# KPMG United Kingdom Plc

## Directors' report and financial statements

Registered number 03513178

30 September 2020

# Contents

# Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2020.

### The company

KPMG United Kingdom Plc (the company) is a wholly owned subsidiary of KPMG Holdings Limited (see note 14). The company's ultimate controlling party is KPMG LLP (together with its subsidiary undertakings, the group).

### Nature of the business

The activity of the company 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 13 to the financial statements.

### Going concern

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

Forecasts have been prepared for the group for the period through to 30 September 2022, extended to cover a period of 12 months from approval of these financial statements, reflecting on the Covid-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

These group forecasts have been reviewed by the directors and the company's ultimate parent entity, KPMG LLP, has agreed to provide financial support to the company for the foreseeable future. The Board therefore has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

### Directors and directors' interest

The directors who held office during the year were as follows:

EN Barnicoat
SKG Willows
J Dean
TR Jones

Subsequent to the year end, on 26 February 2021, SKG Willows resigned as a director of the company. WA Lambe was appointed a director of the company on 26 February 2021 and resigned on 30 April 2021.

The directors in office at the end of the financial year had no direct interest in the shares of the company or any other members of the KPMG Holdings group (being KPMG Holdings Limited and its subsidiary undertakings) but, by virtue of their position as members of KPMG LLP, EN Barnicoat and TR Jones had an indirect interest in the entire share capital of the company. J Dean and SKG Willows were not members of KPMG LLP and therefore had no residual interest in any of the share capital of the company.

The company secretary is J Dean

### 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.

## **Directors' report** continued

**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

**J Dean**
*Company Secretary*

15 Canada Square
Canary Wharf
London
E14 5GL

26 October 2021

# Strategic report

**Directors' duties: section 172**

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard, amongst other matters, to the following:

a) likely consequences of any decisions in the long-term;
b) interests of the company's employees;
c) need to foster the company's business relationships with suppliers, customers and others;
d) impact of the company's operations on the community and environment;
e) desirability of the company maintaining a reputation for high standards of business conduct; and
f) need to act fairly as between members of the company.

The following summarise how the directors' fulfil their duties in line with the requirements of section 172:

***Consequences of decisions in the long-term - strategy and risk management factors***

The company's strategy reflects that of KPMG LLP. The purpose of 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 practice (of which the company's business is a part). There were no specific KPI's relating solely to the performance of the company.

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 group are also relevant to the future development and performance of the company:

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

Each of these risk areas, together with the potential impact of ongoing COVID-19 disruption and Brexit, is considered by the board of KPMG LLP as part of the overall risk management of the group.

***Interests of the company's employees***

The employees of the company comprise the directors, within the meaning of the Companies Act 2006 (as listed in the directors' report) and the company secretary. Certain other individuals are authorised to enter into engagements on behalf of the company and these include individuals who are separately members of KPMG LLP. They receive no remuneration from KPMG United Kingdom Plc for services performed for the company.

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

Employees are at the heart of the group's business. The group's culture and approach to the recruitment, reward and engagement of talented people, and efforts to build a truly diverse and inclusive business, are central to achieving the group's strategic goal to be the clear choice employer. Considerable emphasis is placed on open and effective communication between the leadership of the group and the employees of KPMG UK Limited; this communication operates principally through regular meetings, newsletters and electronic mail bulletins.

The group makes every effort 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.

***Fostering relationships with clients and suppliers***

*Relationships with clients*

The company seeks to achieve excellent client relationships through the delivery of high quality services. Relationships with clients are monitored through the group's routine client service reviews.

*Relationships with suppliers*

The group have built strong partnerships with all their suppliers, insisting on the highest ethical standards from all third-party suppliers and contractors and expecting them to comply with or exceed the principles of our Supplier Code of Conduct.

## Strategic report continued

***Impact on the community and the environment***

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. Further details on how the group interact with communities and the environment can be found in the group's separately published Corporate Responsibility Report.

The company made no political or charitable contributions in either the current or prior year.

***Standards of business conduct***

The group operates in a regulated industry. The group have instilled a culture of high challenge and high support with open dialogue so that partners and employees feel empowered to speak up about ethical concerns and issues and act in the public interest. The group's Code of Conduct expressly lays out the expectations of ethical behaviours for all employees and is built on the foundation of the group's values. The group apply high standards of governance and adopt a legal structure reflective of the nature and extent of its activities. Further details on governance structures can be found in the group's separately published Transparency Report.

