

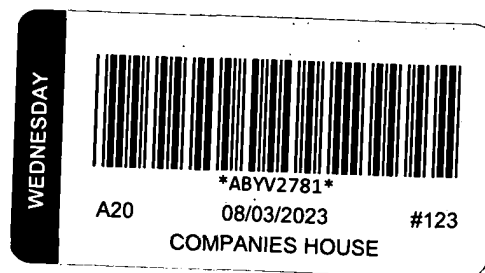
# EY Professional Services Limited

## Annual Reports and Financial Statements

1 July 2022

*Registered No. 06015277*

*Registered in England and Wales*



# EY Professional Services Limited

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Registered No: 06015277

## **Directors**

S Orr  
D Scourfield  
J Hughes  
S Dawe

## **Auditor**

BDO LLP  
55 Baker Street  
London W1U 7EU

## **Registered Office**

1 More London Place  
London SE1 2AF

## Strategic report

The directors present their strategic report for the period from 3 July 2021 to 1 July 2022, the prior period being period from 4 July 2020 to 2 July 2021.

### Principal activity and review of the business

The principal activity of EY Professional Services Limited (the “company”) is the provision of software consultancy, implementation and design services, and people advisory services.

The key financial and other performance indicators during the period were as follows:

	<i>1 July 2022 £k</i>	<i>2 July 2021 £k</i>
Revenue	50,093	20,662
Debtor days	79 days	74 days

Revenue has increased by 142% compared to the prior period primarily due to acquisition activity. As part of the company’s strategy to expand its technology, financial planning and leadership transformation consulting services it has acquired Lane 4 Management Group Holdings Limited on 16 July 2021, Seaton Partners Limited on 13 August 2021, and Peak EPM Limited on 10 December 2021. Acquisitions during the current period contributed revenue of £26,545k (2021: £1,400k). The company continues to focus on integrating these businesses and leveraging synergies with its parent company, Ernst & Young LLP, leading to more opportunities and greater client coverage. Proforma revenue for entities within the group before 4 July 2020 was £23,616k compared with pro forma revenue of £19,431k in the previous year. This represents underlying organic growth of 22%.

### Future developments

The directors consider that the demand for the provision of the company’s services will continue in the future. The directors plan to expand the business through acquisitions, with one further acquisition being completed in the post balance sheet period as set out in note 21. The directors will continue to look for future acquisitions that are a benefit to the entity and its ultimate parent company.

### Principal risks and uncertainties

The principal risk currently facing the company relates to ensuring the operational capability to service the predicted level of future growth and so its ability to attract and retain the appropriate skills and knowledge. However, so far, the company has been successful in recruiting staff at all levels.

The policies for managing the risks relating to financial instruments are set out in note 18.

### Going concern

The company actively manages its operating cash flows to ensure that all repayment and funding needs are met. EY Professional Services Limited continues to manage both operational and business risks well.

The directors are closely monitoring the ongoing impact of the current macro-economic environment. The directors have performed a going concern assessment and sensitivity analysis under multiple scenarios, including a decline in revenue and collection days, and have performed a detailed review of the cash flow forecast until March 2024.

## Strategic report

### Going concern (continued)

The directors believe EY Professional Services Limited has sufficient cash flows and is well placed to manage the risks and uncertainties arising. Under some scenarios modelled, additional funding would be required. The ultimate parent company has confirmed in a letter of support to the Directors of the company that it is committed to providing funding should one of these scenarios arise. Accordingly, the directors of EY Professional Services Limited have concluded that the company has adequate resources to continue in operational existence for fourteen months from the date of signing the financial statements and so continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Section 172 statement


The company is an indirect subsidiary of Ernst & Young LLP (“EY LLP”). The company’s principal activity is stated above. EY LLP commits to the Audit Firm Governance Code published by the Financial Reporting Council. To do this, EY LLP has therefore put in place certain processes, procedures and arrangements, which apply, as relevant, to the company.

Consequently, governance and related decision-making generally operates at the EY LLP level, consistent with EY LLP’s service lines and functions (including the talent function), and EY LLP maintains/fosters business relationships with suppliers, customers and others, which benefit both EY LLP and its direct and indirect subsidiaries, including the company. Therefore, EY LLP’s governance process applies, as relevant, to the company, to ensure that decisions are made at the appropriate level in the organisation (given, for example, EY LLP is the principal contracting entity with third parties), and that transactions are carried out by the appropriate legal entity. Such governance processes also ensure that related decisions and engagement with certain groups of stakeholders (e.g. the company’s employees and its suppliers) are conducted by EY LLP on the company’s behalf, or in conjunction with the company, as appropriate. As they are also members of EY LLP, the directors are cognizant of all of the above and they have access to relevant information available to them on matters directly impacting the company, including regular reports and updates on EY LLP’s activities and performance.

Given the governance arrangements stated above, and the fact that the company is an indirect subsidiary of EY LLP, EY LLP’s performance directly influences the future performance and direction of the company. Accordingly, and taking into account the company’s principal activities, the company’s directors consider that the company’s key stakeholders are: the company’s employees, its clients and EY LLP.

During the period, the company’s directors acted in a way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have had regard to the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when making decisions. In addition, the company’s directors also had regard to other factors and matters that they considered relevant to decisions made. When required, the company’s directors held board meetings to make key decisions relating to the company, where such matters and factors were considered, as relevant. This therefore took place when the company decided to: (i) make deferred consideration payments in respect of acquisitions completed in previous financial years; and (ii) complete planned acquisitions. In making key decisions, the directors have given considerations to the activities carried out by EY LLP on behalf of the company, such as engagement with the company’s employees and supporting their integration into EY LLP (as applicable).

For and on behalf of the Board



J Hughes  
Director

Date: 3 March 2023

## Directors' report

The directors present their report and financial statements for the company.

The strategic report, the directors' report and financial statements cover the period from 3 July 2021 to 1 July 2022, the comparative period being from 4 July 2020 to 2 July 2021.

### Results and dividends

The loss for the period after taxation amounted to £15,607k (2021: loss £2,553k).

The company's business activities, together with its future expected business developments and risk exposures are described in the strategic report.

No dividends were declared or paid during the period (2021: nil).

### Financial instruments

The directors are responsible for setting objectives and policies in relation to financial instruments, details of which can be found in note 18.

