	(17)	5,068
UK corporation tax charge arising on transfer pricing adjustments	236	6
Compensation payments receivable relating to transfer pricing adjustments	(236)	(6)
Actual tax expense for the year, as above	98	5,130

The corporation tax adjustments in respect of the prior year mainly arise as a result of items that are not deductions for tax purposes related to the profit share from KPMG LLP. Although this was received only in the prior year, it was taxable in the year to 30 September 2011, being the financial year of KPMG LLP from which it was payable.

The tax charge is also impacted by UK transfer pricing legislation. However a payment to compensate KPMG United Kingdom Plc is made by the members of KPMG LLP and by other group undertakings where appropriate.

Payment for group relief surrendered is generally made at 23.5% (2012 25%). No deferred tax arose in either year.

Notes continued

7 Investments

	Shares in group undertakings £000
<i>Cost</i>	
At beginning and end of year	2,000
<i>Impairment</i>	
At beginning of year	-
Impairment loss charged during the year	(1,000)
At end of year	(1,000)
<i>Net book value</i>	
At 1 October 2012	2,000
At 30 September 2013	1,000

At 30 September 2013, the only entity in which the company had a significant interest was

Subsidiary undertaking	Principal activity	Percentage of shares held
KPMG Business Intelligence Limited (formerly Analitica Limited)	Advisory services	100

The subsidiary makes up its accounts to 30 September each year and is incorporated in England and Wales

The company acquired all the share capital in KPMG Business Intelligence Limited (a company providing IT advisory services) in April 2010 at a cost of £2 million in cash, of which £350,000 was paid during the year ended 30 September 2011 and £350,000 was paid on 30 September 2012

Following receipt of a dividend of £949,000 from KPMG Business Intelligence Limited during the year ended 30 September 2013, the company assessed the carrying value of the investment. The recoverable amount of the investment, determined using the 'value in use' basis, was assessed to be less than the carrying value of the investment based on anticipated profit levels. It was therefore considered appropriate to write down the cost of investment accordingly and an impairment loss of £1 000 000 was recognised during the year.

The company is also a corporate member of KPMG LLP

8 Trade and other receivables

	2013 £000	2012 £000
Trade receivables	13,299	11,969
Unbilled amounts for client work	8,268	4,141
Amounts due from other ELLP group undertakings	109	1,186
Amounts due from other KPMG International member firms	75	292
	<u>21,751</u>	<u>17,588</u>

Trade and other receivables fall due within one year

Trade receivables are shown net of impairment losses amounting to £nil (2012 £63,000). An analysis of overdue trade receivables and the movement in the allowance for impairment in respect of trade receivables are given below

Notes continued

8 Trade and other receivables continued

Impairment losses

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

	Gross 2013 £000	Impairment 2013 £000	Gross 2012 £000	Impairment 2012 £000
Overdue 1-30 days	2,475	-	3,066	-
Overdue 31-180 days	1,989	-	2,525	-
More than 180 days	95	-	66	63
	<u>4,559</u>	<u>-</u>	<u>5,657</u>	<u>63</u>

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

	2013 £000	2012 £000
Balance at 1 October	63	630
Impairment loss reversed	(63)	(567)
	<u>-</u>	<u>63</u>
Balance at 30 September	<u>-</u>	<u>63</u>

9 Trade and other payables

	2013 £000	2012 £000
Amounts billed on account	11,868	3,690
Amounts due to other ELLP group undertakings	11,565	11,929
Accruals	705	2,411
Other taxes and social security	633	182
	<u>24,771</u>	<u>18,212</u>

10 Capital

Share capital

	2013 £000	2012 £000
<i>Authorised</i>		
5,000,000 Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>
<i>Allotted</i>		
5,000,000 Ordinary shares of £1 each, 25p called up and paid	<u>1,250</u>	<u>1,250</u>

The share capital of the company is entirely owned by the KPMG LLP sub-group (see note 12). Capital requirements are considered by the group from time to time. The share capital of the company is considered to be the only capital to be managed, the objectives for managing capital being to ensure that the company remains solvent. There are no externally imposed capital requirements.

Notes continued

11 Financial instruments

Financial instruments held by the company arise directly from its operations. The main purpose of these financial instruments is to finance the operations of the company. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

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

The ELLP board has overall responsibility for the establishment and oversight of the group's risk management framework. The group's 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 the group's activities. The group, through its 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) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company'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 company uses derivatives on a case by case basis in order to manage market risks. The company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The company 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. Use of interest rate options or swaps is considered but no such derivatives were in fact entered into during the year.

The financial assets and liabilities of the company are non interest bearing, with the exception of the bank balances which are variable rate instruments.