***The need to act fairly between members***

The company is a wholly owned subsidiary of KPMG Holdings Limited (see note 14) and therefore the considerations that would apply in an operating or commercial trading company with respect to a company's shareholders do not apply.

**Performance and development during the year**

Revenue increased to £82,570,000 from £71,030,000 in 2019, reflecting the one-off nature of the advisory engagements undertaken by the company.

The company generated an operating profit of £4,247,000 (2019: £4,893,000); the reduction in profitability reflecting a higher share of group operating costs absorbed by this entity as group revenues reduced as a result of Covid-19.

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 2020 totalled £6,246,000 (2019: £3,991,000).

No dividend was received from the company's subsidiary entity during the year (2019: £nil). A dividend of £4,000,000 was paid to the company's intermediate parent entity, KPMG Holdings Limited, during the year (2019: £6,000,000). Subsequent to the year end, on 29 September 2021, a dividend of £5,000,000 was paid by the company to its parent entity.

**Financial position at the end of the year**

The financial position of the company remains strong, with net assets of £10,895,000 at 30 September 2020 (2019: £11,473,000), the decrease reflecting the lower profits generated in the year, as set out above.

The company's main financial assets are amounts due from clients and related contract assets. These assets continue to be monitored regularly as part of the working capital management of the group.

By order of the Board

**J Dean**
*Company Secretary*

15 Canada Square
Canary Wharf
London
E14 5GL

26 October 2021

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

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 IFRSs in conformity with the requirements of the Companies Act 2006;
- assess the company'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 company or to cease operation, or have no realistic alternative but to do so.

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 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 company and to prevent and detect fraud and other irregularities.

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

### Opinion

We have audited the financial statements of KPMG United Kingdom Plc (the 'company') for the year ended 30 September 2020 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

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

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

### Conclusions relating to going concern

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

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

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

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

### Other information

The directors are responsible for the other information. The other information comprises the information included in the director's report and strategic report. 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.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

### Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

### 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 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.

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors 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 directors 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

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

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

### Use of our report

This report is made solely to the 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.

Grant Thornton UK LLP

Jonathan Maile BSc (Hons) FCA

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

Crawley
27 October 2021

GrantThornton

## Income statement

*For the year ended 30 September 2020*

| | *Note* | **2020 £000** | 2019 £000 |
|---|---|---|---|
| **Revenue** | *3* | **82,570** | 71,030 |
| Personnel costs | *5* | **(40,673)** | (39,472) |
| Amortisation | *8* | **(256)** | (292) |
| Impairment of trade receivables and contract assets | *9* | **(481)** | (18) |
| Other operating expenses | *4* | **(36,913)** | (26,355) |
| **Operating profit** | | **4,247** | 4,893 |
| Financial income | *6* | **366** | 493 |
| Financial expense | *6* | **(455)** | (177) |
| **Net financial (expense)/ income** | | **(89)** | 316 |
| **Profit before taxation** | | **4,158** | 5,209 |
| Tax expense | *7* | **(736)** | (1,501) |
| **Profit for the financial year** | | **3,422** | 3,708 |

## Statement of comprehensive income

*For the year ended 30 September 2020*

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **Profit for the financial year** | **3,422** | 3,708 |
| **Total comprehensive income for the year** | **3,422** | 3,708 |

## Statement of financial position

*At 30 September 2020*

| | Note | 2020 £000 | 2019* £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 8 | **1,533** | 1,789 |
| | | **1,533** | 1,789 |
| **Current assets** | | | |
| Trade and other receivables* | 9 | **28,501** | 24,876 |
| Cash and cash equivalents | 10 | **6,246** | 3,991 |
| | | **34,747** | 28,867 |
| **Total assets** | | **36,280** | 30,656 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 12 | **1,250** | 1,250 |
| Retained earnings | | **9,645** | 10,223 |
| | | **10,895** | 11,473 |
| **Current liabilities** | | | |
| Trade and other payables* | 11 | **24,459** | 18,109 |
| Corporation tax | | **926** | 1,074 |
| | | **25,385** | 19,183 |
| **Total equity and liabilities** | | **36,280** | 30,656 |

*Prior year comparatives have been restated as set out in notes 9 and 11 with no impact on net assets.

