



# 2018



***Our year in review***



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# Financial review

ICAEW's financial statements for the year ended 31 December 2018 include the charitable trusts associated with ICAEW together with our international subsidiaries. The commentary below relates primarily to the operational activities of ICAEW, which include the costs of our international subsidiaries which are managed as a single entity with ICAEW. Except where stated, the commentary below excludes Financial Reporting Council (FRC) fines and cost recoveries arising in the year.

ICAEW has adopted IFRS 15 in the year and has reflected on the enduring nature of professional membership arising on qualification. This has resulted in admission fees now being treated as incorporating a renewal option which is considered to be a material right recognised over the expected membership period. The adoption also has a smaller impact on the treatment of disciplinary income. The results for 2017 have been restated accordingly. Cash reserves are not affected by the changes.

## RESULTS

ICAEW's operational income was £107.6m, an increase of £2.7m compared with 2017 (as restated). Our operational deficit was £(3.0)m (2017: £(1.0)m) and the net surplus after tax was £13.1m (2017: £16.4m).

The impact of adopting IFRS 15, *Revenue from Contracts with Customers*, on admission fees and disciplinary income is shown below:

	Income £m	Net result £m	Net asset £m
2018 Admissions	(1.5)	(1.5)	(29.8)
2018 Disciplinary	0.6	0.1	0.1
2017 Admissions	(0.7)	(0.7)	(28.4)
2017 Disciplinary	0.4	-	-

Membership income growth was £1.6m and was supplemented by growth in our student-related income, driven by the rising trend in our student base, and our commercial activities, enabling us to continue to invest in projects to support our strategy in the UK and internationally.

ICAEW received £16.3m in fines and £1.9m of cost recoveries from FRC disciplinary cases, reflecting the culmination of investigations conducted over a number of years which have been funded by ICAEW. Since its inception, cumulative charges to the income statement in respect of case costs to the end of 2018 are £55.4m, funded in part by levies on member firms; fines and cost recoveries total £58.4m over the 14-year period.

Including these fines and cost recoveries, total income was £123.9m, £4.4m higher than in 2017 and the retained surplus after tax for the year was £13.1m (2017: £16.4m).

ICAEW invested £2.1m in a range of strategic projects which utilise some of these additional reserves; these projects are intended to address public interest matters, support member development and enhance professional interests. More information can be found in the annual review.

Costs excluding strategic projects increased by £4.7m to £110.6m including a £0.6m one-off charge relating to additional pension charges arising from Guaranteed Minimum Pension (GMP) equalisation following the Lloyds case. Other cost increases reflect the growth in student numbers, investment in IT infrastructure and increased irrecoverable VAT, contributing to an operational deficit.

Net assets at 31 December 2018 were £61.7m, an increase of £15.9m over the 2017 net assets of £45.8m. Total cash and investments stood at £85.0m at the end of the year, an increase of £25.8m on 2017. This includes the inflow of £18.2m from FRC disciplinary cases. Cash and cash equivalents ended the year at £36.1m, reflecting a net cash inflow of £19.6m in the year. This reflects the FRC receipts and earlier receipt of bulk membership subscriptions than in previous years. Cash outflows include £1.6m agreed pension scheme deficit funding and £6.2m contributions to FRC case costs.

The consolidated surplus after tax for the year, including the results of ICAEW's charitable trusts, £13.8m (2017: £16.0m).

The deferral of admission fees is a significant change in presentation, resulting in annual reductions in net income of £1m or more. Therefore ICAEW believe it is beneficial for users of the financial statements to have the results presented for comparison using the previous basis of income recognised at the point of admission.

	2018 £m	2017 £m
Operational income	109.1	105.6
Operational deficit	(1.5)	(0.3)
Total income	125.4	119.8
Net surplus	14.6	17.0
Net assets	91.5	74.1

## STUDENT AND MEMBERSHIP GROWTH

2018 saw a third consecutive year of record ACA student intake, with 8,821 new students in the year – an increase of 384 over our previous record intake of 8,437 in 2017. 25% of the intake was from outside the UK.

Total ACA student numbers at the end of 2018 stood at 28,700 (2017: 27,866). In addition 7,084 students signed up for our foundation level Certificate in Finance, Accounting and Business (CFAB) and University Scholarship Schemes, an increase of 1,546 over the 2017 figure.

In the year, membership increased to 151,761, with admissions of newly-qualified students to membership reaching a 25-year high, together with reciprocal and similar arrangements with members of other institutes.

## INCOME

Revenue from members' fees and subscriptions rose by 3.4% to £48.1m, reflecting the continued growth in membership and an inflationary increase in membership fees. Income from our qualifications (learning and professional development income) increased by £0.2m, reflecting the record ACA and CFAB intakes in the past three years.

Our regulatory (professional standards) income rose by £0.5m, reflecting in part the changes in the number and mix of registered firms and fee increases to cover the cost of regulation. Adoption of IFRS 15 increased disciplinary income by £0.6m, £0.1m net (2017: £0.4m income, nil net). Our commercial income increased to £12.6m (up £0.8m on 2017) with £0.6m increase within catering following the completion of the major refurbishment project in Chartered Accountants' Hall in 2017.

## EXPENDITURE

Operating expenditure increased to £110.6m, excluding cost recoveries from concluded FRC cases and expenditure on our strategic projects. The total includes an increase in irrecoverable VAT resulting from the volume and mix of costs.

The increase in student numbers and the successful roll-out of computer-based exams resulted in an increase in student-related direct costs.

Costs of regulatory activities reflects the change in accounting policy for fines, with a provision against doubtful debts now recorded of £0.5m (2017: £0.4m). 2018 also saw a further increase in our investment in member services and digital services. As a direct consequence of the completion of the refurbishment of Chartered Accountants' Hall and investment in our business systems, depreciation and amortisation increased by £0.8m compared with 2017.

As a result of the recent case regarding Lloyds Bank pension schemes, an estimated potential liability in relation to GMP equalisation on the Staff Pensions Fund of £0.6m has been included as a past service cost in the income statement.

## FRC CONDUCT COMMITTEE CASE COSTS

The FRC Conduct Committee carries out independent investigations of the work and conduct of member firms and chartered accountants, both in public practice and elsewhere, where this has given rise to public concern or where required under the Audit Enforcement Procedure.

During 2018 we charged costs of £5.1m to the income statement for new charges arising from obligations in relation to FRC Conduct Committee cases. These charges are for new cases taken on and extensions of work on existing cases over and above those foreseen in the provision at the end of 2017. These were offset by levies on member firms of £4.6m. During the year we paid £6.2m to the FRC in respect of ongoing case costs.

In 2019 we expect to pay to the FRC in the region of £5.0m in respect of current and new obligations, which is also our expected charge for new obligations. We expect to receive levies by way of contribution to these new obligations of £4.5m.

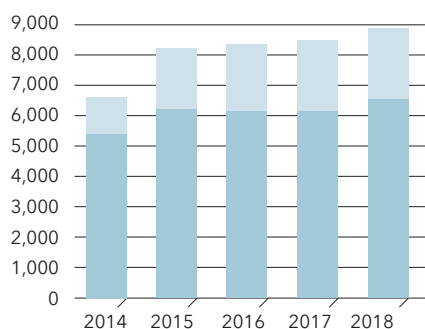
We received the proceeds from fines of £16.3m (2017: £14.6m) and cost recoveries of £1.9m (2017: £2.8m) imposed by FRC tribunals in a number of cases. These cases have been conducted over many years with costs incurred by ICAEW and proceeds returned to ICAEW.

The majority of open cases are investigated under the Audit Enforcement Procedure, established in June 2016. As a recognised supervisory body ICAEW is liable for costs of investigation but any fines levied will be remitted by the FRC to HM Treasury. ICAEW would receive any cost recoveries imposed. Existing cases instigated under the Accountancy Scheme are not affected by this change.

## PENSIONS

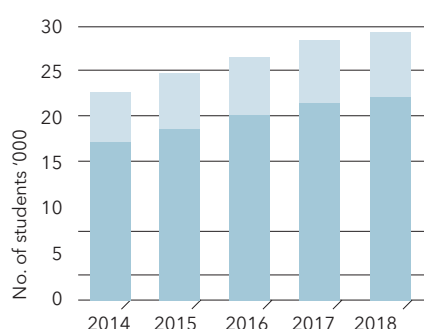
The IAS 19 valuation at 31 December 2018 was a surplus of £12.4m (2017: £5.7m). The pension asset is recognised as ICAEW considers that any surplus arising would be recoverable, assuming the gradual settlement of scheme liabilities over time. The significant movement is a result of updated longevity assumptions to reflect the latest model, together with an increase in market yields used to determine the discount rate for IAS 19 purposes, both contributing to a decrease in liabilities.

### STUDENT INTAKE

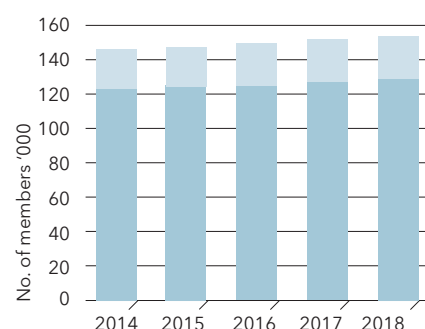


■ UK ■ INTERNATIONAL

### STUDENT GROWTH



### MEMBERSHIP GROWTH



Further, the IAS 19 valuation includes an estimate of the potential liability in relation to GMP equalisation, resulting in an additional liability of £0.6m, with a consequent charge to the income statement.

ICAEW's defined benefits pension scheme was closed to further member benefit accrual in 2010. The latest triennial actuarial valuation showed a deficit of £19.8m at 31 March 2016. The trustee and ICAEW agreed deficit funding arrangements comprising annual payments of £1.6m from 1 January 2017 until the deficit is eliminated. With our support, the trustee has developed an investment strategy intended to make the scheme entirely self-sufficient by around 2026.

A charge is held over Chartered Accountants' Hall in favour of the scheme and the scheme has an interest in up to £10.0m of our investment portfolio.

The scheme valuation has again been subject to the volatility in the financial markets. A desktop valuation of the technical funding position at 31 December 2018 estimated the scheme deficit at £14.7m. The next triennial valuation will take place as at 31 March 2019.

Further details are given in note 28 to the financial statements, including details of the different bases for the actuarial valuation and IAS 19 valuation.

## TAX

The net corporation tax charge for the year was £nil (2017: £nil). As a mutual membership organisation, much of our income is exempt from corporation tax.

## FINANCIAL POSITION

Net assets at 31 December 2018 were £61.7m – an increase of £15.9m on the 2017 position (after restatement for IFRS 15 adoption).

During 2018, the market value of our long-term investments rose to £48.9m from £42.7m in 2017. This includes sums made available from unutilised cash reserves awaiting market placement, offset in part by a fall in market value in the final quarter of the year.

Trade and other payables were £70.3m (2017: £49.3m), the increase arising largely from the timing of the 2019 bulk subscriptions income of £17.5m being received in December rather than in January as in previous years; this is treated as income in advance. Trade and other receivables were £25.0m (2017: £24.0m). Deferred income obligations relating to the benefit obtained from admission fees over expected membership durations was £29.8m (2017: £28.3m).

We have provided £11.9m (2017: £13.0m) of costs relating to FRC Conduct Committee cases at 31 December 2018, reflecting the current case load. Case costs are forecast on the basis of the available information on cases and their current stage of progress. The accuracy of this forecast depends on assumptions made about the progress of individual cases and is subject to a significant degree of judgement. We do not take account of any potential future income from fines or cost recoveries from FRC Conduct Committee cases.

The most recent professional valuation of Chartered Accountants' Hall was completed as at 31 December 2017 following completion of the major refurbishment project, which enhanced both the public and office space. The next valuation will take place as at 31 December 2022.

Other changes in net assets arose from the movements in the IAS 19 pension asset and a net cash inflow.

## CASH FLOW

Cash balances at 31 December 2018 were £36.1m. Net cash inflow was £19.6m compared to £4.6m inflow in 2017. The key elements related to our result for the year, together with the timing of cash receipts in advance of our 2019 subscriptions around year end (£17.5m). Our current cash profile fluctuates on an annual cycle, this year peaking at £51.5m in February and a minimum of £11.1m in November.

Funding of the FRC Conduct Committee case costs resulted in a cash outflow of £6.2m (2017: £5.0m).

ICAEW paid £1.6m (2017: £1.6m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £9.8m (2017: £12.2m) reflecting the expansion of our business systems review and additional works in Chartered Accountants' Hall. We expect to incur £8.7m of capital expenditure in 2019, reflecting the continued investment in our ongoing business systems review, together with the development of our qualifications programme.

## RESERVES POLICIES

Our agreed reserves policies ensure that ICAEW reserves are set at a level sufficient to cover both short-term requirements and longer-term investment needs:

- reserves should be set at a level equivalent to between three and six months of expenditure through the income statement; and
- cash and investment balances should be at least sufficient to cover between three and six months of annual budgeted/forecast gross cash expenditure.

Reserves exceeded this range at the end of the year but are expected to revert to the policy range in the short-term as we invest in business development, enhance our business systems and manage short-term operational demands. We are managing our capital investment programme, our pension commitments and our financial position in order to maintain these reserve needs, taking account of IFRS 15 impacts, and mitigate any impact on members and member services.

## CHARITABLE TRUSTS

The difference between the result of ICAEW and that of the group is mainly a result of donations received by ICAEW Foundation in the year, together with investment income received by the trusts during the year.

During the year we made donations under gift aid to our charitable trusts amounting to £0.6m (2017: £0.6m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.3m (2017: £0.2m).

The main element of the difference in net assets included in the consolidated position relates to the investments held by the charitable trusts.

### **POLITICAL EXPENDITURE**

During the year, as part of its policy engagement, ICAEW supported a number of activities with political and politically affiliated organisations. This included a small number of events for political parties and a number of business and party conference events including hosting roundtables. Costs associated with these activities totalled £76,000, the majority of which related to party conference activities.