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 profit by £21,300 (2012: £21,500). This analysis assumes that all other variables remain constant.

Exchange rate risk

The functional currency of the company is pounds sterling. However, certain expenses and charges from other KPMG International member firms or other international relationships are denominated in other currencies. In addition, some fees are rendered in other currencies where this is requested by the clients involved.

The company has access to group 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.

As set out above, the company generally trades in its functional currency. The company had no material receivables, payables or cash balances denominated in currencies other than sterling at either 30 September 2013 or 30 September 2012.

b) Credit risk

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

Trade and other receivables

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

The company'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 by routine billing and cash collection for work done.

Notes continued

11 Financial instruments continued

b) Credit risk continued

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

Impairment information is included in note 8. There are no impairment provisions against other classes of assets, other than the impairment loss recognised against the investment in subsidiaries (see note 7)

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of the company's financial and other assets as set out in the table below

	2013 £000	2012 £000
Trade receivables	13,299	11,969
Unbilled amounts for client work	8,268	4,141
Cash and cash equivalents	3,920	336
Amounts due from other ELLP group undertakings	109	1,186
Amounts due from other KPMG International member firms	75	292
Total financial assets	25,671	17,924

c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company'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 normally invested according to the assessment of rates of return available through the money market.

The Treasury function monitors the company's cash position 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 company has the following non-derivative financial liabilities measured at amortised cost

	2013 £000	2012 £000
Amounts due to other ELLP group undertakings	11,565	11,929
Accruals	705	2,411
	12,270	14,340

None of the company's financial liabilities are interest bearing. Hence, the contractual cash flows in all cases equal the carrying amounts. All financial liabilities are repayable within one year.

d) Fair values

The estimated fair values of the company's financial assets and liabilities approximate their carrying values at 30 September 2013 and 2012, largely owing to their short maturity. The bases for determining fair values are disclosed in note 1.

Notes continued

12 Related parties

The company's immediate controlling party is KPMG Holdings Limited, a company registered in England and Wales

KPMG Holdings Limited is wholly owned by KPMG LLP, a limited liability partnership registered in England and Wales, in which the company is also a corporate member. KPMG LLP is controlled by ELLP. The results of the company were consolidated into the group financial statements of KPMG LLP at 30 September 2013, these financial statements are available at www.kpmgannualreview.co.uk

The largest group in which the results of the company are consolidated is that of ELLP. The financial statements of ELLP are available to the public and may be obtained from the principal place of business, The Square, Am Flughafen, 60549 Frankfurt am Main, Germany and at www.kpmg.eu/annualreport

The company has a related party relationship with its fellow ELLP group undertakings. The company also has a related party relationship with key management, considered to be the statutory directors of the company.

Transactions with ELLP group undertakings

Transactions with ELLP group undertakings during the year were as follows

	2013 £000	2012 £000
KPMG LLP		
Management charges – use of facilities and other services	19,415	4,811
Time of members of KPMG LLP	2,990	2,746
Profit share	-	(5,075)
Corporation tax compensation payments – current year	(444)	(166)
Corporation tax compensation payments – prior year adjustments	44	1
	<hr/>	<hr/>
KPMG UK Limited		
Services of staff	16,884	12,284
Corporation tax compensation payments – current year	208	160
Corporation tax compensation payments – prior year adjustments	(9)	67
	<hr/>	<hr/>
Other group undertakings		
Corporation tax compensation payments – prior year adjustments	(2)	-
Group relief – prior year adjustments	(9)	-
	<hr/>	<hr/>

Such transactions reflect appropriate charges for the costs of shared services

During the year the company recharged fellow ELLP group subsidiaries with costs relating to client engagements totalling £10 million (2012: £9 million). The company received charges from fellow ELLP group subsidiaries totalling £5 million (2012: £3 million) in respect of client engagements during the year.

During the year the company received a dividend from its subsidiary entity of £949,000 (2012: £nil) and paid a dividend to its immediate parent entity of £411,000 (2012: £nil).

At the year end, balances with ELLP group undertakings were as follows

	2013 £000	2012 £000
Trade and other receivables		
Amounts due from other ELLP group undertakings	109	1,186
	<hr/>	<hr/>
Trade and other payables		
Amounts due to other ELLP group undertakings	11,565	11,929
	<hr/>	<hr/>

Notes continued

12 Related parties continued

Transactions with key management personnel

The directors of the company are all separately members of ELLP and therefore have an interest in the transactions set out above

Key management personnel receive no directors' emoluments for their services to the company. There are no other transactions with key management personnel. There were no balances due to or from key management at either 30 September 2013 or 30 September 2012.