These financial statements on pages 8 to 23 were approved by the board of directors on 26 October 2021 and were signed on its behalf by:

**J Dean**
*Director*

**KPMG United Kingdom Plc: 03513178**

## Statement of changes in equity

*For the year ended 30 September 2020*

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £000 | £000 | £000 |
| Balance at 1 October 2018 | 1,250 | 12,685 | 13,935 |
| Remeasurement on adoption of IFRS 9 'Financial Instruments' on 1 October 2018 | - | (170) | (170) |
| *Total comprehensive income* | | | |
| Profit for the financial year | - | 3,708 | 3,708 |
| *Transactions with owners* | | | |
| Dividends paid during the year | - | (6,000) | (6,000) |
| Balance at 30 September 2019 | 1,250 | 10,223 | 11,473 |
| *Total comprehensive income* | | | |
| Profit for the financial year | - | 3,422 | 3,422 |
| *Transactions with owners* | | | |
| Dividends paid during the year | - | (4,000) | (4,000) |
| **Balance at 30 September 2020** | **1,250** | **9,645** | **10,895** |

## Statement of cash flows

*For the year ended 30 September 2020*

| | *Note* | 2020 £000 | 2019* £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the financial year | | **3,422** | 3,708 |
| *Adjustments for:* | | | |
| Financial income | *6* | **(366)** | (493) |
| Financial expense | *6* | **455** | 177 |
| Tax expense | *7* | **736** | 1,501 |
| Amortisation | *8* | **256** | 292 |
| Impairment of trade receivables and contract assets | *9* | **481** | 18 |
| | | **4,984** | 5,203 |
| (Increase)/decrease in trade and other receivables* | | **(4,207)** | 18,871 |
| Increase/(decrease) in trade and other payables* | | **5,505** | (13,965) |
| **Cash generated from operating activities** | | **6,282** | 10,109 |
| Tax received/(paid) | | **26** | (2,470) |
| Group relief paid to related undertakings | | **-** | (77) |
| Overseas taxes paid | | **(69)** | (751) |
| **Net cash flows generated from operating activities** | | **6,239** | 6,811 |
| **Cash flows from investing activities** | | | |
| Interest received | *6* | **16** | 35 |
| **Net cash flows from investing activities** | | **16** | 35 |
| **Cash flows from financing activities** | | | |
| Dividend paid | | **(4,000)** | (6,000) |
| **Net cash flows from financing activities** | | **(4,000)** | (6,000) |
| Net increase in cash and cash equivalents | | **2,255** | 846 |
| Cash and cash equivalents at the beginning of the year | | **3,991** | 3,145 |
| **Cash and cash equivalents at the end of the year** | *10* | **6,246** | 3,991 |

*Prior year comparatives have been restated as set out in notes 9 and 11 with no impact on net assets.

# Notes

*Forming part of the financial statements*

## 1 Accounting policies

KPMG United Kingdom Plc (the company) is a company incorporated in the United Kingdom. In accordance with the exemption available in IAS 27, these financial statements present information about the company as a separate entity and not about its group. Details of the group in which the results of the company are consolidated are given in note 14.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 (adopted IFRSs) and have been approved by the directors.

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 financial statements. Whilst there are a number of new standards, interpretations and amendments to adopted IFRSs, all of these have effective dates such that they do not yet fall to be applied by the company.

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

- Amendments to References to the Conceptual Framework in IFRS Standards: effective for periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8 'Definition of Material': effective for periods beginning on or after 1 January 2020.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7); effective for periods beginning on or after 1 January 2020.

These amendments resulted in a small number of insignificant changes to disclosures given in the company'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 company are:

- Annual improvements to IFRSs 2018-2020 Cycle; effective for periods beginning on or after 1 January 2022.
- Amendments to IAS 1: 'Classification of Liabilities as Current or Non-current'; effective for periods beginning on or after 1 January 2023.