### **OUR SUSTAINABILITY COMMITMENT**

As a professional membership organisation, we represent a common voice for our members and the profession. We believe that the successful business of the future will be a sustainable business. As a profession we support economic development and prosperity, and as an organisation our vision is to have a net positive impact on the economy, society and environment.

There are three main ways in which we implement this.

- **Economy** – the provision of accurate, trusted information is central to the success of an economic system and this is what the profession does. We bring people together to share their views, are involved in research, and produce guidance for the wider business community to deliver long-term sustainable economic value.
- **Society** – we recognise the impact we make on society. We believe that financial capability, social mobility and fundraising are essential to long-term economic success and we engage in various activities and programmes which support this aim.
- **Environment** – we recognise that business has a significant impact on the environment, and although ICAEW does not operate in a business sector which causes significant pollution, we aim to promote and follow good environmental practices and reduce the negative impacts of our activities. On an international scale, we convene the debate on natural capital policy in government forums and financial institutions. This includes hosting the Natural Capital Coalition project.

### **GOING CONCERN AND LONG-TERM VIABILITY**

The financial statements have been prepared on a going concern basis.

In addition to the shorter-term going concern review, council has assessed the viability of ICAEW over a three-year period. Council receives and approves a three-year operational plan each year, which comprises forecast income statements, cash flow summaries, statements of financial position and key non-financial indicators. The operational plan includes both medium and long-term planning (including our reserves strategy which looks forward for c20 years at a high level). However, the focus is on the three-year planning horizon which carries a greater confidence level.

Income visibility is relatively strong as a result of the long-term

nature of membership and the time taken for students to qualify and enter membership. Cash and investment reserves are held to provide protection against unexpected significant changes in the operating environment. The adoption of IFRS 15 results in a reduction in net income of at least £1m for the foreseeable future but ICAEW retains strong reserves as well as a long-term membership relationship and a secure pipeline of students.

The plan is prepared by management and reviewed by board and council, taking into account our latest risk assessment, key sensitivities and strategic priorities. This plan forms the basis of the monthly management accounts, the quarterly forecasts and the quarterly strategic reports which are reviewed by board and council.

ICAEW's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in our annual review 2018. Principal risks which may affect future development are set out below. The financial position of ICAEW, its cash flows and liquidity position are described in the financial review above. In addition the accounting policies include ICAEW's objectives, policies and processes for managing its reserves, its financial risk management objectives, details of its hedging activities and its exposure to liquidity risk.

Council believes that ICAEW has adequate financial resources and is well placed to manage its business risks successfully given the current economic outlook and market conditions and possible short-term funding needs, such as FRC Conduct Committee case costs. As a result, the going concern basis is considered appropriate. Council also has a reasonable expectation that ICAEW has adequate resources to be able to continue in operation and meet its liabilities as they fall due for the three years to 31 December 2021.

### **BREXIT**

The board and council have considered the response required as a result of the UK's exit from the EU. While there will be an impact on financial and operational matters, the effects are not considered to be material in the short to medium term. ICAEW is not required to obtain additional registrations in EU member states and business development activities within Europe can continue to operate on their current basis.

### **INTERNAL CONTROL**

Council is responsible for ICAEW's system of internal control and for reviewing its effectiveness. The audit committee reviews information and regular reports provided by management, internal audit and the external auditors on behalf of council; a summary of their work is noted in the report of the audit committee on pages 12-14. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable, but not absolute, assurance against material misstatement or loss. It includes financial, operational, compliance and risk management controls.

## RISK MANAGEMENT

The council, through the board, audit committee, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by ICAEW. This process has been in place for the whole of 2018 and has continued up to the date on which this document was approved.

Each department identifies and reviews the risks faced by ICAEW, assessing both the controls in place and key actions required to manage the significant risks. These assessments are reported regularly to the audit committee, board and council. Directors also report regularly to the board on any changes in risks and key risk highlights. The board considers at each meeting any issues arising in respect of the principal risks, emerging or new reputational risks and the velocity of any current or new risks and issues.

The assessment of risk is linked with the evolving ICAEW strategy in compliance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014).

Annually in March, council undertakes a review to consider:

- the application of the risk management processes;
- reports on risk and internal control from the board;
- reports on internal control from the audit committee; and
- how the risks have changed over the period under review and any significant issues.

The board formally reviews risk twice a year, including a consideration of risk appetite. Management puts in place the appropriate mitigation strategies. In reviewing the risks, the board considers whether management has appropriately assessed the risk by challenging the risk rating, whether the action taken to address and mitigate the risk is effective, and whether the timescales are appropriate. The board also considers whether there are other risks that should be reviewed and advises management accordingly. Over the year the board has considered a diverse range of risks and mitigation strategies, including the following principal risks.

Principal risks are owned by executive directors and delivery of mitigating actions is built into our strategy and operational plan. They are reviewed by the board at every board meeting. The board's assessment of the impact of risk management is shown in the annual review. We confirm that there have been no significant failings or weaknesses in our internal controls in 2018.

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>Our relevance to firms and demand for future skills</b></p> <p>The risk that a key firm (or combination of firms) move away from business models that are resourced by a core set of ACA-trained accountants, or that they develop an externally recognised qualification.</p> <p>The scope of this risk includes: regulatory changes, competitors' actions or market changes.</p>	High	<p>Our activity to mitigate this risk includes: strategic relationship programme (SRP); intelligence and insight with firms, regulators, competitors and the market. The BFP designation was developed in response to firm demand and continue to leverage both training films.</p> <p><b>Apprenticeships</b></p> <p>We are contributing to the UK Government steering group and working party on Level 7 Apprenticeships and supporting the employer-led steering group in developing a revised assessment plan for the Level 4 Apprenticeship. This revised plan will meet updated government requirements and should lead to more consistency between the different awarding bodies' assessments.</p> <p><b>Remote invigilation</b></p> <p>Student testing for remote invigilation took place in 2018.</p> <p><b>Relationship management</b></p> <p>We have added specific actions relating to student recruitment to our SRP programme and broadened its remit to a wider range of ICAEW staff.</p>	Medium	<p>Further development of qualifications, syllabus and designations and assessment methodology to meet market demand.</p> <p>Enhanced regular contact with firms via the SRP programme.</p> <p>Film three to begin pre-production planning in 2019.</p>



RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b><i>The changing nature of the global competitive environment</i></b></p> <p>The risk that external changes result in professional bodies losing relevance or ICAEW falling behind in the marketplace and being unable to execute strategy in the public interest.</p> <p>The scope of this risk includes: the impact of technology; legislative and regulatory changes (including legal services); our products and partnerships; competitor scenarios eg, mergers.</p> <p>In conjunction with the risk 'the loss of public trust' we are also potentially exposed to enforced changes or losses of regulatory responsibility.</p>	High	<p>Our activity to mitigate this risk includes: actively influencing the debate about the future of the profession, developing a wider regulatory offering and further services for firms and members.</p> <p>We are developing our regulatory governance, continuing close engagement with the FRC, BEIS, Ministry of Justice and dialogue with the Legal Services Board; developing robust arguments in support of ICAEW's role as a regulator in the public interest; developing alliances in support of the ICAEW position.</p> <p>We are also maintaining close relationships with partner and competitor bodies via GAA / CAW in order to keep options open, particularly in the light of recent merger / partnership activity within the sector.</p> <p><b>MRA with US IQAB</b></p> <p>Our work to gain recognition in the US for ICAEW Chartered Accountants continues.</p>	Medium	<p>Our strategy includes staying in touch with technology. Cyber and data analytics will be included both within CFAB and the ACA.</p> <p>Our Future Professionals will have a digital understanding at a conceptual level. There will be an enhanced data analytics theme running through our Academy proposition.</p> <p>We have commissioned a piece of consultancy with CAW to look into how we make more of the CAW brand together.</p> <p>We are actively supporting the responses to the regulatory reviews conducted in 2018 and the Brydon review recently commenced and are engaging with and convening our member firms to consider appropriate responses and manage any process towards a new regime.</p>

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>The loss of public trust</b></p> <p>There is a risk that high profile corporate scandals which directly or indirectly involve the accountancy profession terminally undermine public trust in business, finance and/or accountancy. Ultimately a loss of public trust could lead to:</p> <ul style="list-style-type: none"> <li>significant economic damage for major national economies – directly through tax revenue and inward investment and indirectly through loss of shareholder value and confidence</li> <li>a critical negative effect for large firms in terms of PIE audits due to action taken in response to public and political outcry</li> <li>enforced regulatory changes or loss of responsibility for ICAEW</li> <li>a significant negative effect on the brand and reputation of members and firms.</li> </ul> <p>As a professional body, ICAEW acts in the public interest. We are responsible for protecting the public by ensuring that members maintain the highest standards of professional conduct and competence. It is therefore considered to be in the public interest that trust is maintained between the profession, business generally and the public.</p>	High	<p>Our primary activity has been to engage positively in the enquiries and debates regarding the profession. We have ensured that senior management are visible in the media and the chief executive gave evidence to the BEIS Select Committee in February 2019.</p> <p>We have engaged throughout the year with the chairs of the Treasury and BEIS Select Committees. It was at an event at Chartered Accountants' Hall that the latter announced an enquiry into the future of audit. We have sought to engage positively with this enquiry, chaired by Sir Donald Brydon.</p> <p>We have used our convening position to help navigate the profession through the challenges. We bring together member firms to discuss reforms and responses to the consultations and reviews, most notably the Kingman Review and the CMA review of the audit sector.</p> <p>Our own regulatory work continues regardless of these broader matters. Our quality assurance teams conducted high volumes of visits and we continued to receive excellent responses to our training films <i>False Assurance</i> and <i>Without Question</i>, dealing with many ethical and professional issues.</p> <p>We continue to respond to the various reviews enquiries and consultations both publicly and directly with those leading them.</p>	High	<p>With the profession at a watershed moment we are focusing heavily on responding to the reviews and public debate about the future of audit and the role of the profession and its firms. We will be supporting the Brydon review and work with BEIS and the FRC in finding suitable ways to manage the transition to a new regulatory framework.</p> <p>Our role in the public discourse is very important. For 2019 our approach to technical work and commentary is different:</p> <ul style="list-style-type: none"> <li>Considering and communicating, before getting into detail on any topic: why we're doing our work; for whose benefit; and, how we are learning from this experience to do better work.</li> <li>Explaining better why technology can help us rebuild trust.</li> <li>Explaining what we mean by 'strong values', expanding on the factors from our report <i>Ethos</i>: and highlighting how these values are embedded throughout a chartered accountant's career.</li> <li>Talking confidently about how we are managing conflicts of interest.</li> </ul>

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>The impact of Brexit</b></p> <p>The uncertainties relating to the UK's decision to leave the EU.</p> <p>The scope of this risk could include: legislative and regulatory changes (including legal services); our products and partnerships; competitors' actions and innovations; our relevance in the EU.</p> <p>We are a UK-based body and will continue to operate in Northern Ireland.</p>	High	<p>Our EU Exit Steering Group meets fortnightly to consider our operational and strategic response, this includes monitoring and refining our communication activities.</p> <p>We have various partnerships with other European organisations and organisations with an interest in European accounting and finance matters.</p> <p>Specific project risk activity relates to the risk of major international networks restructuring and subsequent loss of income. We are also dealing with other significant but manageable risks including recognition, access to and operation in training markets in the EU. The other challenges involve legal checks and administrative changes, including travel, VAT and the impact for EU nationals working for ICAEW.</p> <p>We will maintain our legal status in the Republic of Ireland, for the time being.</p>	High	<ul style="list-style-type: none"> <li>Dialogue with ministers, senior civil servants and regulators as the UK Government's position develops</li> <li>We are co-ordinating a paper for the Accountancy Sub-group of the Mutual Market Access Working Group of the PBSC</li> <li>We continue to have good dialogue with EU officials through the ICAEW Europe office</li> </ul>
<p><b>Cyber and data security</b></p> <p>The risk that there is a failure or breach of physical or cyber security systems (eg, as a result of a cyber-attack), or of data mismanagement events such as the handling of client/student data, or breakdown of ACA assessment process or procedure, or use of data relating to elections.</p> <p>The resulting damage could be to our reputation, operations or both. The likelihood and potential impact of this risk grows as we expand internationally.</p> <p>The scope of this risk could include: failure or breach of system security leading to unauthorised access to ICAEW; fraud or human error; technical failure relating to data systems; a breakdown in the assessment processes and procedures.</p>	High	<p>Our activity to mitigate this risk includes: reviews to ensure staff have the appropriate application security access; system penetration tests undertaken by a specialist organisation; PCI compliance testing; intensive test programmes and spot checks for systems and processes. We also actively monitor exam pass rates.</p> <p><b>Compliance</b></p> <p>We conducted an institute-wide cyber security awareness and compliance exercise in 2018. Staff are required to read and indicate their understanding of our IT Security and Payment Cards (PCI DSS) Compliance policies.</p> <p>Our GDPR compliance programme instituted procedural and data management changes to reduce risk of data losses and inappropriate data usage.</p> <p><b>BST</b></p> <p>We are implementing a new technology platform which will help us to deliver our strategy and successfully deal with the challenges we'll face over the next 25 years, such as changing stakeholder location and demographics, cyber-security threats and inevitable changes in technology.</p>	Medium	<p>Our work on data protection and privacy continues after GDPR became law and we plan to close or mitigate remaining gaps over the course of 2019. A number of gaps will be addressed through the BST project.</p> <p>There will be a follow-up review by PwC in 2019 to assess the effectiveness of additional cyber-security measures requested by the board.</p>

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>Business Systems Transformation (BST)</b></p> <p>Successful delivery of the BST programme is essential to ICAEW's competitive positioning, delivery of our strategy and our ability to respond to the increasing expectations of our members, students and member firms. The risk is that the programme fails to deliver the business, strategic and competitive benefits anticipated from the investment.</p>	High	<p>Risk management is conducted at project level, within the established project ICAEW management practice.</p> <p><b>External assurance</b> Mazars has been engaged to provide external assurance and make recommendations for improvements to the programme. To date this has been robust and independent. The ICAEW board received a report from Mazars in December 2018. Further input and assurance is scheduled for 2019.</p>	High	Mazars is expected to review the BST programme progress against plan during 2019.