### Directors

The directors during the period ended 1 July 2022 and the period up until approval of the financial statements were:

A Byrne	Resigned: 29 July 2021
S M Church	Resigned: 29 July 2021
S Orr	
J Slinn	Appointed: 29 July 2021. Resigned: 12 October 2021
D Scourfield	Appointed: 21 July 2021
J Hughes	Appointed: 21 July 2021
S Dawe	Appointed: 12 October 2021

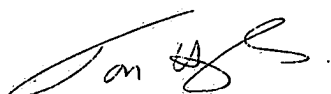
### Auditor

Having made enquiries of the company's auditor, the directors at the date of approving this annual report confirm that:

- to the best of their knowledge and belief, there is no information (that is, information needed by the company's auditor in connection with preparing their report) of which the company's auditor is unaware; and
- the directors have taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

BDO LLP were appointed as auditor to the company for the period ending 30 June 2023 and have expressed their willingness to continue in office.

For and on behalf of the Board



J Hughes  
Director

Date: 3 March 2023

## Statement of directors' responsibilities

The directors are responsible for preparing the annual reports and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ("IFRS"). 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 and loss of the company for that period. In preparing these financial statements, the directors are required to:

- present fairly the financial position, financial performance and cash flows of the company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state whether the company financial statements have been prepared in accordance with IFRS, subject to any material departures disclosed and explained in the financial statements; 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 company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report**

**to the shareholder of EY Professional Services Limited**

### **Opinion on the financial statements**

In our opinion:

- The financial statements give a true and fair view of the state of affairs of EY Professional Services Limited ("the Company") as at 1 July 2022 and of the Company's loss for the period then ended;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company for the period ended 1 July 2022 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, 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 accounting standards in conformity 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

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.

### **Conclusions relating to going concern**

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

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent auditor's report**

### **to the shareholder of EY Professional Services Limited**

#### **Other Companies Act 2006 reporting**

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 period 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.

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.

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 by the Company, 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**

As explained more fully in the Directors' responsibilities statement, 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.

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company that would be contrary to applicable laws and regulations, including fraud. These included, but were not limited to, compliance with the Companies Act 2006 and international accounting standards. We also identified other applicable laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements.

Our procedures included, but were not limited to:



## Independent auditor's report

### to the shareholder of EY Professional Services Limited

- Enquiries of key management personnel and those charged with governance;
- Obtaining an understanding of the control environment for monitoring compliance with laws and regulations and to deter and detect fraud and whether the lack of such controls would increase the susceptibility of the financial statements to fraud; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

We also evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements and concluded these are linked with the key performance indicators, specifically revenue and profits after tax. We determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant. We focused on specific areas of the financial statements where material misstatement due to fraud was deemed to be a risk.

Our procedures in this area included, but were not limited to, the following:

- Considering the adequacy of controls surrounding possible fraud areas, including changes to supplier and payroll details and assessing the adequacy of segregation of duties;
- Establishing if there have been any transactions outside the normal course of business and assessing the rationale of any such transactions;
- Examining the business rationale for a sample of journals posted during the period that exhibit characteristics of audit interest and corroborating these to underlying supporting documentation;
- Testing the appropriateness of a sample of journals made during the course of the financial statements preparation;
- Making enquiries of those charged with governance and of senior management to determine whether they are aware of any suspected, alleged, or known frauds; and
- Challenging and assessing the appropriateness of the estimates and judgements made, by management in preparing the financial statements having regard to supporting evidence and historical outcomes. The key estimates and judgements were identified as revenue recognition and recoverability of trade and other receivables.

We assessed the fraud risk in revenue recognition and our procedures to address this risk included, but were not limited to:

- Testing of the operating effectiveness of relevant controls in the revenue cycle in relation to unbilled receivables and revenue recognition; and
- Additional procedures on a sample of open engagements at period end.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent auditor's report

to the shareholder of EY Professional Services Limited

### 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.

DocuSigned by:  
J. Partington

CAS358B16D9949D  
Jason Partington (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
W1U 7EU

Date: 06 March 2023

*BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).*

## Statement of comprehensive income

for the period ended 1 July 2022

	Notes	1 July 2022 £k	2 July 2021 £k
<b>Revenue</b>	3	50,093	20,662
Expenses billed to clients		(6,114)	(2,808)
<b>Net revenue</b>		43,979	17,854
Other operating income		9,691	1,920
Operating expenses	4	(69,437)	(22,471)
Impairment of investments		(2,000)	–
<b>Operating loss</b>		(17,767)	(2,697)
Dividend income from subsidiaries		2,000	–
Finance income		1	2
Finance costs		(114)	(2)
<b>Loss before tax</b>		(15,880)	(2,697)
Tax credit	7	273	144
<b>Loss and total comprehensive loss for the period</b>		(15,607)	(2,553)

## Statement of changes in equity

for the period ended 1 July 2022

	Notes	Called up share capital £k	Share premium £k	Retained earnings £k	Total equity £k
At 3 July 2020		1	233	5,803	6,037
Loss and total comprehensive loss for the period		–	–	(2,553)	(2,553)
Share capital issued	16	–	29,500	–	29,500
At 2 July 2021		1	29,733	3,250	32,984
Loss and total comprehensive loss for the period		–	–	(15,607)	(15,607)
Share capital issued	16	1	22,329	–	22,330
At 1 July 2022		2	52,062	(12,357)	39,707

**Balance sheet**

as at 1 July 2022

Registered number 06015277

	<i>Notes</i>	<i>1 July 2022 £k</i>	<i>2 July 2021 £k</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	8	46,288	27,890
Property, plant and equipment	9	14	–
Right-of-use asset	10	500	271
Investment in subsidiaries	12	7,590	5,617
<b>Total non-current assets</b>		<u>54,392</u>	<u>33,778</u>
<b>Current assets</b>			
Trade and other receivables	13	24,357	6,916
Tax receivables		451	471
Cash		15,439	4,004
<b>Total current assets</b>		<u>40,247</u>	<u>11,391</u>
<b>TOTAL ASSETS</b>		<u><u>94,639</u></u>	<u><u>45,169</u></u>