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

**Basis of preparation**

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

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

**Going concern**

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

Forecasts have been prepared for the group for the period through to 30 September 2022, extended to cover a period of 12 months from the date of approval of these financial statements, reflecting on the Covid-19 pandemic and the possible impact on the group's operational activities, liquidity, borrowing facilities and related covenant requirements. These forecasts reflect a range of downside scenarios, including a Plausible but Severe scenario that demonstrates that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period when liquidity enhancing measures that are readily available to the group are taken into account. Other downside scenarios demonstrate that the group can withstand periods of reduced profitability without exceeding borrowing facilities or breaching covenants throughout the forecast period without the need to implement any further cost mitigation or liquidity enhancing measures.

## Notes continued

### 1 Accounting policies continued

**Going concern** continued

These group forecasts have been reviewed by the directors and the company's ultimate parent entity, KPMG LLP, has agreed to provide financial support to the company for the foreseeable future. The Board therefore has reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

**Business combinations**

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 company 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 company incurs in connection with a business combination, such as legal fees, are expensed as incurred.

Intangible assets have been recognised in respect of customer relationships (see note 8).

**Foreign currency**

Transactions in currencies other than the company's 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 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.

**Impairment**

*Non-financial assets*

The carrying amounts of the company's non-financial 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.

**Insurance arrangements**

Insurance cover is maintained by the group in respect of professional service 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 cost to the company of settling professional service claims brought against the company.

**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 preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, significant estimates and assumptions that affect the application of policies and reported amounts of revenue and expenses, 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 currency and maturity of the items being valued.

The directors of the company do not consider there to be any critical accounting judgements in applying the company's accounting policies. Estimates that may carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are considered as follows:

- Revenue from service contracts: estimating the stage of service contract completion, including estimating the costs still to be incurred, assessing the likely engagement outcome and assessing the recoverability of contract assets for the client work (note 3);
- Impairment of intangible assets: estimating value in use, with the key assumptions being future trading growth, profitability and cash flows (note 8).

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.

### 3 Revenue

**Accounting policy**

Revenue is recognised when the company has satisfied performance obligations by transferring control of services to clients. Revenue includes recoverable expenses incurred on client assignments but excluding value added tax.

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

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

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

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

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

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

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

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

**Significant estimate**

In calculating revenue from service contracts, the company make certain estimates as to the extent to which performance obligations have been satisfied. In doing so, the company 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.

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 £14,201,000 (2019: £12,014,000) at 30 September 2020.

## **Notes** continued

### 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 9 and 11).

At 30 September 2020, the company had no fixed-price, long term contracts. All other contracts are for periods of one year or less or the right to consideration is directly aligned to the performance completed to date. The company has applied the practical expedient in IFRS 15 not to disclose information in respect of partially completed contracts where the period of the contract is one year or less.

During the year ended 30 September 2020, £8,576,000 (2019: £5,190,000) of the company's contract liabilities held at 30 September 2019 were recognised as revenue.

### 4 Other operating expenses

Other operating expenses include recoverable expenses incurred on client assignments and amounts paid to KPMG LLP for services rendered (see note 14). Amounts paid to the auditors in respect of the audit of these financial statements totalled £39,000 (2019: £35,000). In the current year, these fees included £4,000 paid to the auditors in respect of audit related assurance services provided overseas for local filing and tax reporting purposes. As these services are not related to the statutory audit of the company, they are considered to be non-audit services.

### 5 Personnel numbers and costs

**Accounting policy**

Staff costs represent charges for the 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. In the prior year, staff costs also included residual amounts paid to staff previously employed directly by the company.

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

| | **2020 Number** | 2019 Number |
|---|---|---|
| Statutory directors | **3** | 3 |
| Company secretary | **1** | 1 |
| | **4** | 4 |

There were no direct staff costs incurred during the year (2019: £15,000 incurred, including £700 of social security costs, in respect of two consultancy staff whose contracts had terminated in 2018). No payroll costs (including directors' emoluments) were payable by the company in either year in respect of the statutory directors or company secretary.

In addition, as explained above, 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 £40,673,000 (2019: £39,457,000).