# Corporate governance statement

## OUR APPROACH TO GOVERNANCE

ICAEW is a chartered body and operates under the terms of its Royal Charter, bye-laws and regulations. We are committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code, as revised by the FRC in July 2018.

ICAEW complies with the UK Corporate Governance Code on a 'comply or explain' basis, recognising that parts of the Code do not relate exactly to the governance of a professional body. This report includes additional disclosures, as required under the revised Code. We operate within regulatory oversight of the FRC, as a recognised supervisory body, a recognised qualifying body, a designated professional body, and as a licensor of insolvency practitioners. We are also regulated for reserved legal activities by the Legal Services Board. Further information on our governance structure can be found at [icaew.com/governance](http://icaew.com/governance)

## ANNUAL GENERAL MEETING

The Charter and bye-laws reserve certain matters for members. This includes consideration of the annual review and the financial statements with the report of the auditor. The 2019 AGM will be held on Tuesday 4 June. Members are invited to ask questions related to the business at the AGM and have an opportunity to meet with council after the meeting.

## OUR STRUCTURE

Our governance structure is designed to safeguard our future, enhance its prosperity and ensure its integrity. Council delegates to the board and committees through a series of delegated authorities and assurance mechanisms, while ensuring that the views of the profession are heard.

## COUNCIL

The powers of council are set by the Charter. Council is ultimately responsible for ensuring that ICAEW meets the objects set out in the Charter. It carries out this responsibility through the review and approval of strategy, operational plans and budgets proposed by the board. Council members have three distinct roles:

### The representative role

- Ensuring the views across our profession are heard in helping to set the strategy.

### The holding to account role

- Upholding the public interest and holding the board to account for the delivery of our strategic priorities.

### The approvals role

- Approving annually the operational plan and budget and satisfying itself that our principal risks are being addressed by the board.

Council delegates many of its functions to the board, departmental boards and committees, to speed up the administration of governance processes and enable council to operate at a strategic level. Many committees have specialist knowledge and skills to ensure operational activity and policy development is managed effectively, in a timely fashion with appropriate depth of scrutiny of key decisions.

In 2018, council met five times. The majority of council members are directly elected by ICAEW members, with the remainder co-opted or ex-officio. Council elects its chair annually from among its members. A list of council members, including their status and record of attendance at council meetings in 2018 is available on page 55. As at 31 December 2018, council comprised 91 members.

## The office-holders

	To 6 June 2018	From 6 June 2018
President	Nick Parker	Paul Aplin
Deputy-President	Paul Aplin	Fiona Wilkinson
Vice-President	Fiona Wilkinson	David Matthews

The powers of the office-holders are primarily in relation to procedural matters specified in the principal bye-laws. They have an ambassadorial role, meeting members and stakeholders and promoting ICAEW. They represent the views of council and the wider accountancy profession and ensure that these are taken into account in the development of ICAEW strategy and policies. They counsel and advise the chief executive. The president chairs the annual and special meetings of members and the ICAEW board. All office-holders (and council members) act in a non-executive capacity.

## COUNCIL, BOARD AND COMMITTEE INDUCTION

All new council and board members attend an induction which informs them about the structure and strategy of ICAEW, their role as council or board members and the key issues affecting the profession. Separate training and induction sessions are held by committees for their members on key areas within the remit of their committee.

## COUNCIL MEMBER INTERESTS

Council members do not receive remuneration. They are reimbursed for travel and subsistence costs incurred in undertaking ICAEW business. They may receive other payments, on a normal commercial basis, particularly in connection with lecturing and writing. Council members are required to provide a declaration of interests that might lead to conflict, which is updated annually. Members of council, board and committees are also invited to identify and declare any potential conflicts of interest at each meeting.

## ICAEW BOARD

Our board acts under delegated authority from council, and is responsible for all matters relating to the development and implementation of ICAEW strategy (including review of risk), policy, operational plans and all matters relating to ICAEW resources.

The board has four distinct roles:

### Develop, supervise and implement strategy

- Responsible for supervising the delivery of the strategy and all matters relating to its implementation.

### Holding to account

- Holding the executive to account in the performance of their duties, taking into account the views of council.

### Monitoring risk at a strategic level

- Overseeing a risk framework designed to provide adequate assurance as to the protection of ICAEW's assets including the maintenance of the reputation of ICAEW, taking into account the recommendations and advice of the audit committee.

### The approvals role

- Recommending the strategy for approval by council and responsibility for all matters (other than those reserved for the ICAEW regulatory board) relating to policy in support of ICAEW strategy.

The board reports on its activities at each council meeting. The chief executive reports monthly to the board on principal risks and on the implementation of the operational plan. The duties of the board and of each of its committees are set out in their respective terms of reference. The terms of reference list both matters that are specifically reserved for decision by the board and those matters that must be reported to it.

## BOARD EVALUATION

The effectiveness of the board is vital to the success of ICAEW. The board undertakes a rigorous evaluation process each year to assess how it, and individual directors, are performing. The usual process is for an evaluation to be undertaken by way of an internal questionnaire, supported by individual discussions with the chair, with an external evaluation conducted every three or four years. The last external evaluation was in 2015. During the year the non-executive directors, led by the chair, met to discuss the executives' performance. The non-executive directors also provided feedback on the chair's performance.

Overall the board is considered to be effective and working well. It is 'open, honest and challenging' with a 'collegiate, inclusive, collaborative and professional culture'. Everyone is keen to contribute and there is constructive challenge on the items discussed. There were a couple of areas identified for improvement and development in relation to competitor horizon scanning, international, board member skills development, composition and diversity, with appropriate action taken on each area.

## BOARD PRIORITIES FOR 2018 AND INTO 2019

In 2018, we welcomed three new members to the board, Mark Rhys, Kate Mathers and Mark Coles. All bring a wealth of experience and are valuable additions to the board. All new directors receive induction materials, which include: the current strategic and operational plan; recent board and committee minutes and meeting packs; organisation structure charts; role profiles; a history of ICAEW; and relevant policies, procedures and governance material.

The board made considerable progress during 2018 on the objectives set at the beginning of the year. Areas discussed included Brexit contingency planning, a member communications review, expansion of our communities, computer based exams, the evolution of our faculty model, trust in the profession (Kingman and CMA reviews), growth, international and the implementation of our Business Systems Transformation programme. Succession Planning was also discussed. During the year, the board also noted the publication of the new UK Corporate Governance Code and the enactment of the Companies (Miscellaneous Reporting) Regulations 2018. The board agreed to implement the updated provisions of the Code, where relevant, in support of good governance. For example, the board agreed to set up a Workforce Advisory Panel (Code Provision 5), to support the employee voice in the boardroom.

During 2019, the board's agenda will continue to focus on our Business Systems Transformation programme, strategic development of the ACA, the outputs from the Kingman and CMA reviews into the audit profession, the Independent Review into the Quality and Effectiveness of Audit chaired by Sir Donald Brydon, supporting the professional development of our members and trust in the profession. The 2019 governance statement, to be published in 2020, will also include the pay ratios between the CEO and the average UK employee.

The board comprises 17 members, principally council members ex-officio, two independent non-executive directors (non-chartered accountants) and senior ICAEW executives. Council also elects three of its members directly to the board for a two-year term.

The board met nine times in 2018.

The members of the board during 2018 are outlined below. Brief biographical details are on the ICAEW website at Home/Who we are/Governance/ICAEW Board. The board gender split for 2018 is 70% male 30% female.

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin*	President and Chair (from 6 June) Deputy-President (to 6 June)			8/9
Carl Bayley*	Council member elected to the board		5 June	4/4
William Brooks*	Council member elected to the board			8/9
Mark Coles*	Council member elected to the board	2 July		5/5
Sharron Gunn	Executive Director, Members, Commercial and Shared Services			7/9
Robert Hodgkinson	Executive Director, Technical Strategy			9/9
Michael Izza	Chief Executive			9/9
Kate Mathers*	Chair, Learning and Professional Development Board	5 June		5/5
David Matthews*	Vice-President (from 6 June) Chair, Technical Strategy Board (to 5 June)			7/9
Jill May	Independent non-executive director			8/9
Nick Parker*	President and Chair (to 6 June)		6 June	4/4
Julia Penny*	Council member elected to the board			9/9
Mark Protherough	Executive Director, Learning and Professional Development			9/9
Samantha Russell*	Chair, Learning and Professional Development Board		5 June	4/4
Mark Rhys*	Chair, Technical Strategy Board	5 June		4/5
Vernon Soare	Chief Operating Officer			9/9
Clive Stevens*	Chair, Members and Commercial Board			8/9
Michael Stewart	Independent non-executive director			7/9
Duncan Wiggetts	Executive Director, Professional Standards			9/9
Fiona Wilkinson*	Deputy-President (from 6 June) Vice-President (to 6 June)			9/9

\* Council member

### THE CHIEF EXECUTIVE

The Chief Executive, Michael Izza, operates within the framework of delegations approved by council. Reporting to the president, he is responsible for the overall management of ICAEW, for the development and implementation of strategy, and for ensuring that ICAEW operates economically, efficiently and effectively. He also has a representational role, building effective relationships with members and with governments, regulators, other public bodies and the media.

### DEPARTMENTAL BOARDS

Three departmental boards report into the board and steer the development of policy for ICAEW's key activities, in the areas of learning and professional development; members, commercial and shared services; and technical strategy. They are represented on the ICAEW board through their chair's ex-officio membership.

### AUDIT COMMITTEE

The audit committee acts under delegated authority from council, and is responsible for ensuring effective oversight, assessment and review of external audit, financial reporting, internal controls and risk management, and internal audit. Key judgement areas in 2018 include:

- providing an opinion to council on whether the systems of internal controls and risk management are adequate;
- significant issues considered by the committee in relation to the financial statements and how these were addressed; and
- the committee's assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor.

The audit committee met four times in 2018. Both the internal and external auditors attend its meetings and have direct access to its chair. The external auditors attend all meetings. At part of a meeting each year, the external auditors and the committee meet without ICAEW management present. The board receives the minutes of the audit committee on a quarterly basis and council receives an annual report on its activities.

The members of the audit committee during 2018 were:

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Richard Bint	Non-executive committee member			3/4
David Canning-Jones*	Chair, non-executive committee member			3/4
George Quigley	Non-executive committee member			4/4
Alison Smith	Non-executive committee member			3/4
Alison W Smith	Non-executive committee member			3/4
Piers Clinton-Tarestad+	Non-executive committee member	28 November		0/1
Henry Wallis+	Non-executive committee member	28 November		0/1
Dr Sarah Walsh	Non-executive committee member	28 November		1/1
Fiona Wilkinson*	Deputy-President, non-executive director			4/4

\* Council member

+ Owing to the appointment of new members being made late in the year it was not possible for all new members to attend the only meeting for which they were eligible.

During the year, the audit committee has:

- reviewed the financial statements, having received a report from the external auditors on their review and audit;
- considered the appropriate accounting treatment of income streams under IFRS 15;
- reviewed the effectiveness of our internal audit function;
- considered the management letter from the external auditors on their review of the effectiveness of internal controls;
- agreed the fees and terms of appointment of the external auditors, including their quality and effectiveness;
- agreed the work plan of internal audit and reviewed the resulting output from that plan;
- considered an annual report on our whistleblowing arrangements and complied with the Whistleblowing Commission's Code of Practice;
- continued to focus on cyber-security risks; and
- considered the outputs from the Control Risk Self-Assessment framework.

The committee has received reports on the work carried out by internal audit and the results of their investigations including management responses, their adequacy and timeliness. The committee undertakes a rigorous review of its effectiveness annually. The committee also welcomed three new members, who will add further expertise, particularly within the areas of risk management and cyber-security.

Significant areas of review by the audit committee in the year included 'deep dives' into principal risks and mission-critical projects such as Brexit contingency planning and loss of trust in the profession. An external quality assurance review on ICAEW's internal audit function was also carried out by BDO. The review concluded that ICAEW complies with the IIA and had strong leadership. A few improvements were identified with corrective action being taken.

## AUDITORS

haysmacintyre is ICAEW's appointed external auditor. Current policy is to tender the external audit at least every 10 years.

The audit committee annually reviews and considers the quality, effectiveness and independence of the external auditors. This includes a review of safeguards in place in relation to non-audit services, and a review of the partners and directors of the audit firm who sit on our committees. To ensure appropriate levels of independence, a firm cannot be our auditor if any partner or employee of the firm is a member of council during the period of tenure. We also have a policy regarding non-audit work by the audit firm. The general principle is that the audit firm should not be asked to carry out non-audit services where it may, in the future, be required to give an audit opinion. Audit committee approval is required for such services.

To assess the effectiveness of the auditor the committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- the auditor's report of major issues arising during the course of the audit; and
- the auditor's most recent transparency report and AQR report.



## MONITORING OF FINANCIAL CONTROLS

Over the course of the year the audit committee considered many components of business performance to ensure it has a full understanding of the operations of ICAEW, recognising that not all of its members are also on the council or board.

Examples of processes it uses include:

- review of the processes undertaken in determining the position adopted in key judgement areas including FRC costs and pension provisions;
- 'deep dives' into risk areas;
- receipt of regular strategy reports from the chief executive; and
- requesting members of management attend audit committee meetings to provide updates on strategic and key operational matters.

Through these processes and its monitoring of the effectiveness of controls, internal audit and risk management, the audit committee is able to maintain a good understanding of business performance, key areas of judgement and decision-making processes within the organisation, and the consequences for financial reporting.