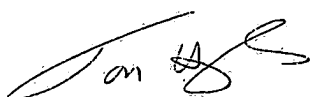
## Balance sheet

as at 1 July 2022

Registered number 06015277

	<i>Notes</i>	<i>1 July 2022 £k</i>	<i>2 July 2021 £k</i>
<b>EQUITY AND LIABILITIES</b>			
<b><i>Current liabilities</i></b>			
Trade and other payables	14	45,606	9,098
Provisions	15	285	72
Lease liabilities	17	771	87
<b><i>Total current liabilities</i></b>		46,662	9,257
<b><i>Non-current liabilities</i></b>			
Lease liabilities	17	2,733	265
Provisions	15	1,475	58
Deferred tax liability	7	4,062	2,605
<b><i>Total non-current liabilities</i></b>		8,270	2,928
<b><i>Equity</i></b>			
Called up share capital	16	2	1
Share premium	16	52,062	29,733
Retained earnings		(12,357)	3,250
<b><i>Total equity</i></b>		39,707	32,984
<b>TOTAL EQUITY AND LIABILITIES</b>		94,639	45,169

The financial statements of EY Professional Services Limited for the period ended 1 July 2022 were authorised for issue by the board of directors and signed on their behalf by:



J Hughes

Director

Date: 3 March 2023

## Cash flow statement

for the period ended 1 July 2022

	1 July 2022 £k	2 July 2021 £k
<b>Operating activities</b>		
Loss before tax	(15,880)	(2,697)
Adjusted for:		
Depreciation	843	23
Amortisation	1,807	195
Impairment of investment in subsidiary	2,000	–
Impairment of right-of-use asset	2,083	74
Impairment of other intangible assets	1,100	–
Loss on disposal of property, plant and equipment	–	187
Loss on disposal of right-of-use asset	–	33
Net finance costs	113	–
Net foreign exchange (gain)/loss	(34)	31
Dividends received	(2,000)	–
Movements in provisions	1,630	79
(Increase)/decrease in trade and other receivables	(10,961)	2,900
Increase/(decrease) in trade and other payables	27,150	(7,123)
	<u>7,851</u>	<u>(6,298)</u>
Corporation tax paid	(2)	(129)
<b>Net cash inflows/(outflows) from operating activities</b>	<u>7,849</u>	<u>(6,427)</u>
<b>Investing activities</b>		
Cash paid net of cash acquired on acquisition of subsidiary	(19,939)	(23,603)
Dividends received	2,000	–
Interest received	1	2
<b>Net cash outflows from investing activities</b>	<u>(17,938)</u>	<u>(23,601)</u>
<b>Financing activities</b>		
Issue of share capital	22,330	29,500
Interest paid	(67)	–
Payment of principal portion of lease liabilities	(726)	(40)
Payment of interest portion of lease liabilities	(47)	(2)
<b>Net cash inflows from financing activities</b>	<u>21,490</u>	<u>29,458</u>
<b>Increase/(decrease) in cash</b>	<u>11,401</u>	<u>(570)</u>
Net foreign exchange differences	34	(31)
<b>Cash at beginning of period</b>	<u>4,004</u>	<u>4,605</u>
<b>Cash at end of period</b>	<u><u>15,439</u></u>	<u><u>4,004</u></u>

## Notes to the financial statements

for the period ended 1 July 2022

### 1. Corporate information

EY Professional Services Limited is a private company limited by shares incorporated, domiciled and registered in England and Wales (registered number 06015277). The company's registered office address is 1 More London Place, London SE1 2AF.

Details of the principal activity of EY Professional Services Limited can be found in the Strategic report.

The financial statements of EY Professional Services Limited for the period from 3 July 2021 to 1 July 2022 were authorised for issue by the Board of Directors on 3 March 2023

### 2. Significant accounting policies

The principal accounting policies are summarised below and have all been applied consistently throughout the period and the preceding period, unless otherwise stated.

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ("IFRS").

The financial statements have been prepared on the accrual basis of accounting using a number of measurement bases as set out in the accounting policies below.

The directors believe it is appropriate to present the accounts on a going concern basis. The directors have concluded that it is appropriate to adopt the going concern basis having considered multiple forecasts, covering a period up to 31 March 2024. The forecasts consider the impact of the current macro-economic environment in a range of severe but plausible scenarios including varying declines in revenue and collection rates. Under some scenarios modelled, additional funding would be required. The ultimate parent company has confirmed in a letter of support to the Directors of the company that it is committed to providing funding should one of these scenarios arise. The impact on EY Professional Services Limited's cash flows has then been considered and the directors of the company have concluded that there is no material uncertainty relating to going concern and that it is appropriate to present the financial statements of the company on a going concern basis. Further details of this assessment can be found within the Strategic report.

The functional currency of the company is pounds sterling. The financial statements are presented in pounds sterling and, unless otherwise indicated, are rounded to the nearest thousand pounds (£k).

The financial statements have been drawn up for the period from 3 July 2021 to 1 July 2022 (the comparative period being the period from 4 July 2020 to 2 July 2021).

The company is exempt from the obligation to prepare group accounts under section 400 of the Companies Act 2006 as it is a wholly owned subsidiary undertaking and its ultimate parent undertaking prepares group accounts (see note 20). Consequently, these financial statements contain information about EY Professional Services Limited as an individual entity.

#### Judgements and key sources of estimation uncertainty

The preparation of financial statements requires the application of judgement and the use of estimates that affect the amounts reported for assets, liabilities, revenues and expenses. Information about these judgements and estimates is included in the accounting policies and other notes. Although estimates are based on the best information available, actual outcomes could differ from the amounts included in the financial statements.

#### Judgements

- Leases - determining incremental borrowing rate and lease term where there are options to extend or terminate (page 17)
- Useful economic life of acquired intangible assets (page 15)
- Impairment of goodwill (page 18)

## Notes to the financial statements

for the period ended 1 July 2022

### 2. Significant accounting policies (continued)

#### Judgements and key sources of estimation uncertainty (continued)

##### *Estimates*

- Revenue recognition – estimating the costs to complete and the value of unsatisfied/partially satisfied performance obligations (page 16)
- Valuation and of acquired intangible assets (page 15)

##### **Business combinations**

Business combinations are accounted for using the acquisition method. When a business is acquired its identifiable assets and liabilities are measured at fair value at the acquisition date. Goodwill is measured at the excess of the consideration over the net identifiable assets and liabilities acquired less any accumulated impairment losses. Contingent consideration is recognised at fair value at the acquisition date, with subsequent changes in fair value recognised in the income statement.

##### ***Significant estimates***

The fair value and useful economic life of intangible assets identified on acquisition is calculated based on a valuation model where key assumptions include forecasted future performance and risk related discount rates.