**Notes** continued

## 6 Financial income and expense

**Accounting policy**

Financial income and expense comprises bank interest income, other financial expense and foreign exchange gains and losses. Interest income and expense is recognised as it accrues, using the effective interest method.

| Recognised in profit or loss: | **2020 £000** | 2019 £000 |
|---|---|---|
| Bank interest income | **16** | 35 |
| Exchange gains | **350** | 458 |
| Financial income | **366** | 493 |
| Other interest | **(27)** | - |
| Exchange losses | **(428)** | (177) |
| Financial expense | **(455)** | (177) |

The total interest arising from financial assets and liabilities that were not classified as fair value through profit or loss was £16,000 income (2019: £35,000) and £27,000 expense (2019: £nil). Other interest relates to interest and penalties associated with the filing of tax returns overseas.

## 7 Tax expense

**Accounting policy**

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 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, and 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.

Analysis of expense in the year:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Current year | | |
| UK corporation tax on profits of the year 19% (2019: 19%) | **850** | 1,066 |
| UK corporation tax adjustments in respect of the prior year | **(220)** | (382) |
| Overseas taxes – current year | **-** | 285 |
| Overseas taxes – prior year adjustments | **106** | 532 |
| Tax expense in income statement | **736** | 1,501 |
| Profit before taxation | **4,158** | 5,209 |
| Profit multiplied by the average standard rate of corporation tax in the UK of 19% (2019: 19%) | **790** | 990 |
| Impact of items not taxable or relievable | **60** | 76 |
| Adjustments in respect of prior periods | **(220)** | (382) |
| Overseas taxes | **106** | 817 |
| Actual tax expense for the year, as above | **736** | 1,501 |

## Notes continued

### 7 Tax expense continued

During the year ended 30 September 2020, a number of prior year tax computations were agreed with HMRC and as a result, it was agreed that certain amounts totalling £8,268,000 previously paid by the company would instead be credited to the benefit of the KPMG LLP partners. This resulted in no net asset or liability for the company.

*Factors affecting the tax charge in future periods*

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. Subsequently, 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 company's future tax charge.

### 8 Intangible assets

**Accounting policy**

Goodwill and customer relationships are discussed in 'Business combinations' in note 1. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units (CGUs), where the CGU is based on an individual acquired business basis and is not amortised but is tested annually for impairment.

Customer relationships and similar assets are stated at cost less accumulated amortisation and impairment. 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; customer relationships are amortised over their estimated useful life of 4-10 years.

**Significant estimate**

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

We have performed sensitivity analysis around the assumptions used; we consider it unlikely that there would be reasonably possible changes in key assumptions that would cause the carrying amount to exceed the recoverable amount for any individual goodwill asset.

| | Customer relationships and similar items £000 | Goodwill £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 October 2019 | 1,859 | 1,533 | 3,392 |
| **Balance at 30 September 2020** | 1,859 | 1,533 | 3,392 |
| **Amortisation and impairment** | | | |
| Balance at 1 October 2019 | (1,603) | - | (1,603) |
| Charge for the year | (256) | - | (256) |
| **Balance at 30 September 2020** | (1,859) | - | (1,859) |
| **Net book value** | | | |
| At 30 September 2019 | 256 | 1,533 | 1,789 |
| At 30 September 2020 | - | **1,533** | **1,533** |

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

| **Acquisition** | **Year of acquisition** | **Goodwill £000** |
|---|---|---|
| HRSD practice of Towers Watson Limited | 30 September 2015 | 1,533 |

## **Notes** continued

### 8 **Intangible assets** continued

Goodwill has been allocated to the individual CGU's within the group's Consulting capability; the relevant CGU reflects the business unit level at which the business is managed and performance monitored. The recoverable amount of the CGU has been calculated with reference to its value in use, using cash flow projections of the relevant CGU based on budgets approved by management. The key assumptions of this calculation are determined using values reflecting past experience; the initial four year budgets are based on current pipeline activity and known plans for that particular part of the business.

The assumptions applied beyond four years are more prudent, as shown below:

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

The growth rate used in the value in use calculation reflects a conservative view given the uncertainties around further market growth in this business unit beyond the initial 4 year forecast period. The calculated recoverable amount is greater than the carrying value and therefore 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.

### 9 **Trade and other receivables**

**Accounting policy**

Trade and other receivables (except contract assets) are initially recognised at their transaction price. Subsequent to initial recognition, trade and other receivables are recorded at amortised cost less impairment losses.