## REVIEW OF FINANCIAL STATEMENTS

Through discussion with management and the external auditor, the audit committee determined that the key judgements with risk of misstatement in our financial statements related to provisions for FRC disciplinary case costs, management override of controls, risk of fraud and error in revenue recognition including the application of IFRS 15 to ICAEW's income streams and the key assumptions adopted in respect of the actuary's valuation of ICAEW's defined benefits pension scheme.

These issues were discussed with management during the year and with the auditor when reviewing and agreeing the audit plan, and also at the conclusion of the audit of the financial statements.

The committee has reviewed the basis for monitoring and forecasting FRC case costs, assessed the sources of information available to management (including historic data and forecasts from the FRC) and considered the review processes performed by management and the external auditor. This recognised the confidential nature of such information but the committee was able to obtain the necessary understanding and assurance.

The committee also reviewed key judgements made in the previous financial year relating to pension scheme assumptions and confirmed that those judgements remain valid for the 2018 financial year.

After reviewing the presentations and reports from management and consulting with the auditors, the audit committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both for the amounts reported and the disclosures. The committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as it can) the independence of the external auditors.

## NOMINATING COMMITTEE

The nominating committee acts under delegated authority from council, dealing with all matters relating to committee and other appointments to ensure the composition of our governance bodies is representative of our membership and reflects the diversity, knowledge and skillset of the profession.

The nominating committee has delegated the annual review of committee memberships to the committee review working party, which is chaired by the deputy-president. The committee review process is designed to support committee chairs in identifying vacancies, gaps in skills and representation and managing succession planning for their committees. Vacancies identified are advertised across available communication channels to invite interest from a wide and diverse field of candidates. For the past few years, the focus has been on encouraging greater gender diversity, young member participation and opportunities for international members to be involved in ICAEW committees. Increasingly, opportunities for non-ICAEW members to join committees are being offered in line with adopting a governance good practice to invite lay feedback and external insight and challenge into committee operations.

Nominating committee receives recommendations for approval from the working party at their meeting in April, for appointments to take effect in June following the AGM. The nominating committee reports to council on appointments approved to committees and also on the committee review process.

Nominating committee also discusses and makes recommendations to co-opt members to council to address gaps in representation of significant and strategically important groups or regions. In 2018, the nominating committee also discussed in great detail and received approval for a phased roll-out of direct elections in all ICAEW constituencies outside the UK.

Membership of the nominating committee includes the office-holders, immediate past president, past president, CEO and three elected members of council. The immediate past president is chair of the committee and retires annually by rotation. The committee review working party is a subset of nominating committee, and ensures that a smaller group of members is able to meet and review committee membership in greater detail.

The nominating committee met six times in 2018. Two meetings were held by teleconference to discuss nominations for the election of chair of council and ICAEW vice-president, which is part of the remit of the committee's responsibilities.

The members of the nominating committee during 2018 were:

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin	Deputy-President (until 6 June) President (from 6 June)			4/6
Derek Blair	Council member elected to the committee		5 June	3/3
David Crackett	Council member elected to the committee	3 July		3/3
Graeme Gordon	Council member elected to the committee	5 June		2/3
Michael Izza	Chief Executive			4/6
Hilary Lindsay	Immediate Past President and Chair (until 5 June) Past President (from 6 June)			6/6
David Matthews	Vice-President (from 6 June)	6 June		2/3
Sheilagh Moffat	Council member elected to the committee		5 June	3/3
Nick Parker	President (until 6 June) Immediate Past President and committee Chair (from 6 June)			6/6
Andrew Ratcliffe	Past President (until 5 June)		5 June	2/3
Jeffrey Unerman	Council member elected to the committee			6/6
Fiona Wilkinson	Vice-President (until 6 June) Deputy-President (from 6 June)			6/6

## REMUNERATION COMMITTEE

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for ICAEW staff, including the chief executive and executive directors. Staff are remunerated with reference to their annual performance rating and benchmark market salaries. The committee also monitors office-holder expenses. The chair of the remuneration committee or their nominee reports at least annually to the board.

The remuneration committee met four times in 2018. The chair regularly consults with the non-executive members of the board, being our members, during the pay review process to support the judgements made and ensure the objectives set are consistent with the operational plan, as agreed with council.

The members of the remuneration committee during 2018 were:

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin*	President (from 6 June) Deputy-President (to 6 June)		5 June	3/3
Sophie Black	Non-executive committee member	5 June		1/1
Noel Clehane*	Member, council			3/4
Nicki Demby	Independent non-executive committee member		5 June	3/3
David Matthews	Vice-President (from 6 June)	5 June		1/1
David Mellor*	Chair			4/4
Marcus Peaker	Independent non-executive committee member			4/4

\* Council member

## PAY POLICY

The key element of ICAEW's pay policy is to award those staff who have achieved their core agreement determined with reference to market value and who are living our values. All our positions are benchmarked against market salaries. Under its terms of reference the remuneration committee is responsible for agreeing, on the recommendation of the president, any changes to the remuneration package of the chief executive including any deferred element.

We believe that staff should be appropriately rewarded in relation to:

- the wider economic and commercial environment;
- the value placed on comparable jobs in other organisations;
- the value placed on comparable jobs within ICAEW;
- the contribution they make towards achieving ICAEW's objectives and to the long-term success of the organisation; and
- the results they achieve and the degree to which they meet our behaviours.

A key element of the pay policy is to recognise those staff who made a significant and/or consistent contribution to the achievements of ICAEW's operational plan in 2018 while at the same time living the ICAEW values and working in a collaborative, agile and innovative manner. This can be recognised by a non-consolidated lump sum 'added value' bonus award.

## REMUNERATION FRAMEWORK

Employee remuneration is composed principally of fixed and variable elements of reward as follows:

(a) Fixed reward:

- fixed remuneration: base salary
- benefits (including pension)

(b) Variable reward:

- discretionary or contractual bonus for eligible employees.

## OPERATION OF REMUNERATION

### Base salary

To provide a core reward for undertaking the role, positioned at a level needed to recruit and retain the talent required to develop and deliver the operational plan.

Base salaries are set taking into account a range of factors including:

- the individual's skills, performance and experience
- wider workforce salary levels
- external benchmark data
- the size and responsibility of the role
- the complexity of the business and geographical scope
- economic indicators.

### Benefits (including retirement benefit as appropriate)

To provide market competitive monetary and non-monetary benefits, in a cost-effective manner, to assist employees in carrying out their duties efficiently.

Benefits provided may be made up of core benefits and extra voluntary benefits (as appropriate).

### Discretionary or contractual bonus

To reward the achievement of performance targets in a range of key performance areas.

### Pay review and stakeholder consultation

The outcome of the staff pay review and how salaries and recognition awards are spread across the organisation are published to all staff. This supports transparency and aligns with our values and culture. The staff pay policy is also published on the staff intranet. Listening to and consulting with our employees is very important and includes the staff feedback survey, all staff breakfasts, two members of staff appointed to the executive committee and from 2019 the development of a workforce advisory panel. These initiatives support our culture and talent management initiatives. We do not consult directly with employees on the executive remuneration policy. However, when determining the policy for executive directors, we have been mindful of the pay and employment conditions of employees in ICAEW as a whole, with particular reference to the market in which the executive is based.

### Discretion

The remuneration committee also has discretion to award one-off payments to staff, where it is recognised that they have gone over and above their objectives and has applied this policy with the awards for 2018.

### Chief executive and executive directors

The chief executive and executive directors are appointed on permanent contracts following appointment by a senior staff appointments committee comprising senior council members and advisers. They are not subject to regular election by members. Nonetheless, their performance is reviewed annually by the remuneration committee, which reports to the board accordingly.

The chief executive notice period is 12 months and the executive director notice period is six months. They receive a basic package, and in addition to the basic package there is a deferred pay element opportunity of up to 35% of base salary for the chief executive and 30% for the executive directors (this is a non-consolidated payment). Their performance is to be judged on the basis of the deferred pay scorecard.

A key principle underlying our remuneration approach to the executive remuneration policies is that reward should be aligned to the performance outcomes of ICAEW and the competencies, behaviours and values exhibited. Also to be mindful of remuneration policy developments in the wider corporate environment and how these can be incorporated into ICAEW's policy to promote good corporate governance and prevent reward for failure. The weightings are reviewed annually and the deferred pay calculation brings together the performance from the following elements.

Business area	Weighting
ICAEW operational plan	33%
Business area objectives	33%
Competency/behavioural assessment	34%
Total	100%
% salary	Total of 30% (EDs)
	Total of 35% (CEO)

### Basic salary

The increase of 2% in 2018 is consistent with the budget applied for average increases in the annual pay review for other ICAEW employees in the UK. These increases are in line with expectations around market movements and inflation in the UK and are consistent with overall increases being applied across our UK-based employees. The remuneration policy operated as intended in 2018, with no changes necessary.

### ICAEW REGULATORY BOARD (IRB)

The IRB is responsible for overseeing much of the professional standards activities and statutory regulatory role of ICAEW. The role of the board is to initiate and develop strategic priorities pertaining to professional standards regulation such as keeping changes to regulations and bye-laws under review and setting regulatory fees. It is not involved with the discipline of ICAEW members or those authorised by ICAEW to undertake regulated activities.

The IRB has regard to the objectives of the profession, as set out in ICAEW's Royal Charter. It is expected to have the interests of the public at the forefront of everything it does. To support this, board members are expected to act with independence and avoid conflicts of interest. The board ensures the ICAEW professional standards department runs the processes that underpin licensing and disciplinary work effectively and efficiently.

The IRB has 12 members including the chair and is formed of an equal number of lay members (someone who is not and never has been a member, affiliate or employee of ICAEW or any other accountancy body) and non-lay members (ICAEW Chartered Accountants). The current IRB chair is a lay member, Michael Caplan QC. The chair and IRB members are all appointed using an independent selection process. Further information is available at [icaew.com/irb](http://icaew.com/irb).

In 2018, the IRB met five times.

	Position	Attendance
Steve Barrow	Lay	5/5
Michael Caplan (Chair)	Lay	5/5
David Chitty	Non-lay	5/5
Chris Fraser	Lay	3/5
Andrew Goldsworthy	Non-lay	4/5
Ian Leigh	Lay	5/5
John Milsom	Non-lay	5/5
Philip Nicol Gent (Vice-Chair)	Lay	4/5
Mike Sufrin	Non-lay	5/5
Jane Titley	Non-lay	5/5
Ann Wright	Lay	4/5

During 2018, the IRB has considered, amongst other things, changes to the disciplinary bye-laws, the creation of a fixed penalty process for complaints, a review of the guidance on sanctions and the quality assurance of the investigation committee. There is more information about the matters considered at the IRB's meetings at [icaew.com/irb](http://icaew.com/irb)

### DIVERSITY

ICAEW is an international professional body with multiple routes to entry. Diversity is embedded in our thinking and our aim is that we represent the profession as a whole and that our governance bodies are as diverse as our membership. We have a wide range of diversity initiatives including the digitalisation of BASE, ICAEW 100 and Access Accountancy.

All members are eligible to stand for election to council or get involved with an advisory committee, faculty, community or local district society committed to the principles of equality and diversity with the aim of representing the profession as a whole.

The nominating committee ensures that council, board and committees have an appropriate balance of skills, experience, independence and knowledge to enable them to discharge their duties effectively, while ensuring engagement of the best person for the role.

A diversity advisory group comprising a diverse range of members from across the profession looks at best practice and global trends within different industry sectors, giving a global perspective on diversity, and making recommendations to the board.

In compliance with government regulations for gender pay gap reporting, a report outlining the mean and median gender pay gap in ICAEW is available on our website. ICAEW's mean gender pay gap reduced from 33.6% to 30.5% in 2018. Whilst gaps at role levels are generally low, the overall gap represents an historic higher proportion of long-serving male senior management positions and the proportions of contractors employed. ICAEW has committed to a number of initiatives which are expected to reduce this gap over time.

### WOMEN IN FINANCE CHARTER

ICAEW commits to have 40% women in senior management by March 2020. As of 31 December 2018, we have 37% women in senior management.

### MODERN SLAVERY

Our modern slavery policy is published on our website, in compliance with the Modern Slavery Act 2016. ICAEW council and senior management are committed to ensuring ICAEW will not support or deal with any business knowingly involved in slavery or human trafficking, and will provide training and communication throughout ICAEW to ensure, as far as is reasonable, slavery and human trafficking do not occur in our supply chain or operations.

### GENERAL DATA PROTECTION REGULATION (GDPR)

GDPR came into effect on 25 May 2018 and ICAEW has amended policies, privacy statements and procedures accordingly and provided training to all staff as appropriate. ICAEW has also issued guidance on preparing for GDPR with a particular focus on advice for those in the accountancy profession.

### EMPLOYEES

ICAEW aims to create a working environment that is based on a number of key principles including fairness, equality of opportunity, respect and dignity, flexibility, transparency and work-life balance. We believe that these key principles enable staff to enjoy work, develop as individuals and provide the best possible service to members, clients and the public, which contributes to the continued success of the organisation.

ICAEW is committed to the values of initiative, insight and integrity. It is our policy to treat all staff fairly and equally regardless of age, race, sex or sexual orientation, gender (including transgender), disability, marital status (including civil partnership), pregnancy and maternity, social or educational backgrounds or family or carer responsibility. Should existing staff suffer a disability, we will do all we can to accommodate this and to help the member of staff to continue their career in their existing role where possible, or in an alternative position in the organisation.

ICAEW regularly carries out a staff survey to ensure staff are engaged with our strategy, and it has a well-established performance management process and training and development policy. Staff can discuss their development needs at 'one-to-ones' with their manager or as part of the annual performance management process. We hold regular strategy updates for all staff and have dedicated communications channels, including an intranet and weekly email updates.