The effect of making different valuation assumptions could have a material effect on the valuation of intangible assets individually but would have no effect to the combined intangible assets recognised.

The effect of making different assumptions on useful economic life could have a material impact on the valuation of intangible assets.

##### **Foreign currencies**

Transactions denominated in currencies other than the sterling are translated into sterling at the exchange rate in operation when the transaction occurred. Monetary assets and liabilities denominated in currencies other than sterling are translated at the rate of exchange ruling at the balance sheet date. All exchange gains or losses are recognised in the income statement as they arise.

##### **Revenue**

Revenue is earned under contracts with clients to provide a variety of implementation and design technology services. Revenue is recognised when control of services is transferred to the client at an amount that reflects the consideration to which the company expects to be entitled in exchange for those services.

Each contract is assessed to identify the performance obligation(s) and to estimate the total transaction price. The total transaction price is then allocated to each performance obligation within the contract.

The company typically recognises the transaction price as revenue over time because most contracts give the company the enforceable right to receive payment for work performed to date and no asset with an alternative use is created. Where this is not the case, the company recognises revenue at a point in time, typically when the service has been completed and delivered to the customer.

When recognising revenue over time, the company measures progress towards complete satisfaction of the performance obligations using time spent to date as a proportion of the total estimated time. The company considers this to be the best measure of how services are transferred to clients over time.

The company has not disclosed the transaction price allocated to unsatisfied or partially unsatisfied performance obligations at the period end as the performance obligations had an original expected duration of less than one year.

Payment terms are negotiated separately with each client, but typically involve periodic billings as services are provided. Where amounts billed to clients are less than the revenue recognised at the period end date, the difference is recognised as unbilled receivables, however, if contractual terms allow the company to have an unconditional right to receive payment for performance completed to date the difference is recorded as client debtors. Amounts received in advance of performance are recognised as payments on account.



## Notes to the financial statements

for the period ended 1 July 2022

### 2. Significant accounting policies (continued)

#### Revenue (continued)

Where the amounts billed exceed the revenue recognised at the period end date, the difference is recognised as client debtors and as payments on account provided the contract is non-cancellable and gives unconditional right to payment for services that have not yet been completed or for services to be provided in the near future. The performance obligations related to any payments on account are generally satisfied within a year of such billing.

#### **Significant estimates**

In determining the amount of revenue to be recognised on incomplete performance obligations, it is necessary to estimate the stage of completion, the remaining time and costs to be incurred and the amounts that will be received for the services provided. These estimates, which are normally resolved within a year of the reporting date when the performance obligation has been fully satisfied and fees agreed, are made at a performance obligation level and a different assessment of any of these factors would result in a change to the amount of revenue recognised.

The effect of making different assessments could, in aggregate, have a material effect on the carrying amounts of unbilled receivables and/or payments on account which are shown in notes 13 and 14 respectively. Revenue recognised in the current year in respect of performance obligations satisfied, or partially satisfied, in previous years amounted to £25k (2021: £278k), and includes revisions to such estimates.

#### Other operating income

Market development and initiative support received from Ernst & Young (EMEIA) Services Limited, a UK incorporated company limited by shares within the EY global network, for services provided by the company for the benefit of the EY global network is recognised on the same basis as fee income and is included in other operating income.

#### Pensions

The company operates a defined contribution scheme. Contributions to the defined contribution scheme are charged to the income statement when they become payable. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### Staff costs

Amounts relating to staff costs are recognised as an expense in the income statement as incurred. Unpaid staff costs are included in trade and other payables.

#### Leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### *i) Right-of-use assets*

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets comprises the amount of lease liabilities recognised adjusted for prepayments. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

##### *ii) Lease liabilities*

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments are fixed payments.

In calculating the present value of lease payments, the company uses its incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

## Notes to the financial statements

for the period ended 1 July 2022

### 2. Significant accounting policies (continued)

#### Leases(continued)

##### ii) Lease liabilities (continued)

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the remaining lease payments.

Lease liabilities are presented in a separate line of the balance sheet.

#### **Significant judgements**

The company cannot readily determine the interest rate implicit in its leases, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This requires estimation when no observable rates are available including the use of certain entity-specific estimates.

The company also determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any options to terminate the lease, if it is reasonably certain not to be exercised.

The company's lease contracts include extension and termination options and judgement is applied in evaluating whether it is reasonably certain the lease will continue into these optional periods.

After the commencement date, the company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The effect of a change in the judgements made could have a material effect on the carrying value of the lease liability and right-of-use asset which are shown in notes 17 and 10 respectively.

#### **Property, plant and equipment and intangible assets**

Property, plant and equipment and intangible assets are stated at cost less accumulated depreciation or amortisation and any impairment in value. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into operation.

Depreciation or amortisation is charged so as to write off the cost of assets to their residual value over their expected useful lives using the straight-line method. The expected useful lives are as follows:

Leasehold property improvements	–	The shorter of the lease term and 10 years
Fixture and fittings	–	4 years
Computer equipment	–	3 years
Intangible assets	–	5-10 years

An item of property, plant and equipment or an intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognising the asset is included in the income statement. The residual values, useful lives and depreciation or amortisation methods of assets are reviewed, and adjusted if appropriate, at each financial period end.

#### **Impairment of non-financial assets**

The carrying value of non-financial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount of an asset (or associated cash generating unit) is higher than its recoverable amount an impairment loss is recognised in the income statement.

## Notes to the financial statements

for the period ended 1 July 2022

### 2. Significant accounting policies (continued)

#### Impairment of non-financial assets (continued)

##### **Significant estimates**

For the purpose of impairment testing, goodwill is allocated to the cash generating unit (“CGU”) from the business combination in which the goodwill arose. The carrying amount of goodwill is compared to the recoverable amount of the CGU, which is its value in use.

The estimation of value in use is based on assumptions including estimates on future growth rates and appropriate discount rates. These assumptions are based on future events and are therefore revised as circumstances change.

The effect of a change in the estimates could have a material effect on the carrying value of the goodwill shown in note 8.

##### **Investments**

Investments in subsidiaries are carried at cost less provision for impairment.

##### **Financial instruments**

Financial instruments are recognised when the company becomes party to the contracts that give rise to them and they are derecognised on settlement. They are measured initially at fair value, normally being the transaction price. The subsequent accounting treatment depends on the classification of an instrument as set out below.