Contract assets relate to service contract receivables on completed work where the fee is yet to be issued or where the service contract is such that work performed falls into a different accounting period to when the fee is issued.

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

*Impairment*

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

When estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company'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.

| | **2020** **£000** | 2019* £000 |
|---|---|---|
| Client receivables | **11,576** | 8,071 |
| Amounts due from other KPMG International member firms | **2,704** | 4,785 |
| Trade receivables | **14,280** | 12,856 |
| Contract assets | **14,201** | 12,014 |
| Other receivables | **20** | 6 |
| | **28,501** | 24,876 |

* Prior year contract assets have been restated to correct an overstatement arising as a result of certain contract liabilities not being netted against the related contract asset where the rights and obligations are interdependent, as required under IFRS 15. As a result, both contract assets and contract liabilities (see note 11) have been reduced by £18,905,000 to reflect this net presentation. Opening contract assets and contract liabilities at 1 October 2018 would also have been reduced by £14,843,000; a third balance sheet is not presented as this adjustment has no impact on net assets and accordingly it is considered that the provision of a third balance sheet would not provide additional information material to these financial statements.

## Notes continued

### 9 Trade and other receivables continued

Trade and other receivables fall due within 12 months. Trade receivables and contract assets are shown net of impairment losses amounting to £1,381,000 (2019: £900,000); 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. The other classes of assets within trade and other receivables do not contain impaired assets.

**Impairment losses**

*Expected credit loss assessment*

The company uses 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 the probability of default due to specific industry and economic factors. The table below provides information about the exposure to credit risk and ECLs for trade receivables as at 30 September 2020.

| | **Weighted average loss rate** | **Gross** | Gross |
|---|---|---|---|
| | | **2020** | 2019 |
| | | **£000** | £000 |
| **Trade receivables** | | | |
| Current (not past due) | **0.12%** | **9,152** | 9,952 |
| 31-60 days | **0.29%** | **3,156** | 692 |
| 61-90 days | **0.59%** | **1,512** | 652 |
| 91-120 days | **1.49%** | **286** | 1,500 |
| 121-150 days | **3.58%** | **24** | 131 |
| 151-180 days | **7.92%** | **109** | 35 |
| 181-360 days | **55.88%** | **208** | 1 |
| More than 360 days | **100%** | **743** | 793 |
| Gross trade receivables | | **15,190** | 13,756 |
| Gross contract assets | **1.54%** | **14,672** | 12,014 |
| | | **29,862** | 25,770 |
| Expected credit losses | | **(1,381)** | (855) |
| Other impairment provisions | | **-** | (45) |
| Trade receivables and contract assets, net of impairment losses | | **28,481** | 24,870 |

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

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Balance at 1 October | **900** | 712 |
| Remeasurement on adoption of IFRS 9 on 1 October 2018 | **-** | 170 |
| Impairment loss recognised | **481** | 18 |
| Balance at 30 September | **1,381** | 900 |

### 10 Cash and cash equivalents

**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.

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Bank balances | **6,246** | 3,991 |
| Cash and cash equivalents in the statement of financial position | **6,246** | 3,991 |

**Notes** continued

## 11 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.

| | 2020 £000 | 2019* £000 |
|---|---|---|
| Contract liabilities | **12,287** | 8,576 |
| Amounts due to other UK group undertakings | **10,193** | 8,412 |
| Accruals | **1,819** | 1,031 |
| Other taxes and social security | **151** | 87 |
| Other payables | **9** | 3 |
| | **24,459** | 18,109 |

* Prior year contract liabilities have been restated, reducing by £18,905,000 as set out in note 9.

## 12 Share capital

| | 2020 £000 | 2019 £000 |
|---|---|---|
| ***Authorised*** | | |
| 5,000,000 Ordinary shares of £1 each | **5,000** | 5,000 |
| ***Allotted*** | | |
| 5,000,000 Ordinary shares of £1 each, 25p called up and paid | **1,250** | 1,250 |

The share capital of the company is entirely owned by the group through KPMG Holdings Limited (see note 14). 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. As a public limited company, KPMG United Kingdom Plc is required to maintain a minimum level of capital, being £50,000.