### FINANCIAL RESPONSIBILITIES OF COUNCIL

Bye-law 12(a) requires council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of ICAEW and of the result for ICAEW for that year.

Council has delegated these responsibilities to the board. In preparing these financial statements on behalf of council, the board has:

- prepared the financial statements in accordance with applicable law and IFRSs as adopted for use in the EU;
- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared the financial statements on a going concern basis.

Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of ICAEW. It is also responsible for safeguarding the assets of ICAEW and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

### DIRECTORS' CONFIRMATION

As far as each of the directors is aware:

- there is no relevant audit information of which ICAEW's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that ICAEW's auditors are aware of that information.

For the purposes of this declaration, all members of the board are deemed to be directors by council.

# ICAEW

## *five-year summary*

	2018	2017 (restated)	2016 (restated)	2015 (restated)	2014 (restated)
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Operating income	<b>107.6</b>	104.9	99.2	96.0	89.8
ICAEW services	<b>(101.5)</b>	(95.9)	(89.7)	(85.0)	(80.5)
Funding of regulatory and other professional associations	<b>(8.5)</b>	(9.4)	(8.6)	(10.1)	(8.5)
Gift aid and library funding and taxation	<b>(0.6)</b>	(0.6)	(0.9)	(1.5)	(1.5)
FRC fines and cost recoveries	<b>18.2</b>	17.4	10.5	6.6	2.4
Strategic projects	<b>(2.1)</b>	-	-	-	-
<b>Net result after taxation</b>	<b>13.1</b>	<b>16.4</b>	<b>10.5</b>	<b>6.0</b>	<b>1.7</b>
<b>Statement of financial position</b>					
Non-current assets excluding Staff Pensions Fund	<b>103.2</b>	93.2	76.9	64.4	59.9
Non-current assets - Staff Pensions Fund asset	<b>12.4</b>	5.7	1.5	9.3	3.1
Current assets	<b>62.0</b>	41.4	34.8	21.4	14.7
Current liabilities	<b>(75.3)</b>	(54.3)	(57.1)	(43.2)	(39.7)
Non-current liabilities	<b>(40.6)</b>	(40.2)	(37.0)	(35.6)	(31.6)
<b>Total net assets</b>	<b>61.7</b>	<b>45.8</b>	<b>19.1</b>	<b>16.3</b>	<b>6.4</b>
<b>Member and student numbers</b>	<b>2018</b>	2017	2016	2015	2014
Members	<b>151,761</b>	149,298	147,538	145,746	144,167
ACA students	<b>28,700</b>	27,866	25,822	24,149	22,001
	<b>180,461</b>	<b>177,164</b>	<b>173,360</b>	<b>169,895</b>	<b>166,168</b>

Results have been restated for the adoption of IFRS 15 for all years using the retrospective method.

# *Independent auditor's report to the members of ICAEW for the year ended 31 December 2018*

## **OUR OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT**

### **1. Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of ICAEW's affairs as at 31 December 2018 and of the group's and ICAEW's results for the year then ended; and
- the group and ICAEW financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

### **WHAT WE HAVE AUDITED**

We have audited the financial statements of ICAEW for the year ended 31 December 2018, which comprise:

- the group and ICAEW income statements;
- the group and ICAEW statements of comprehensive income;
- the group and ICAEW statements of changes to reserves;
- the group and ICAEW statements of financial position;
- the group and ICAEW statements of cash flows;
- the basis of preparation and accounting policies; and
- the notes to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU.

### **2. Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Our responsibilities under ISAs (UK) are further described in section 10 of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to enable us to express an audit opinion on the financial statements of ICAEW and the group for the year ended 31 December 2018.

### **3. 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:

- Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Council have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ICAEW's or the group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### **4. Our approach to planning our audit**

#### **UNDERSTANDING ICAEW**

We obtained an understanding of ICAEW as an organisation and of its wider group, including the key elements of its strategy and operating model as well as the environment in which it operates. This understanding was obtained through our discussions with senior management and those charged with governance and review, enquiry, analytical procedures, observation and inspection.

#### **IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT**

We perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement, including those identified as significant risks.

#### **DETERMINING MATERIALITY AND PERFORMANCE MATERIALITY**

When establishing our overall audit strategy, we determine materiality for the financial statements as a whole. We have detailed in section 6 of this report the basis of the judgements we have made about the size of misstatements that will be considered material.

#### **DETERMINE THE SCOPE OF OUR AUDIT**

Our scope is tailored to the particular circumstances of our audit of ICAEW and the group and is influenced by our assessed risks of material misstatement and determination of materiality.

### **5. Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on our overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



**FRC CONDUCT COMMITTEE PROVISION**

**The risk:** ICAEW is obliged to fund the costs incurred by the Financial Reporting Council (FRC) Conduct Committee in undertaking investigations for disciplinary cases. The provision recognised in the financial statements is based on an estimate of costs initially supplied by the FRC and then subject to scrutiny and challenge by ICAEW. Due to the magnitude and degree of estimation and judgement required there is a significant risk of material misstatement in the financial statements.

**Our response:** We followed the progress of each case and ICAEW's estimate of the costs to complete each stage, and obtained a breakdown of the provision.

We reviewed the key elements of the methodology employed by management and challenged the reasonableness of the cost estimates recognised. We agreed the reasonableness of these estimates by comparing the accuracy of previous cost estimates recognised to the final costs incurred on similar investigation cases. We also considered the key facts relating to particular cases. We considered the impact on future case costs from changes arising in the disciplinary environment.

**What we reported to the audit committee:** We have reviewed and confirmed our agreement to the methodology employed in calculating the appropriate provision and verified these to supporting evidence of historic case costs and details of current ongoing cases on a case-by-case basis. We have reviewed the disclosures included in the financial statements in respect of the uncertainties faced by management in estimating an appropriate provision and the contingent liabilities arising from ongoing cases. We have considered the latest discussions with the FRC up to the date of this report.

From the audit work undertaken we have concluded that the provision carried at the balance sheet date is not materially misstated.

**REVENUE RECOGNITION**

**The risk:** While the majority of ICAEW's income relates to fees directly collected from members for services which are centrally managed and verifiable, ICAEW also collects material amounts from member firms which are not recognised in the ICAEW or group income statement where it considers such amounts to be collected on behalf of other organisations such as the FRC. Such arrangements have developed over a period of time as custom or practice rather than by way of legal agreement or obligation and therefore we continued to identify revenue recognition as a significant risk.

In addition the implementation of the new accounting standard IFRS 15 "Revenue from Contracts with Customers" and its impact on the recognition, measurement and presentation of ICAEW's income streams was identified as an additional source of risk of material misstatement.

**Our response:** We undertook a number of audit procedures to verify the appropriateness of revenue recognition in the financial statements. This included, amongst others:

- detailed review and documentation of the processes and controls in place for each of ICAEW's key income streams;
- sampling substantive procedures in order to ensure income has been appropriately recorded;
- non-sampling substantive procedures in relation to membership fee income including comparisons to budget and trends analysis;
- we considered the management's assessment of the application of IFRS 15 to ICAEW's key income streams, including supporting technical analysis commissioned from external experts, to ensure that it was in accordance with best practice and fully compliant with the requirements set in IFRS 15. This work focused on the identification of performance obligations associated with ICAEW's admission fees due to the specific application guidance contained in the standard regarding the treatment of non-refundable upfront fees;
- we reviewed and tested the key estimates regarding historic admission fees and membership applied by management in adopting IFRS 15 on a fully retrospective basis to appropriate data sources for reasonableness and confirmed the prior year and current year adjustments to ICAEW's primary statements; and
- we reviewed the disclosures included in the financial statements to ensure that these were compliant in all material respects with the accounting standards.

**What we reported to the audit committee:** As a result of the audit work undertaken we concluded that ICAEW has properly applied the principles of IFRS 15 and other applicable IFRSs to its key income streams and we have obtained sufficient appropriate audit evidence that revenue is not materially misstated in these financial statements.



## DEFINED BENEFIT PENSION SCHEME

**The risk:** The amounts reported and the impact on the financial statements for defined benefit pension schemes are significant and highly sensitive to the assumptions applied by the actuaries. We identified that this presented a significant risk of material misstatement due to the use of inappropriate actuarial assumptions or inappropriate accounting treatment in recognising any pension surplus as an asset in the financial statements.

**Our response:** We undertook audit procedures on the valuation of the pension scheme prepared by the scheme's actuaries in accordance with IAS 19 which form the basis of the accounting and disclosures included in the financial statements. These procedures included assessment of the actuary's competence, qualifications, expertise, experience, resources and objectivity and critical review of the key assumptions applied in preparing the valuation. We also considered whether there had been any changes to the legal basis underpinning the recognition of the pension surplus as an asset in the financial statements. We obtained and reviewed the actuary's report on the estimated impact of GMP equalisation on the pension scheme's liabilities and agreed this to the valuation report used to prepare the financial statements.

**What we reported to the audit committee:** We have previously obtained and reviewed advice from ICAEW's solicitors confirming that, in their opinion, there had been no material change to the governing documents of the ICAEW Staff Pension Fund that would (or could) affect the advice in relation to the scheme's rules which led to the full pension surplus being recognised as an asset to the accounts in accordance with IAS 19 and IFRIC 14. There have been no changes to legislation that have come into force in the period since the previous year that would affect the advice. On this basis we are satisfied that the recognition of the pension surplus remains appropriate.

We have reviewed the key assumptions applied by the actuary in preparing the valuation and estimating the impact of the requirement for GMP equalisation on the pension scheme liabilities. We are satisfied that the impact on the financial statements and disclosures are in accordance with IFRS and consistent with our expectations, having considered all relevant factors as at 31 December 2018.

## 6. Our application of materiality

We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality both in planning our audit and in evaluating the results of our work. It is not possible for auditors to examine every transaction of the audited entity nor every balance in the financial statements. Therefore, in planning our audit work, we will give particular attention to those areas of the financial statements that we consider to be the most important in terms of materiality as defined above.

We determined materiality for ICAEW and group financial statements to be £2m based on approximately 2% of revenue. We considered this appropriate as it represents a broad measure of activity at ICAEW. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Our evaluation of materiality required professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

Our judgement was that performance materiality (ie, our tolerance for misstatement in an individual account or balance) should be 75% of planning materiality, namely £1.5m. Our objective in setting this was to ensure that total uncorrected or undetected audit differences did not exceed our materiality level of £2m.

We agreed with the audit committee that we would report all audit differences in excess of £50,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report through the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of the audit and application of materiality

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the group financial statements as a whole, taking into account the legal and geographic structure of the group, the accounting processes and controls in operation and the mix of size and risk profile of its components.

Group entities and associates whose operations are based largely in the UK were audited directly by haysmacintyre alongside the audit of ICAEW. We determined materiality for each group entity based on the key drivers most appropriate and subject to a cap of the materiality levels determined for ICAEW as a whole.

ICAEW's international operations are not considered to be individually material to the group financial statements. For ICAEW's international operations, we carried out analytical review procedures and limited testing on key balances and transactions in order to form our opinion on the group financial statements.

## 8. Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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.

In this context, we also have nothing to report in regard to our responsibility to communicate whether we have identified any inconsistencies between our knowledge acquired during the audit and the council's statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee that we consider should have been disclosed.

In relation to those disclosures made by ICAEW in respect of its voluntary compliance with the Corporate Governance code we confirm that we do not have anything material to add or to draw attention to in relation to:

- council's confirmation in the annual report that they have carried out an assessment of the principal risks facing the group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- council's statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- council's explanation in the annual report on how it has assessed the prospects of the group, over what period it has done so and why it considers that period to be appropriate, and its statement as to whether it has a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## 9. Responsibilities of council for the financial statements

As explained more fully in the financial responsibilities of the council statement set out on page 17, the council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## 10. 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](http://www.frc.org.uk/auditorsresponsibilities). The description forms part of our auditor's report.

## 11. Use of our report

This report is made solely to ICAEW's members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to ICAEW's members those matters that 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 ICAEW or its members as a body, for our audit work, for this report, or for the opinions we have formed.