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

Trade receivables represents the company’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Trade and other receivables are carried at amortised cost, which is equal to the original transaction amount, less a provision for expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the company expects to receive.

##### **Trade and other payables**

Trade and other payables are carried at amortised cost, which generally approximates to their nominal amount.

##### **Cash**

Cash comprises cash in hand and current balances with banks.

For the purpose of the cash flow statement, cash and cash equivalents is as defined above, net of outstanding bank overdrafts.

##### **Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount of the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. If the effect of the time value of money is material, the expected future cash flows are discounted at a rate that reflects current market assessments of the time value of money and, where appropriate, risks specific to the liability. Any increase in the provision due to the passage of time is recognised as a finance cost, and any increases due to revised estimates are recognised as an operating expense.

##### **Income taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Interest levied on unpaid tax is classified as a finance cost.

## Notes to the financial statements

for the period ended 1 July 2022

### 2. Significant accounting policies (continued)

#### Income taxes (continued)

Deferred income tax assets are recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or unused tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### Dividends

A liability is recognised to pay dividends to the shareholder when the dividend is appropriately authorised and no longer at the discretion of the company i.e. when dividends are approved by the shareholders.

Dividends proposed or declared after the balance sheet date but before the financial statements are authorised, are not recognised but disclosed in the notes to the financial statements.

#### New and amended accounting standards and interpretations and other changes to the financial statements

A number of amendments and interpretations apply for the first time in the current period, but do not have an impact on the financial statements of the company.

#### Standards that are not yet effective

A number of standards and other pronouncements are in issue that are not yet effective, none of which are expected to have a material impact on the financial statements.

### 3. Fee income

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Technology consulting services	34,075	20,662
People advisory services	13,430	–
Business consulting services	2,588	–
	<u>50,093</u>	<u>20,662</u>

### 4. Operating expenses

	<i>1 July</i> 2022 £k	<i>Restated</i> <i>2 July</i> 2021 £k
People costs	36,569	13,563
Other operating expenses	32,868	8,908
	<u>69,437</u>	<u>22,471</u>

## Notes to the financial statements

for the period ended 1 July 2022

### 4. Operating expenses (continued)

Included within other operating expenses are the following items:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Foreign exchange (gains)/losses	(357)	157
Impairment of investment	2,000	–
Impairment of other intangible assets	1,100	–
Bad debt expense/(credit)	8	(381)
Depreciation	843	23
Amortisation	1,807	195
	<u>          </u>	<u>          </u>

Fees payable to the company's auditor for the audit of the company financial statements were £77k (2021: £59k). No other services were provided by the auditor during the current period (2021: £nil).

### 5. Staff costs

The employment costs of staff during the period were:

	<i>1 July</i> 2022 £k	<i>Restated</i> <i>2 July</i> 2021 £k
Salary and benefits	31,429	11,785
Social security costs	3,603	1,299
Other pension costs	1,537	479
	<u>          </u>	<u>          </u>
	36,569	13,563
	<u>          </u>	<u>          </u>

Average number of employees during the period was:

	<i>1 July</i> 2022 No.	<i>2 July</i> 2021 No.
Client service staff	341	104
Support staff	9	6
	<u>          </u>	<u>          </u>
	350	110
	<u>          </u>	<u>          </u>

In the previous period, salaries and benefits included people costs of £2,071k incurred from other EY network entities to support the group in its operations. The figures previously presented have been restated to include this expense in other operating charges (note 4).

### 6. Directors' remuneration

In the current and previous period, the directors received no remuneration for their services as directors or their services in connection with the management of the company.

## Notes to the financial statements

for the period ended 1 July 2022

### 7. Tax

#### (a) Tax on loss

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
<i>Current tax:</i>		
UK Corporation tax arising on profits in the period	–	27
Adjustments in respect of prior periods	21	(87)
Total current income tax	<u>21</u>	<u>(60)</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(250)	(84)
Effects of change in tax rate	(10)	–
Adjustments in respect of prior periods	(34)	–
Total deferred tax	<u>(294)</u>	<u>(84)</u>
Total tax credit in the income statement	<u>(273)</u>	<u>(144)</u>

#### (b) Reconciliation of total tax credit

The table below explains the differences between the tax credit on continuing operations at the UK statutory tax rate for the financial period and the company's total tax credit for the financial period:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Loss before tax	(15,880)	(2,697)
Loss multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	<u>(3,017)</u>	<u>(512)</u>
<i>Effects of:</i>		
Adjustments in respect of previous periods	(13)	(87)
Expenses not deductible for tax purpose	2,020	455
Use of restricted trading losses	(120)	–
Group relief not paid for	1,092	–
Effects of changes in tax rate on deferred tax	(10)	–
Non taxable income	(380)	–
Derecognition of deferred tax on losses	155	–
Total tax credit reported in the income statement	<u>(273)</u>	<u>(144)</u>

The main rate of corporation tax is 19%. The Finance Bill 2021, which was substantially enacted by the balance sheet date, includes provisions to increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The deferred tax asset has been calculated at a rate of 23.4% which is the average rate prevailing in the period when the deferred tax asset is expected to be utilised.

## Notes to the financial statements

for the period ended 1 July 2022

### 7. Tax (continued)

#### (c) Deferred tax

The deferred tax liability included in the balance sheet is as follows:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Depreciation in excess of capital allowances	8	3
Deferred pension contributions	126	29
Deferred tax on non-deductible intangible assets	(4,196)	(2,637)
	<u>(4,062)</u>	<u>(2,605)</u>

The deferred tax included in the income statement is as follows:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Decrease in accelerated capital allowances	(5)	(12)
Deferred pension contributions	(97)	(19)
Amortisation of non-deductible intangible assets	(343)	(37)
Accelerated capital allowances acquired on business acquisitions	(4)	(16)
Derecognition of deferred tax on losses of business acquisitions	155	–
	<u>(294)</u>	<u>(84)</u>