## 13 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 company becomes a party to the contractual provisions of the instruments.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, transactions costs that are directly attributable to its acquisition. A trade receivable without a significant financial component is initially measured at the transaction price. The company has no financial instruments measured at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

**Classification and subsequent measurement**

Financial assets

*(a) Classification*

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

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.

## Notes continued

### 13 Financial instruments continued

*(b) Subsequent measurement and gains and losses*

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

Financial liabilities

*Classification, subsequent measurement and gains and losses*

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

**Risk management framework**

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 policy of the company and the group 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 KPMG LLP 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) Accounting classifications and fair values**

The estimated fair values of the company's financial assets and liabilities approximate their carrying values at 30 September 2020 and 2019, largely owing to their short maturity. The basis for determining fair values are disclosed throughout these financial statements. The following table shows the classification and carrying amounts of the company's financial assets and financial liabilities. The company has no financial instruments carried at fair value at either 30 September 2020 or 30 September 2019.

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| | | **£000** | £000 |
| **At amortised cost** | | | |
| Trade receivables | *9* | **14,280** | 12,856 |
| Contract assets | *9* | **14,201** | 12,014 |
| Cash and cash equivalents | *10* | **6,246** | 3,991 |
| Other receivables | *9* | **20** | 6 |
| **Total financial assets at amortised cost** | | **34,747** | 28,867 |
| **Non-derivative financial liabilities measured at amortised cost** | | | |
| Amounts due to other UK group undertakings | *11* | **10,193** | 8,412 |
| Other payables | *11* | **9** | 3 |
| **Total non-derivative financial liabilities measured at amortised cost** | | **10,202** | 8,415 |
| **Total net financial instruments** | | **24,545** | 20,452 |

**b) 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.

## Notes continued

### 13 Financial instruments continued

### b) Market risk continued

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.

The financial assets and liabilities of the company are non-interest bearing, with the exception of cash and cash equivalents 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 £51,000 (2019: £36,000). 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 £9,484,000 receivable balances denominated in Euro (2019: £1,917,000) and £382,000 balances denominated in US dollar (2019: £1,209,000) at 30 September 2020. The company had no material payables or cash balances denominated in currencies other than sterling at either 30 September 2020 or 30 September 2019. A 5% movement in the Euro or US dollar closing exchange rates would have increased (or decreased) profit by £499,000 (2019: £101,000) and £20,000 (2019: £64,000) respectively.

### c) 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 routine billing and cash collection for work done.

The company establishes allowances for impairment that represent its estimate of expected credit losses in respect of trade and other receivables. Impairment information is included in note 9. There are no impairment provisions against other classes of assets, other than the impairment loss recognised against the intangible assets (see note 8).

The maximum exposure to credit risk is represented by the carrying amount of the company's financial assets as set out in section a) on page 21.

### d) 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 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 non-derivative financial liabilities as set out in the table in section a) on page 21. All of those financial liabilities are measured at amortised cost. 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 12 months.

## Notes continued

### 14 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. KPMG LLP is the company's ultimate controlling party.

The largest and smallest group in which the results of the company are consolidated for the year ended 30 September 2020 and 30 September 2019 is that of KPMG LLP and its subsidiaries. The group financial statements of KPMG LLP for the year ended 30 September 2020 and 30 September 2019 are available to the public at www.kpmg.com/uk.

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

*Transactions with other UK group undertakings*

Transactions with other UK group undertakings during the year were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| **KPMG LLP** | | |
| Management charges - use of facilities and other services | **12,342** | 10,423 |
| Time of members of KPMG LLP | **3,432** | 5,789 |
| **KPMG UK Limited** | | |
| Services of staff | **37,241** | 33,668 |

Such transactions reflect appropriate charges for the costs of shared services.

No dividend was received from the company's subsidiary entity (2019: £nil). A dividend of £4,000,000 was paid by the company to its parent entity (2019: £6,000,000). Subsequent to the year end, on 29 September 2021, a dividend of £5,000,000 was paid by the company to its parent entity.

At the year end, balances with fellow UK group undertakings were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| **Trade and other payables** | | |
| Amounts due to other UK group undertakings | **10,193** | 8,412 |

*Transactions with key management personnel*

The directors of the company at 30 September 2020 (with the exception of J Dean) are all separately members of KPMG LLP 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 2020 or 30 September 2019.