**haysmacintyre**  
Statutory Auditor  
10 Queen Street Place  
London  
EC4R 1AG

27 March 2019

# Group income statement for the year ended 31 December 2018

	Note	2018			2017 restated		
		Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		48.1	-	48.1	46.5	-	46.5
Learning and professional development	1	13.6	(22.1)	(8.5)	13.4	(20.3)	(6.9)
Professional standards	2	20.1	(19.3)	0.8	18.7	(18.4)	0.3
Commercial and shared services	3	12.6	(16.5)	(3.9)	11.8	(16.3)	(4.5)
Members	4	1.0	(17.3)	(16.3)	1.1	(17.0)	(15.9)
Technical strategy	5	4.5	(9.7)	(5.2)	4.6	(9.9)	(5.3)
Central activities	6	0.2	(16.0)	(15.8)	0.3	(14.0)	(13.7)
Charitable trusts	7	-	(0.9)	(0.9)	0.1	(0.8)	(0.7)
One-off pension past service cost	28	-	(0.6)	(0.6)	-	-	-
		<b>100.1</b>	<b>(102.4)</b>	<b>(2.3)</b>	<b>96.5</b>	<b>(96.7)</b>	<b>(0.2)</b>
FRC Conduct Committee	8	4.6	(5.1)	(0.5)	4.5	(6.0)	(1.5)
Other regulatory and professional associations	9	1.6	(3.4)	(1.8)	1.7	(3.4)	(1.7)
		<b>6.2</b>	<b>(8.5)</b>	<b>(2.3)</b>	<b>6.2</b>	<b>(9.4)</b>	<b>(3.2)</b>
<b>Operating result</b>	11	<b>106.3</b>	<b>(110.9)</b>	<b>(4.6)</b>	<b>102.7</b>	<b>(106.1)</b>	<b>(3.4)</b>
Investment income	12	2.4	-	2.4	2.1	-	2.1
<b>Result before taxation</b>		<b>108.7</b>	<b>(110.9)</b>	<b>(2.2)</b>	<b>104.8</b>	<b>(106.1)</b>	<b>(1.3)</b>
Taxation	16	-	(0.1)	(0.1)	-	(0.1)	(0.1)
<b>Net result from operations after taxation</b>		<b>108.7</b>	<b>(111.0)</b>	<b>(2.3)</b>	<b>104.8</b>	<b>(106.2)</b>	<b>(1.4)</b>
FRC fines and cost recoveries	8	16.3	1.9	18.2	14.6	2.8	17.4
Strategic projects		-	(2.1)	(2.1)	-	-	-
<b>Net result after taxation</b>		<b>125.0</b>	<b>(111.2)</b>	<b>13.8</b>	<b>119.4</b>	<b>(103.4)</b>	<b>16.0</b>

# ICAEW income statement for the year ended 31 December 2018

	Note	2018			2017 restated		
		Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		48.1	-	48.1	46.5	-	46.5
Learning and professional development	1	13.6	(22.1)	(8.5)	13.4	(20.3)	(6.9)
Professional standards	2	19.2	(19.3)	(0.1)	18.7	(18.4)	0.3
Commercial and shared services	3	12.6	(16.5)	(3.9)	11.8	(16.3)	(4.5)
Members	4	1.0	(17.7)	(16.7)	1.1	(17.4)	(16.3)
Technical strategy	5	4.5	(9.7)	(5.2)	4.6	(9.9)	(5.3)
Central activities	6	0.2	(15.6)	(15.4)	0.3	(13.6)	(13.3)
One off pension past service cost	28	-	(0.6)	(0.6)	-	-	-
		<b>99.2</b>	<b>(101.5)</b>	<b>(2.3)</b>	<b>96.4</b>	<b>(95.9)</b>	<b>0.5</b>
FRC Conduct Committee	8	4.6	(5.1)	(0.5)	4.5	(6.0)	(1.5)
Other regulatory and professional associations	9	1.6	(3.4)	(1.8)	1.7	(3.4)	(1.7)
		<b>6.2</b>	<b>(8.5)</b>	<b>(2.3)</b>	<b>6.2</b>	<b>(9.4)</b>	<b>(3.2)</b>
Gift aid and library funding	10	-	(0.6)	(0.6)	-	(0.6)	(0.6)
<b>Operating result</b>	<b>11</b>	<b>105.4</b>	<b>(110.6)</b>	<b>(5.2)</b>	<b>102.6</b>	<b>(105.9)</b>	<b>(3.3)</b>
Investment income	12	2.2	-	2.2	2.3	-	2.3
<b>Result before taxation</b>		<b>107.6</b>	<b>(110.6)</b>	<b>(3.0)</b>	<b>104.9</b>	<b>(105.9)</b>	<b>(1.0)</b>
Taxation	16	-	-	-	-	-	-
<b>Net result from operations after taxation</b>		<b>107.6</b>	<b>(110.6)</b>	<b>(3.0)</b>	<b>104.9</b>	<b>(105.9)</b>	<b>(1.0)</b>
FRC fines and cost recoveries	8	16.3	1.9	18.2	14.6	2.8	17.4
Strategic projects		-	(2.1)	(2.1)	-	-	-
<b>Net result after taxation</b>		<b>123.9</b>	<b>(110.8)</b>	<b>13.1</b>	<b>119.5</b>	<b>(103.1)</b>	<b>16.4</b>

# *Group and ICAEW statements of comprehensive income for the year ended 31 December 2018*

	Note	Group		ICAEW	
		2018	2017 restated	2018	2017 restated
		£m	£m	£m	£m
Net result after taxation recognised in the income statement in the year		13.8	16.0	13.1	16.4
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on revaluation of available for sale investments	21	(5.5)	1.3	(4.5)	0.7
Gains reclassified on disposal	21	1.2	0.5	1.2	0.5
Items that will not be reclassified subsequently to profit or loss:					
Gains on revaluation of property, plant and equipment	18	-	7.0	-	7.0
Actuarial gains recognised in the year	28	5.6	2.8	5.6	2.6
Deferred tax	17	0.5	(0.5)	0.5	(0.5)
<b>Other comprehensive income in the year</b>		<b>1.8</b>	<b>11.1</b>	<b>2.8</b>	<b>10.3</b>
<b>Total comprehensive income in the year</b>		<b>15.6</b>	<b>27.1</b>	<b>15.9</b>	<b>26.7</b>

# Group and ICAEW statements of changes to reserves for the year ended 31 December 2018

## Group

	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Other reserves	Charitable trusts	Total
	£m	£m	£m	£m	£m	£m
<b>Reserves at 1 January 2017 (restated) (*)</b>	<b>9.7</b>	<b>6.0</b>	<b>(0.2)</b>	<b>5.1</b>	<b>14.4</b>	<b>35.0</b>
Net result after taxation	-	-	15.7	0.2	0.1	16.0
Increase in valuation of property, plant and equipment	7.0	-	-	-	-	7.0
Net change in market value of long-term investments over cost	-	1.2	-	-	0.6	1.8
Actuarial gains recognised in year on defined benefit pension scheme	-	-	2.5	0.1	0.2	2.8
Deferred tax attributable to above	(0.3)	(0.1)	(0.1)	-	-	(0.5)
Total other comprehensive income in the year	<b>6.7</b>	<b>1.1</b>	<b>2.4</b>	<b>0.1</b>	<b>0.8</b>	<b>11.1</b>
Total comprehensive income in the year	6.7	1.1	18.1	0.3	0.9	27.1
<b>Reserves at 1 January 2018</b>	<b>16.4</b>	<b>7.1</b>	<b>17.9</b>	<b>5.4</b>	<b>15.3</b>	<b>62.1</b>
Net result after taxation	-	-	13.9	-	(0.1)	13.8
Net change in market value of long-term investments over cost	-	(3.3)	-	-	(1.0)	(4.3)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	5.6	-	-	5.6
Deferred tax attributable to above	0.1	0.6	(0.2)	-	-	0.5
Total other comprehensive income in the year	<b>0.1</b>	<b>(2.7)</b>	<b>5.4</b>	<b>-</b>	<b>(1.0)</b>	<b>1.8</b>
Total comprehensive income in the year	0.1	(2.7)	19.3	-	(1.1)	15.6
<b>Reserves at 31 December 2018</b>	<b>16.5</b>	<b>4.4</b>	<b>37.2</b>	<b>5.4</b>	<b>14.2</b>	<b>77.7</b>

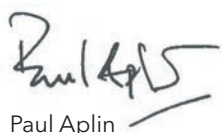
## ICAEW

	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Other reserves	Total
	£m	£m	£m	£m	£m
<b>Reserves at 1 January 2017 (restated) (*)</b>	<b>9.7</b>	<b>6.0</b>	<b>(1.7)</b>	<b>5.1</b>	<b>19.1</b>
Net result after taxation	-	-	16.2	0.2	16.4
Increase in valuation of property, plant and equipment	7.0	-	-	-	7.0
Net change in market value of long-term investments over cost	-	1.2	-	-	1.2
Actuarial gains recognised in year on defined benefit pension scheme	-	-	2.5	0.1	2.6
Deferred tax attributable to above	(0.3)	(0.1)	(0.1)	-	(0.5)
Total other comprehensive income in the year	<b>6.7</b>	<b>1.1</b>	<b>2.4</b>	<b>0.1</b>	<b>10.3</b>
Total comprehensive income in the year	6.7	1.1	18.6	0.3	26.7
<b>Reserves at 1 January 2018</b>	<b>16.4</b>	<b>7.1</b>	<b>16.9</b>	<b>5.4</b>	<b>45.8</b>
Net result after taxation	-	-	13.1	-	13.1
Net change in market value of long-term investments over cost	-	(3.3)	-	-	(3.3)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	5.6	-	5.6
Deferred tax attributable to above	0.1	0.6	(0.2)	-	0.5
Total other comprehensive income in the year	<b>0.1</b>	<b>(2.7)</b>	<b>5.4</b>	<b>-</b>	<b>2.8</b>
Total comprehensive income in the year	0.1	(2.7)	18.5	-	15.9
<b>Reserves at 31 December 2018</b>	<b>16.5</b>	<b>4.4</b>	<b>35.4</b>	<b>5.4</b>	<b>61.7</b>

# Group and ICAEW statements of financial position as at 31 December 2018

		2018	Group 2017 restated	2018	ICAEW 2017 restated
	Note	£m	£m	£m	£m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	18	42.1	41.2	42.1	41.2
Intangible assets	19	12.2	9.3	12.2	9.3
Investments in subsidiaries and associates	20	0.1	0.1	-	-
Financial assets: available for sale investments	21	63.3	58.0	48.9	42.7
Pension asset	28	12.4	5.7	12.4	5.7
		<b>130.1</b>	<b>114.3</b>	<b>115.6</b>	<b>98.9</b>
<b>Current assets</b>					
Inventories	22	0.9	0.9	0.9	0.9
Trade and other receivables	23	25.7	24.8	25.0	24.0
Cash and cash equivalents	24	36.7	17.0	36.1	16.5
		<b>63.3</b>	<b>42.7</b>	<b>62.0</b>	<b>41.4</b>
<b>Total assets</b>		<b>193.4</b>	<b>157.0</b>	<b>177.6</b>	<b>140.3</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	25	(69.9)	(49.5)	(70.3)	(49.3)
Current tax liabilities		-	-	-	-
FRC Conduct Committee provision	26	(5.0)	(5.0)	(5.0)	(5.0)
		<b>(74.9)</b>	<b>(54.5)</b>	<b>(75.3)</b>	<b>(54.3)</b>
<b>Non-current liabilities</b>					
Grants payable		(0.6)	(0.2)	(0.5)	-
Other payables and deferred income obligations	25	(30.5)	(28.9)	(30.4)	(28.9)
Provisions	27	(1.1)	(1.1)	(1.1)	(1.1)
FRC Conduct Committee provision	26	(6.9)	(8.0)	(6.9)	(8.0)
Deferred tax liability	17	(1.7)	(2.2)	(1.7)	(2.2)
		<b>(40.8)</b>	<b>(40.4)</b>	<b>(40.6)</b>	<b>(40.2)</b>
<b>Total liabilities</b>		<b>(115.7)</b>	<b>(94.9)</b>	<b>(115.9)</b>	<b>(94.5)</b>
<b>Total net assets</b>		<b>77.7</b>	<b>62.1</b>	<b>61.7</b>	<b>45.8</b>
<b>Reserves</b>					
Revaluation reserve		16.5	16.4	16.5	16.4
Investment revaluation reserve		4.4	7.1	4.4	7.1
Accumulated fund		37.2	17.9	35.4	16.9
Other reserves		5.4	5.4	5.4	5.4
Charitable trust funds		14.2	15.3	-	-
		<b>77.7</b>	<b>62.1</b>	<b>61.7</b>	<b>45.8</b>

Approved on behalf of council and authorised for issue



Paul Aplin  
President  
27 March 2019



Michael Izza  
Chief Executive  
27 March 2019

# Group and ICAEW statements of cash flows for the year ended 31 December 2018

		2018	Group 2017 restated	2018	ICAEW 2017 restated
	Note	£m	£m	£m	£m
<b>Cash flows from operating activities<sup>1</sup></b>					
<b>Result before taxation</b>		<b>13.9</b>	<b>16.1</b>	<b>13.1</b>	<b>16.4</b>
Adjustments for:					
Depreciation and amortisation		5.7	4.8	5.7	4.8
Investment income	12	(2.3)	(2.1)	(2.2)	(2.3)
Non-cash movement in provisions		5.5	6.2	5.5	6.5
<b>Cash flows from operating activities before movements in working capital</b>		<b>22.8</b>	<b>25.0</b>	<b>22.1</b>	<b>25.4</b>
<b>Movements in working capital</b>					
Increase in inventories		-	(0.2)	-	(0.2)
Increase in trade and other receivables		(0.9)	(1.0)	(1.0)	(1.3)
Increase/(decrease) in trade and other payables		20.6	(2.1)	21.4	(2.2)
Increase in long-term payables		2.1	1.3	2.0	1.2
<b>Cash generated from operating activities after movements in working capital</b>		<b>44.6</b>	<b>23.0</b>	<b>44.5</b>	<b>22.9</b>
<b>Cash flows on provisions</b>					
Tax paid		(0.1)	(0.1)	-	-
Cash outflow on pension liabilities		(1.6)	(1.6)	(1.6)	(1.6)
Cash outflow on FRC Conduct Committee provision		(6.2)	(5.0)	(6.2)	(5.0)
<b>Net cash generated from operating activities</b>		<b>36.7</b>	<b>16.3</b>	<b>36.7</b>	<b>16.3</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(4.2)	(6.3)	(4.2)	(6.3)
Purchase of intangible assets		(5.6)	(5.9)	(5.6)	(5.9)
Purchase of available for sale investments		(17.2)	(8.9)	(16.7)	(8.0)
Disposal of available for sale investments		8.5	8.4	8.0	7.2
Investment income received		1.5	1.0	1.4	1.3
<b>Net cash outflow from investing activities</b>		<b>(17.0)</b>	<b>(11.7)</b>	<b>(17.1)</b>	<b>(11.7)</b>
<b>Net increase in cash and cash equivalents in the year</b>		<b>19.7</b>	<b>4.6</b>	<b>19.6</b>	<b>4.6</b>
Net cash and cash equivalents at 1 January		17.0	12.4	16.5	11.9
<b>Net cash and cash equivalents at 31 December</b>	<b>24</b>	<b>36.7</b>	<b>17.0</b>	<b>36.1</b>	<b>16.5</b>

<sup>1</sup>Fines and cost recoveries from disciplinary cases including the FRC Conduct Committee are included within operating cash flows and included in the result before taxation above. Amounts levied on firms as contributions towards FRC Conduct Committee costs are similarly included in operational income. Payments to the FRC Conduct Committee from amounts previously provided are included separately in the cash movement on provisions above.