### 8. Intangible assets and goodwill

<b>1 July 2022</b>	<i>Customer</i>		<i>Software</i>	<i>Total</i>
	<i>Goodwill</i>	<i>relationships</i>		
	£k	£k	£k	£k
Cost:				
At 2 July 2021	16,850	10,749	486	28,085
Acquisition of subsidiaries (note 11)	13,991	7,314	–	21,305
At 1 July 2022	<u>30,841</u>	<u>18,063</u>	<u>486</u>	<u>49,390</u>
Amortisation:				
At 2 July 2021	–	179	16	195
Amortisation	–	1,710	97	1,807
Impairment	–	1,100	–	1,100
At 1 July 2022	<u>–</u>	<u>2,989</u>	<u>113</u>	<u>3,102</u>
Net book value:				
At 1 July 2022	<u>30,841</u>	<u>15,074</u>	<u>373</u>	<u>46,288</u>

## Notes to the financial statements

for the period ended 1 July 2022

### 8. Intangible assets and goodwill (continued)

2 July 2021	<i>Goodwill</i>	<i>Customer relationships</i>	<i>Software</i>	<i>Total</i>
	£k	£k	£k	£k
Cost:				
At 3 July 2020	–	–	–	–
Acquisition of subsidiaries (note 11)	16,850	10,749	486	28,085
	<hr/>	<hr/>	<hr/>	<hr/>
At 2 July 2021	16,850	10,749	486	28,085
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation:				
At 3 July 2020	–	–	–	–
Amortisation	–	179	16	195
	<hr/>	<hr/>	<hr/>	<hr/>
At 2 July 2021	–	179	16	195
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:				
At 2 July 2021	16,850	10,570	470	27,890
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Goodwill and intangible assets relate to the entity's accounting for business combinations. The trade and assets are transferred, post-acquisition, to EY Professional Services Limited. Goodwill as at the period end has arisen on the following business combinations:

<i>Acquired business</i>	<i>Year of acquisition</i>	<i>Goodwill £m</i>
Pythagoras Communications Holdings Limited	2021	16,850
Lane 4 Management Group Holdings Limited	2022	8,229
Seaton Partners Limited	2022	2,049
Peak EPM Limited	2022	3,123
		<hr/>
		30,251
		<hr/> <hr/>

#### **Impairment review**

The acquired businesses represent the CGUs for which goodwill is assessed for impairment. The recoverable amounts are determined based upon the value in use, using Board approved cash flow projections for the next five years. The key assumptions are presented in the table below:

	2022	2021
	%	%
Year 1 – 5 average annual growth rate	34.5%	30%
Terminal growth rate	2.5%	Nil
Discount rate	7.0% – 11.5%	5%

Reasonably possible changes in the key assumptions used in assessing the goodwill of each CGU would not result in an impairment of the goodwill with the exception Pythagoras Communications Holdings Limited. Using reasonably possible alternative assumptions to estimate the value in use of Pythagoras Communications Holdings Limited, based on a discount rate 9% (rather than 7%) and a terminal growth rate of 2% results in an impairment of £2m. The average annual growth rate has been determined based on conservative assumptions, a reasonably possible change in which is not expected to reduce the value in use calculation.



## Notes to the financial statements

for the period ended 1 July 2022

### 9. Property, plant and equipment

1 July 2022

	<i>Fixtures and fittings £k</i>	<i>Computer equipment £k</i>	<i>Total £k</i>
Cost:			
At 2 July 2021	–	–	–
Additions from acquisitions	625	32	657
At 1 July 2022	<u>625</u>	<u>32</u>	<u>657</u>
Depreciation:			
At 2 July 2021	–	–	–
Charge for the period	611	32	643
At 1 July 2022	<u>611</u>	<u>32</u>	<u>643</u>
Net book value at At 1 July 2022	<u>14</u>	<u>–</u>	<u>14</u>

2 July 2021

	<i>Leasehold improvements £k</i>	<i>Fixtures and fittings £k</i>	<i>Computer equipment £k</i>	<i>Total £k</i>
Cost:				
At 3 July 2020	41	154	196	391
Additions	1	151	–	152
Disposals	(42)	(305)	(196)	(543)
At 2 July 2021	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Depreciation:				
At 3 July 2020	38	143	164	345
Charge for the period	2	1	8	11
Disposals	(40)	(144)	(172)	(356)
At 2 July 2021	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net book value at 2 July 2021	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## Notes to the financial statements

for the period ended 1 July 2022

### 10. Right-of-use asset

<i>Properties</i>	2022	2021
	£k	£k
Cost:		
At the beginning of the period	357	254
Additions from acquisitions	2,661	357
Remeasurements	(149)	–
Disposals	–	(254)
At the end of the period	2,869	357
Depreciation and impairment:		
At the beginning of the period	86	221
Depreciation charge for the period	200	12
Impairment	2,083	74
Disposals	–	(221)
At the end of the period	2,369	86
Net book value	500	271

## Notes to the financial statements

for the period ended 1 July 2022

### 11. Business combinations

#### 2022

On 16 July 2021, EY Professional Services Limited, acquired the entire share capital of Lane 4 Management Group Holdings Limited and its subsidiaries (together "Lane 4 group") for consideration of £12m. Lane 4 group specialises in transformation and culture change, leadership and learning and delivering top-down large-scale transformational projects.

On 13 August 2021, EY Professional Services Limited, acquired the entire share capital of Seaton Partners Limited for consideration of £3m. Seaton Partners Limited provides information technology consultancy services.

On 10 December 2021, EY Professional Services Limited, acquired the entire share capital of Peak EPM Limited and its subsidiaries (together "Peak group") for consideration of £8m. Peak group is a consulting company offering pre-designed solutions for global planning, stress testing and cost allocation processes for the financial services industry.

The fair value of identifiable assets and liabilities of these acquisitions as at the date of acquisition were:

	<i>Lane 4</i>	<i>Seaton</i>	<i>Peak</i>	<i>Total</i>
	<i>Group</i>	<i>Partners</i>	<i>Group</i>	
	<i>£k</i>	<i>Limited</i>	<i>£k</i>	<i>£k</i>
		<i>£k</i>		
Intangible assets (note 8)	3,406	1,314	2,594	7,314
Plant and equipment (note 9)	568	79	10	657
Trade and other receivables	4,128	478	1,300	5,906
Right-of-use assets	2,504	157	–	2,661
Cash and cash equivalents	1,689	–	1,747	3,436
Lease liabilities	(3,870)	(157)	–	(4,027)
Trade and other payables	(4,404)	(580)	(401)	(5,385)
Corporate tax	794	–	(220)	574
Deferred tax liabilities	(913)	(162)	(677)	(1,752)
<b>Total identifiable net assets acquired at fair value</b>	<b>3,902</b>	<b>1,129</b>	<b>4,353</b>	<b>9,384</b>
Goodwill on acquisition (note 8)	8,615	2,049	3,327	13,991
<b>Cash consideration paid</b>	<b>12,517</b>	<b>3,178</b>	<b>7,680</b>	<b>23,375</b>
	<i>Lane 4</i>	<i>Seaton</i>	<i>Peak</i>	<i>Total</i>
	<i>Group</i>	<i>Partners</i>	<i>EPM</i>	
	<i>£k</i>	<i>Limited</i>	<i>Limited</i>	<i>£k</i>
		<i>£k</i>	<i>£k</i>	
Analysis of cash flows on acquisition:				
Cash paid	12,517	3,178	7,680	23,375
Net cash acquired with subsidiary	(1,689)	–	(1,747)	(3,436)
<b>Net cash outflow</b>	<b>10,828</b>	<b>3,178</b>	<b>5,933</b>	<b>19,939</b>