# Notes to the financial statements for the year ended 31 December 2018

## **BASIS OF PREPARATION**

ICAEW is a body incorporated by Royal Charter. The financial statements have been prepared in accordance with IFRS as adopted by the EU and under the historical cost convention, as modified by the revaluation of properties and available for sale investments.

## **Basis of consolidation**

Consolidated financial statements have been prepared which comprise ICAEW and all its subsidiary undertakings.

## **Subsidiaries**

Subsidiaries are all entities over which ICAEW is exposed to, or has rights to, variable returns from its involvement, and has the ability to affect those returns through its power over the subsidiary in accordance with IFRS 10 – Consolidated Financial Statements. All subsidiaries have a reporting date of 31 December. All transactions and balances between group entities are eliminated on consolidation.

## **Associates**

Investments in associates are accounted for using the equity method. ICAEW's interest in the net assets of associates is included in investment in associates in the consolidated statement of financial position, and its interest in their results, in the income statement below the operating result. Associates are those entities over which ICAEW has significant influence to participate in, but not control over, the financial and operating policies of the companies.

## **ADOPTION OF NEW AND REVISED STANDARDS**

### **New and amended IFRS that are effective for the current year**

ICAEW has adopted IFRS 15 and IFRS 9 during the year. The impact of these standards are set out below.

### **IFRS 9 Financial Instruments**

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. ICAEW has applied IFRS 9 and the related consequential amendments to IFRS 7 Financial Instruments: Disclosures. Following review and assessment of ICAEW's existing financial instruments the adoption of this standard has not resulted in a change in ICAEW's classification or measurement of its financial instruments. The application of IFRS 9 has had no impact on the cash flows of ICAEW and its Group.

### **IFRS 15 Revenue from Contracts with Customers**

In the current year, ICAEW and the Group has applied IFRS 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a five-step approach to revenue recognition and included far more prescriptive guidance to deal with

specific scenarios. The application of IFRS 15 has resulted in a change in the recognition of income associated with admission fees and professional conduct (disciplinary fines).

In order to obtain membership, students must meet ICAEW's requirements relating to examinations, practical work experience, professional development, ethics and professional scepticism and validated training records. Once satisfied, an invitation to membership is issued and the prospective member pays an admission fee on acceptance. Under IAS 18 such income was recognised on admission. Management has undertaken a detailed assessment of contractual arrangements and revenue streams and have identified that under IFRS 15, the admission fees and ongoing membership services are more correctly treated as a single performance obligation satisfied over time. The period of recognition is estimated based on the average duration of completed memberships. As a consequence subscriptions and fees income in 2018 is reduced by £1.5m (2017: £0.7m) and a deferred income obligation of £29.8m (2017: £28.3m) is recognised.

In addition the full amount of any professional conduct debt is now recognised as income when receivable, which is deemed to occur when the decision has been made and is final after any appeal. Under IAS 18 such income was recognised on receipt. As a result, Professional Standards income in 2018 is increased by £0.6m but is offset by a provision against impairment of £0.5m.

ICAEW has applied IFRS 15 in accordance with the retrospective method and without the use of the practical expedients set out in IFRS 15, and the comparative figures in these financial statements have been restated. The cumulative impact of the application is a reduction of £27.6m in opening reserves as at 1 January 2017.

ICAEW's accounting policies for its revenue streams are disclosed alongside the financial information in the notes to the accounts in accordance with ICAEW's established practice.

### **New and revised IFRS in issue but not effective**

At the date of authorisation of these financial statements, there are a number of standards and interpretations that have been issued, but are not yet effective which ICAEW has not applied.

The most significant of these is IFRS 16 Leases which is effective from accounting periods beginning on or after 1 January 2019.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases

and the related interpretations when it becomes effective.

IFRS 16 will change how ICAEW accounts for leases previously classified as operating leases under IAS 17, which were subject to the required disclosures of the length and quantity of the financial commitment entered into.

The estimated impact of application of this accounting standard in the future has been assessed; The main operating lease relates to the leasehold property at Milton Keynes, together with a small number of other short-term property leases and vehicles. It is anticipated that the effect of first time adoption of this standard will reduce opening net assets by c£0.3m, with subsequent immaterial reductions in the charge to the income statement over the remaining lives of the leases.

There are no other standards that are not yet effective and that would be expected to have a material impact on ICAEW in the current or future reporting periods and on foreseeable future transactions.

#### Foreign currencies

Financial assets, including the financial statements of non-UK subsidiary undertakings, are translated at the rate of exchange at the reporting date. Income and expenses are translated at the average exchange rate for the period.

#### Accounting policies

Fundamental accounting policies are included within the notes to the financial statements, and are set out before the financial information in the note itself within the highlighted boxes.

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

To be able to prepare financial statements according to generally accepted accounting principles, the board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on FRC Conduct Committee provisions and pensions as well as the valuation bases of our freehold property and historic collections and operational matters. These estimates are based on historical experience and various other assumptions that the board believes are reasonable under the circumstances. The results of these form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Further details in relation to specific areas are included below:

Valuations of property plant and equipment - note 18  
Professional Conduct and FRC Conduct Committee - note 26  
Retirement benefits, GMP equalisation and IFRIC 14 - note 28

Further, in addressing the initial application of IFRS 15 the board considered appropriate critical accounting judgements relevant to income streams including admission fees and disciplinary fines, the outcome of which is noted in the accounting policy relating to income. The resulting deferral of

income relating to admission fees and subsequent recognition period requires a number of key estimates, including assessing the period over which the membership benefits are delivered based on observed average membership durations, future expected behaviour and the adequacy of historic information on membership admissions with which to recognise income over a typical membership period.

### FINANCIAL RISK MANAGEMENT

#### Financial risk factors

Senior management directly controls day-to-day policies and operations. Financial risk management issues are covered by ICAEW's risk management process as set out in the financial review section. Board and council members are regularly updated on any significant issues relating to financial risk management. Financial risks to which ICAEW is exposed are summarised below.

#### Currency risk

The majority of ICAEW's transactions are carried out in sterling. In addition, ICAEW holds accounts in US dollars and euros. To the extent possible, ICAEW uses the income received from services provided in these currencies to hedge any exposures on payments made. ICAEW operates international regional offices and is exposed to foreign currency exchange risk on the transfer of foreign currency to its international offices. Where appropriate, forward purchases are used to hedge against currency movements on known foreign exchange requirements.

#### Credit risk

Working capital and longer-term funds are held in interest-bearing investments and in listed equity securities for investment purposes through independent custodians.

The credit risk for cash and cash equivalents is monitored regularly. In the current economic climate, extra attention has been given to the agreed limited list of counterparties, which are all reputable banks with a high-quality external credit rating of at least AA- or which have been judged to have systemic importance.

For trade and other receivables, ICAEW is not exposed to any significant credit risk to any single counterparty or group of counterparties. The majority of ICAEW's counterparties are members or member firms which are not considered to be a credit risk to ICAEW. ICAEW continuously monitors defaults of counterparties and incorporates this information into its credit risk controls relating to non-member customers.

The maximum exposure to credit risk at the year-end date is represented by the carrying value of financial instruments and management considers that all the financial assets not impaired or past due are of good credit quality.

#### Liquidity and interest rate risk

ICAEW policy is to maintain a strong statement of financial position with cash or cash equivalent balances and therefore it does not have significant exposure to liquidity risk. ICAEW manages its liquidity risk by monitoring its net cash and cash equivalent flows. Liquidity needs are monitored on a day-to-day and monthly basis for short-term needs. Excess funds are

invested as appropriate, depending on the forecast working capital cash flow needs, on short-term interest-bearing accounts or certificates of deposit. As a result of its holding of certificates of deposit with financial institutions, ICAEW does have exposure to interest rate fluctuations. These investments are invested by our agents in high-quality, liquid deposits, with a range of counterparties in such a way as to avoid an excessive concentration of our investment with any specific counterparty, and are monitored on a regular basis.

### Going concern

The financial statements have been prepared on a going concern basis; the conclusions of council's going concern review are set out in the financial review section.

### RESULT AND TAX

This section contains the financial statement notes that relate to the results and performance of the group and ICAEW during the year, together with the related accounting policies.

## ACCOUNTING POLICIES

### Income

Income as presented in the income statements is revenue as defined under IFRS 15 – Revenue from Contracts with Customers. The following accounting policies relate to our key income streams.

- Income from subscriptions and fees, including subscriptions from membership, communities and faculties, fees from practice regulation and assurance and authorisation of investment business, is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable.
- Income from levies on member firms is recognised in the same period as the regulatory fee to which it relates.
- Non-refundable admission fees charged to new members grant the members the option to obtain and renew professional membership services over the period during which they will remain a member. These are recognised as a material right arising on commencement of membership and income is recognised over the expected membership period of 35 years. While other services are provided to new members, including limited faculty membership, the renewal option has been assessed as being the main performance obligation for the purposes of allocating the admission fee.
- Income from qualifications represents predominantly exam income and is recognised in the period in which the exam was sat.
- Income associated with professional conduct (disciplinary fines) is recognised when receivable ie, when the decision has been made and is final after any appeal.
- Fine income as well as any associated cost recoveries arising from FRC Conduct Committee cases is recognised when receivable ie, when the tribunal judgement has been made and the decision is final after any appeal.
- Other income, including commercial income and income from consulting services, is recognised in the period in which the services are provided. For long-term capacity building contracts, income is recognised by reference to stage of completion of the individual contract.
- ICAEW does not recognise as income any charges raised on behalf of the FRC for Audit Quality Review costs where it is considered ICAEW acts as agent for the FRC. The amounts invoiced and repaid to the FRC for the year in relation to these costs amounted to £11.8m (2017: £7.1m).

### Government grants

In accordance with IAS 20 – Government Grants, ICAEW recognises government grants only when there is reasonable assurance that ICAEW will comply with any conditions attached to the grant and the grant will be received.

- The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis in relation to the performance of agreed objectives under the terms of the grant.
- Grant income received in advance of related costs is recognised within other income in advance.

### Foreign currencies

- Transactions in foreign currencies are converted into sterling, the presentational currency of the group, at exchange rates at the date of the transaction.

## 1 Learning and professional development

	Group and ICAEW			Group and ICAEW		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Qualifications	13.6	(13.5)	0.1	13.4	(11.4)	2.0
Business development	-	(7.3)	(7.3)	-	(7.8)	(7.8)
Executive, policy and strategy	-	(1.3)	(1.3)	-	(1.1)	(1.1)
	<b>13.6</b>	<b>(22.1)</b>	<b>(8.5)</b>	<b>13.4</b>	<b>(20.3)</b>	<b>(6.9)</b>

**2 Professional standards**

	<b>Group</b>			<b>Group (as restated)</b>		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Disciplinary (*)	1.5	(3.2)	(1.7)	1.2	(2.9)	(1.7)
Authorisation of investment business	3.7	(2.9)	0.8	2.7	(2.6)	0.1
Practice regulation and assurance	13.4	(11.4)	2.0	13.4	(11.0)	2.4
Capacity building and public sector	1.5	(1.8)	(0.3)	1.4	(1.9)	(0.5)
	<b>20.1</b>	<b>(19.3)</b>	<b>0.8</b>	<b>18.7</b>	<b>(18.4)</b>	<b>0.3</b>

Authorisation of investment business includes levies received on behalf of ICAEW Legal Services Compensation Scheme Limited, a wholly owned subsidiary of ICAEW.

	<b>ICAEW</b>			<b>ICAEW (as restated)</b>		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Disciplinary (*)	1.5	(3.2)	(1.7)	1.2	(2.9)	(1.7)
Authorisation of investment business	2.8	(2.9)	(0.1)	2.7	(2.6)	0.1
Practice regulation and assurance	13.4	(11.4)	2.0	13.4	(11.0)	2.4
Capacity building and public sector	1.5	(1.8)	(0.3)	1.4	(1.9)	(0.5)
	<b>19.2</b>	<b>(19.3)</b>	<b>(0.1)</b>	<b>18.7</b>	<b>(18.4)</b>	<b>0.3</b>

(\*) The application of IFRS 15 as described in the Basis of Preparation on page 33 has resulted in a change in the recognition of income associated with disciplinary fines. Professional Standards income in 2018 is increased by £0.6m (2017: £0.4m) but is offset by a provision against impairment of £0.5m (2017: £0.4m).