Fee income and losses generated by the acquirees from the date of acquisition to 1 July 2022 amount to £18,842k and £11,045k respectively. The company's fee income would have been higher by up to £5,176k if the acquisitions occurred on 3 July 2021 and the losses would have been £831k lower.

The goodwill of £13,401k comprises the expected synergies arising from the acquisitions together with the value of the assembled workforce which cannot be recognised as a separate asset under IFRS.

## Notes to the financial statements

for the period ended 1 July 2022

### 11. Business combinations (continued)

2021

On 7 May 2021, EY Professional Services Limited acquired the entire share capital of Pythagoras Communications Holdings Limited and its subsidiaries (together "Pythagoras group") for consideration of £31m. The entities provide Microsoft Consulting services. On the same day, the trade and assets of the trading subsidiary were transferred to EY Professional Services Limited at book value.

The fair value of identifiable assets and liabilities of this acquisitions as at the date of acquisition were:

	<i>Total £k</i>
Customer relationships (note 8)	10,749
Software (note 8)	486
Property, plant and equipment (note 9)	152
Trade and other receivables	1,581
Cash and cash equivalents	6,916
Trade and other payables	(3,018)
Deferred tax liabilities	(2,689)
	<hr/>
Total identifiable net assets acquired at fair value	14,177
Goodwill on acquisition (note 8)	16,850
	<hr/>
Purchase consideration	31,027
	<hr/> <hr/>
Cash	30,519
Share options settled	333
Completion amount due	175
	<hr/>
Purchase consideration	31,027
	<hr/> <hr/>
Analysis of cash flows on acquisition:	
Cash paid	30,519
Net cash acquired with subsidiary	(6,916)
	<hr/>
Net cash outflow	23,603
	<hr/> <hr/>

Revenue and losses generated by the acquiree from the date of acquisition to 2 July 2021 amount to £1,400k and £3,000k respectively. The company's fee income and profits would have been higher by £9,000k and £1,200k respectively, if the acquisitions occurred on 3 July 2020.

The goodwill of £16,850k comprises the expected synergies arising from the acquisitions together with the value of the assembled workforce which cannot be recognised as a separate asset under IFRS.

## Notes to the financial statements

for the period ended 1 July 2022

### 12. Investments in subsidiaries

	<i>1 July</i>	<i>2 July</i>
	<i>2022</i>	<i>2021</i>
	<i>£k</i>	<i>£k</i>
<b>Subsidiary undertakings held at cost</b>		
At the beginning of the period	5,617	1
Acquisitions	3,973	5,616
Impairments	(2,000)	–
At the end of the period	<u>7,590</u>	<u>5,617</u>

Details of the subsidiary undertakings are as follows:

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Nature of business</i>
AgilityWorks India Private Limited	India	Non-trading entity
Pythagoras Communications Holdings Limited	UK	Holding entity of Pythagoras Communications Limited
Pythagoras Communications Limited*	UK	Non-trading entity
Creative Sharepoint Limited*	UK	Non-trading entity
Pointbeyond Limited*	UK	Non-trading entity
Lane 4 Management Group Holding Limited	UK	Holding entity of Lane 4 Management Group Limited
Lane 4 Management Group Limited *	UK	Non-trading entity
Seaton Partners Limited	UK	Non-trading entity
Peak EPM Limited	UK	Non-trading entity
Peak EPM US Inc *	United States	Non-trading entity
Peak EPM Canada Inc *	Canada	Non-trading entity

\* Interest held indirectly.

All subsidiaries are wholly owned.

The registered addresses of the subsidiaries are:

UK entities: 1 More London Place, London, SE1 2AF

Indian entity: 779, Sector-15A, Faridabad, Haryana 121007, India

United States entity: 108 West 13th Street, Wilmington, Delaware 19801, United States

Canadian entity: TD Tower, 77 Westmorland Street Suite 300, Fredericton, New Brunswick E3B6Z3, Canada

## Notes to the financial statements

for the period ended 1 July 2022

### 13. Trade and other receivables

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Unbilled receivables	2,429	989
Client debtors	10,800	4,164
Amounts due from subsidiary undertakings	1,706	1,196
Amounts due from EY network entities	8,901	72
Prepayments	249	178
Other receivables	272	317
	<u>24,357</u>	<u>6,916</u>

Client receivables are shown net of an allowance amount for expected credit losses, movements on which are as follows:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
At beginning of period	26	739
New and additional provisions	207	26
Recoveries	–	(484)
Write offs	–	(255)
At end of period	<u>233</u>	<u>26</u>

### 14. Trade and other payables

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
Trade payables	942	41
Accruals	5,050	2,856
Accrued payments for services	3,921	–
Social security and other taxes	4,038	1,598
Payments on account	4,027	1,111
Amounts due to subsidiary undertakings	5,657	–
Amounts due to ultimate parent entity	15,898	1,976
Amounts due to parent entity	1,325	169
Amounts due to fellow subsidiaries	2,714	–
Amounts due to other EY network entities	438	242
Other payables	1,596	1,105
	<u>45,606</u>	<u>9,098</u>

Payments on account comprise amounts billed in advance of services being provided.

All payments on account at the end of the preceding financial period were recognised as revenue in the current period.

## Notes to the financial statements

for the period ended 1 July 2022

### 15. Provisions

	2022 £k	2021 £k
At the beginning of the period	130	51
New	1,630	139
Paid	–	(60)
At the end of the period	<u>1,760</u>	<u>130</u>
Current	285	72
Non-current	1,475	58
At the end of the period	<u>1,760</u>	<u>130</u>

The current portion of the property provisions represent service charge and rates, and the non-current portion represents the provision for leasehold property dilapidations, expected to be utilised within 6 years.

### 16. Share capital and share premium

	1 July 2022 No.	1 July 2022 £k	2 July 2021 No.	2 July 2021 £k
<i>Share capital allotted, issued and fully paid</i>				
Ordinary shares of £0.01 each	229,953	2	138,500	1
	<u>229,953</u>	<u>2</u>	<u>138,500</u>	<u>1</u>

During the period, the share capital was increased by £914 by the issue of 91,453 ordinary shares of £0.01 each. The shares were issued to fund the purchase of Lane 4 Group, Seaton Partners Limited and Peak Group (note 11). The difference between the price paid and the nominal value of the shares is recorded in share premium.

Each share carries one vote and has the right to receive dividends.

	1 July 2022 £k	2 July 2021 £k
<i>Share premium</i>		
At beginning of period	29,733	233
Cash paid on issue of shares in excess of increase in share capital	22,329	29,500
At the end of the period	<u>52,062</u>	<u>29,733</u>

The company's objective when managing capital is to safeguard its ability to continue as a going concern. Capital is monitored by the directors to ensure this objective is met. No long-term financing is required by the company.

## Notes to the financial statements

for the period ended 1 July 2022

### 17. Leases

At the period end the company had entered into a non-cancellable commercial property leases with a remaining term of 70 months.

The carrying amounts of the lease liabilities and the movements during the current and preceding periods were as follows:

	<i>1 July</i> 2022 £k	<i>2 July</i> 2021 £k
At beginning of period	352	20
Acquisition	4,027	372
Remeasurements	(149)	–
Accretion of interest	47	2
Payments	(773)	(42)
	<u>3,504</u>	<u>352</u>
At the end of the period		
Current	771	87
Non-current	2,733	265
	<u>3,504</u>	<u>352</u>

The related right-of-use assets are disclosed in Note 10.

The company had total cash outflows for leases of £773k during the period (2021: £42k).

### 18. Financial instruments

Financial instruments give rise to credit, liquidity and foreign currency risks. The directors review and agree policies for managing these risks. Financial instruments are not used for speculative activity and complex financial instruments are avoided. Information about how these risks are managed is set out below:

#### *Credit risk*

Credit risk arises primarily from client debtors and unbilled receivables, other financial assets including cash and cash equivalents and other receivables.

The company has established procedures to minimise the risk of default by trade debtors, including detailed checks on credit standing within client acceptance and continuance procedures. Unbilled receivables are typically billed to clients within a month of arising and invoices are generally payable on presentation. The majority of the client debtors balance represents invoices issued less than three months before the period end, with £964k (2021: £nil) aged between three and six months and £239k (2021: £716k) aged in excess of six months.

Cleared funds held at banks are monitored daily and surplus funds are placed on overnight deposits.

#### *Liquidity risk*

Liquidity risk arises from the company's ongoing financial obligations, including settlement of financial liabilities such as trade and other payables and certain lease liabilities, all of which are payable within one year. The company aims to maintain a balance between continuity of funding and flexibility through balances with related parties. These balances are considered more than adequate to finance variations in forecast working capital.

#### *Foreign currency risk*

Although most of the company's income and expenses are denominated in sterling, foreign currency risk arises from transactions denominated in other currencies. However, this risk is not considered to be material.



## Notes to the financial statements

for the period ended 1 July 2022

### 19. Related parties

Transactions and balances with the company's related parties are as follows:

	<i>Income earned from related parties £k</i>	<i>Purchases from related parties £k</i>	<i>Amounts owed to / (by) related parties £k</i>
<b>2022</b>			
Ernst & Young LLP (ultimate parent)	16,121	25,962	15,898
Ernst & Young Services Limited (immediate parent)	–	2,821	1,325
Pythagoras Communications Holdings Limited	–	–	3,374
Lane 4 Management Group Limited	–	–	2,068
Peak EPM Canada Inc	–	–	(101)
Lane 4 Management Group Holdings Limited	–	–	(1,505)
Seaton Partners Limited	–	–	(100)
Peak EPM Limited	–	–	215
Frank Hirth Limited	–	–	2,701
EY-Seren Limited	–	–	13
	<u>          </u>	<u>          </u>	<u>          </u>
	<i>Income earned from related parties £k</i>	<i>Purchases from related parties £k</i>	<i>Amounts owed to / (by) related parties £k</i>
<b>2021</b>			
Ernst & Young LLP (ultimate parent)	5,899	11,106	1,976
Ernst & Young Services Limited (immediate parent)	–	1,237	169
Pythagoras Communications Holdings Limited	–	–	(1,196)
	<u>          </u>	<u>          </u>	<u>          </u>

Unless otherwise stated, all receivable balances with related parties are non-interest bearing. No bad debt expense was recognised in the period in respect of related parties.

Key management personnel comprises the directors of the company, directors of its immediate parent entity Ernst & Young Services Limited and the Board of its ultimate parent entity Ernst & Young LLP. Compensation paid to key management personnel was £nil (2021: £nil). There were no other transactions with key management personnel. Except as disclosed above and elsewhere in the financial statements, there are no other related party transactions.

### 20. Ultimate parent undertaking

The company's immediate parent undertaking is Ernst & Young Services Limited, a company registered in England and Wales. The company's ultimate parent undertaking and controlling party is Ernst & Young LLP. Ernst & Young LLP is the parent undertaking of the smallest and largest group that consolidates these financial statements, copies of which are available from its registered office, 1 More London Place, London, SE1 2AF.

## Notes to the financial statements

for the period ended 1 July 2022

### 21. Post balance sheet events

On 28 July 2022, the company issued additional share capital to its sole shareholder, Ernst & Young Services Limited for a subscription price of £3,897k. In turn, on 29 July 2022, the company acquired 100% of Digital Detox Ventures Limited and its subsidiaries for initial consideration of £3,897k. Digital Detox Ventures Limited provides digital engineering consultancy services.

As the initial accounting for the business combination was incomplete at the time these financial statements were authorised for issue, disclosures of the fair values of the assets and liabilities acquired cannot be made. In the twelve month period to 1 July 2022, revenue of the acquired entity was approximately £4,222k and the average staff number was 28.