**3 Commercial and shared services**

	<b>Group and ICAEW</b>			<b>Group and ICAEW</b>		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Commercial	12.5	(9.2)	3.3	11.8	(9.5)	2.3
Shared services	0.1	(7.3)	(7.2)	-	(6.8)	(6.8)
	<b>12.6</b>	<b>(16.5)</b>	<b>(3.9)</b>	<b>11.8</b>	<b>(16.3)</b>	<b>(4.5)</b>

**4 Member services**

	<b>Group</b>			<b>Group</b>		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Members - Communities	0.7	(1.5)	(0.8)	0.7	(1.1)	<b>(0.4)</b>
Member services - Practice and Business	0.1	(4.5)	(4.4)	0.2	(4.6)	(4.4)
UK regions	-	(2.9)	(2.9)	-	(3.4)	(3.4)
International regions	0.2	(8.4)	(8.2)	0.2	(7.9)	(7.7)
	<b>1.0</b>	<b>(17.3)</b>	<b>(16.3)</b>	<b>1.1</b>	<b>(17.0)</b>	<b>(15.9)</b>

	<b>ICAEW</b>			<b>ICAEW</b>		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Members - Communities	0.7	(1.5)	(0.8)	0.7	(1.1)	<b>(0.4)</b>
Member services - Practice and Business	0.1	(4.5)	(4.4)	0.2	(4.6)	(4.4)
UK regions	-	(2.9)	(2.9)	-	(3.4)	(3.4)
International regions	0.2	(8.8)	(8.6)	0.2	(8.3)	(8.1)
	<b>1.0</b>	<b>(17.7)</b>	<b>(16.7)</b>	<b>1.1</b>	<b>(17.4)</b>	<b>(16.3)</b>

**5 Technical strategy**

	Group and ICAEW			Group and ICAEW		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Technical departments	-	(1.2)	(1.2)	-	(1.2)	(1.2)
Faculty activities	4.5	(7.1)	(2.6)	4.6	(7.4)	(2.8)
Executive and administration	-	(1.4)	(1.4)	-	(1.3)	(1.3)
	<b>4.5</b>	<b>(9.7)</b>	<b>(5.2)</b>	<b>4.6</b>	<b>(9.9)</b>	<b>(5.3)</b>

**6 Central activities**

	Group			Group		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(16.6)	(16.6)	-	(14.2)	(14.2)
Marketing and communications	0.2	(7.2)	(7.0)	0.3	(7.2)	(6.9)
Finance and administration	-	(12.8)	(12.8)	-	(11.8)	(11.8)
	0.2	(36.6)	(36.4)	0.3	(33.2)	(32.9)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2017: £1.1m))	-	20.6	20.6	-	19.2	19.2
	<b>0.2</b>	<b>(16.0)</b>	<b>(15.8)</b>	<b>0.3</b>	<b>(14.0)</b>	<b>(13.7)</b>

	ICAEW			ICAEW		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(16.6)	(16.6)	-	(14.2)	(14.2)
Marketing and communications	0.2	(7.2)	(7.0)	0.3	(7.2)	(6.9)
Finance and administration	-	(12.8)	(12.8)	-	(11.8)	(11.8)
	0.2	(36.6)	(36.4)	0.3	(33.2)	(32.9)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2017: £1.1m))	-	21.0	21.0	-	19.6	19.6
	<b>0.2</b>	<b>(15.6)</b>	<b>(15.4)</b>	<b>0.3</b>	<b>(13.6)</b>	<b>(13.3)</b>

**7 Charitable trusts**

	Group			Group		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
External research grants	-	(0.3)	(0.3)	-	(0.2)	(0.2)
Library income and expenditure	-	(0.6)	(0.6)	-	(0.6)	(0.6)
Other income and expenditure	-	-	-	0.1	-	0.1
	<b>-</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>0.1</b>	<b>(0.8)</b>	<b>(0.7)</b>

**8 FRC Conduct Committee**

	Group and ICAEW			Group and ICAEW		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Other income	4.6	-	4.6	4.5	-	4.5
Costs	-	(5.1)	(5.1)	-	(6.0)	(6.0)
Operational costs of funding FRC Conduct Committee	<b>4.6</b>	<b>(5.1)</b>	<b>(0.5)</b>	<b>4.5</b>	<b>(6.0)</b>	<b>(1.5)</b>
Fines	16.3	-	16.3	14.6	-	14.6
Cost recoveries	-	1.9	1.9	-	2.8	2.8
	<b>16.3</b>	<b>1.9</b>	<b>18.2</b>	<b>14.6</b>	<b>2.8</b>	<b>17.4</b>
	<b>20.9</b>	<b>(3.2)</b>	<b>17.7</b>	<b>19.1</b>	<b>(3.2)</b>	<b>15.9</b>

Other income relates to a direct levy on regulated firms.

**9 Other regulatory and professional associations**

	Group and ICAEW			Group and ICAEW		
	2018	2018	2018	2017	2017	2017
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
FRC	1.6	(2.0)	(0.4)	1.7	(2.0)	(0.3)
Consultative Committee of Accountancy Bodies	-	(0.4)	(0.4)	-	(0.4)	(0.4)
International Federation of Accountants	-	(0.9)	(0.9)	-	(0.9)	(0.9)
Other	-	(0.1)	(0.1)	-	(0.1)	(0.1)
	<b>1.6</b>	<b>(3.4)</b>	<b>(1.8)</b>	<b>1.7</b>	<b>(3.4)</b>	<b>(1.7)</b>

Income relates to a direct levy on regulated firms.

**10 Gift aid and library funding**

ICAEW made payments of £0.6m (2017: £0.6m) in the year under gift aid to the Chartered Accountants' Trust for Education and Research (CATER), a charitable trust aggregated within ICAEW's subsidiary ICAEW Foundation, which funds the ICAEW library and education in the field of accountancy and related subjects.

**11 Operating result**

The group and ICAEW operating result is stated after charging:

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
Staff costs (see note 14)	47.1	45.8	44.0	41.9
Depreciation on owned property, plant and equipment	2.9	2.7	2.9	2.7
Amortisation of intangible assets	2.7	2.1	2.7	2.1
Cost of inventories recognised as an expense	1.3	1.3	1.3	1.3
Amounts payable under operating leases:				
Plant and machinery	0.1	0.1	0.1	0.1
Other	0.1	0.9	0.1	0.6
Fees payable to ICAEW's auditor for the audit of the financial statements	0.1	0.1	0.1	0.1
Foreign exchange differences	0.1	-	-	-

No non-audit services have been provided by ICAEW's auditor haysmacintyre (2017: nil).

**12 Investment income**

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
Interest receivable from investment deposits	0.4	0.1	0.3	0.1
Returns on multi-asset portfolio	1.3	1.4	0.9	1.0
Dividends receivable from subsidiary undertakings	-	-	0.3	0.8
Net realised gains from equities	0.7	0.6	0.7	0.4
	<b>2.4</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>

**13 Leasing commitments - operating leases**

- Costs of operating leases are charged to the income statement on a straight line basis over the period of the relevant agreement. For property leases, where a rent-free period is agreed, this is spread over the life of the lease.

At 31 December the group and ICAEW had the following total future minimum lease payments under non-cancellable operating leases:

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
Land and buildings				
Minimum lease payments due:				
Within one year	1.0	0.9	0.7	0.7
In two to five years inclusive	2.2	2.5	2.0	2.4
After five years	-	0.1	-	0.1
	<b>3.2</b>	<b>3.5</b>	<b>2.7</b>	<b>3.2</b>
	Group		ICAEW	
Plant and machinery				
Minimum lease payments due:				
In two to five years inclusive	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

## 14 Staff costs

### Average number of staff employed during the year

	Group		ICAEW	
	2018	2017	2018	2017
Total employees	774	737	726	693
Full-time equivalents	741	706	694	662

### Employment costs

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
Wages and salaries	39.8	39.4	36.7	35.6
Employer's social security costs	3.9	3.6	3.9	3.6
Employer's pension costs	3.4	2.8	3.4	2.7
	<b>47.1</b>	<b>45.8</b>	<b>44.0</b>	<b>41.9</b>

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2017: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW.

## 15 Key management compensation - executive directors

	Group and ICAEW			Group and ICAEW		
	2018	2018	2018	2017	2017	2017
	Salary	Deferred variable pay	Total	Salary	Deferred variable pay	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sharron Gunn	248	64	312	239	65	304
Robert Hodgkinson	279	67	346	274	69	343
Michael Izza	447	137	584	438	143	581
Mark Protherough	228	58	286	217	60	277
Vernon Soare	285	69	354	280	71	351
Duncan Wiggetts	228	59	287	215	85	300
	<b>1,715</b>	<b>454</b>	<b>2,169</b>	<b>1,663</b>	<b>493</b>	<b>2,156</b>

The executive directors are remunerated on a total package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards ICAEW benefits such as pension scheme membership, health insurance or a car. Deferred variable pay is payable to executive directors on the basis of performance and is agreed by the remuneration committee. In addition to the above salaries, employer's national insurance contributions totalled £294,000 (2017: £277,000).

Independent non-executive directors (those who are not ICAEW members) receive a director's fee of £15,500 per annum. No other non-executive directors are remunerated.

## 16 Taxation

- Current tax is the tax currently payable based on taxable profit for the year and is recognised as a component of tax expense in the income statement.

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
Current tax – current period tax charge on operating result	<b>(0.1)</b>	<b>(0.1)</b>	-	-

ICAEW is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER. The charitable trusts fall outside the scope of corporation tax and accordingly there is no tax liability in relation to their activities. The subsidiary companies pay local tax based on their country of operation and this has been included in the current tax calculations.

Factors affecting the tax charge for the year:

	Group		ICAEW	
	2018	2017 restated	2018	2017 restated
	£m	£m	£m	£m
Net result before taxation	13.8	16.1	13.1	16.4
Add back: result on transactions with members	(10.6)	(13.6)	(10.9)	(15.1)
Net result before taxation on transactions with non-members	3.2	2.5	2.2	1.3
Net result above at the standard rate of corporation tax in the UK of 19.0%/19.3%	(0.6)	(0.5)	(0.4)	(0.3)
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	-	-	-
Items not chargeable/deductible for tax purposes	0.5	0.4	0.4	0.3
Tax on operating surplus for the year	<b>(0.1)</b>	<b>(0.1)</b>	-	-

ICAEW anticipates that tax charges in future years may be affected by continued donations under gift aid to CATER.

## 17 Deferred tax

- Deferred tax is recognised on all taxable temporary differences. However, it is not provided on initial recognition of an asset or liability unless the related transaction affects tax or accounting profit. In addition, a deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.
- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates and laws that have been enacted, or substantively enacted by the end of the reporting period. Measurement is also based on the tax consequences of recovering or settling the carrying amount of assets and liabilities. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are recognised in other comprehensive income, in which case the related deferred tax is also recognised in other comprehensive income.

Movements in the net deferred tax liability are summarised as follows:

	Group and ICAEW			
	Revaluation of available for sale investments	Revaluation of properties and historic collections	Defined benefit pension scheme	Net
	£m	£m	£m	£m
Liability at 1 January 2017	(1.4)	(0.3)	-	(1.7)
Movement in year: Recognised in other comprehensive income	(0.2)	(0.2)	(0.1)	(0.5)
Liability at 1 January 2018	<b>(1.6)</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>(2.2)</b>
Movement in year: Recognised in other comprehensive income	0.6	0.1	(0.2)	0.5
<b>Liability at 31 December 2018</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(1.7)</b>



## FINANCIAL POSITION

The following section contains the notes that relate to the financial position of the group and ICAEW during the year, together with the related accounting policies.

### 18 Property, plant and equipment

#### Freehold properties

- Freehold properties comprise our offices and are considered to be level 2 assets as defined by IFRS 13 – Fair Value Measurement and are recognised at cost and revalued regularly, at least every five years, at open market value by independent, professionally-qualified valuers. They are included in the statements of financial position at their revalued amounts derived from observable market data of comparable buildings in a similar location. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.
- Valuations are carried out using a market approach which reflects observed prices for recent market transactions. Because of changing market and economic conditions, the estimated value of our freehold property in the future may differ materially from the estimates made on the basis of these external valuations.
- Depreciation is provided on the plant and equipment elements within the freehold property. Certain major items of fixed plant and equipment are identified separately and are depreciated over their individual estimated useful economic lives. Depreciation is not charged on freehold land. Depreciation is charged on the revalued amount of freehold buildings at 2% per year.

A professional valuation of Chartered Accountants' Hall was carried out in line with the above accounting policy at 31 December 2017.

#### Silver collection and antiques

- Silver collection and antiques are recognised at cost and subsequently revalued at fair value. The historical cost of ICAEW's silver collection and antiques represents only the cost of items bought by ICAEW. The valuations of these collections also include substantial donations and bequests. The collections are considered to be level 2 assets as defined by IFRS 13 – Fair Value Measurement and are revalued regularly, at least every five years, by independent, professionally-qualified valuers. They are stated at estimated open market values derived from observed prices for recent market transactions. Because of changing market and economic conditions, the estimated value of these collections in the future may differ materially from the estimates made on the basis of these external valuations.
- Surpluses on revaluation, including surpluses arising from donations of items to the collections, are transferred to the revaluation reserve. Deficits on revaluation are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.
- In view of the nature of these assets, the estimated residual value is equal to the carrying amount and no depreciation is provided.

ICAEW's historic collections were revalued at open market value at 31 December 2017 by William Walter Antiques Limited (the Benney silver collection and other silver), John Drury Rare Books (rare books) and Ritchie Associates (period furniture, pictures and sculptures).

#### Short leasehold property

- Improvements to leasehold properties are capitalised at cost and are depreciated on a straight line basis over the shorter of their estimated useful economic lives and the remaining lease term.
- In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, provision is made for an estimate of dilapidations costs on the leasehold property in relation to both repairs and reinstatement relating to conditions in place at the reporting date. The reinstatement provision is matched by an asset which is depreciated over the remaining lease term.

#### Furniture, computer hardware and equipment

- Other plant and equipment is capitalised at cost. Depreciation is charged on a straight line basis over the estimated useful economic lives of the assets ranging from 2 to 10 years.
- The impairment of property, plant and equipment is considered annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and provisions are made where necessary.

At 31 December 2018 there were no contracts for capital expenditure not provided for in these financial statements (2017: £0.7m). There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 28).

	Freehold property	Refurbishment project in course of construction	Short leasehold property	Silver collection and antiques	Furniture, computer hardware and equipment	Group and ICAEW Total
	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>						
<b>At 1 January 2017</b>	20.1	4.4	3.1	4.2	12.3	44.1
Additions	3.7	-	0.1	0.1	1.8	5.7
Brought into use	4.4	(4.4)	-	-	-	-
Disposals	(0.2)	-	-	-	(2.2)	(2.4)
Surplus on revaluation	6.8	-	-	0.2	-	7.0
<b>At 1 January 2018</b>	<b>34.8</b>	<b>-</b>	<b>3.2</b>	<b>4.5</b>	<b>11.9</b>	<b>54.4</b>
Additions	1.5	-	0.1	-	2.2	3.8
Disposals	-	-	-	-	(0.2)	(0.2)
<b>At 31 December 2018</b>	<b>36.3</b>	<b>-</b>	<b>3.3</b>	<b>4.5</b>	<b>13.9</b>	<b>58.0</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2017</b>	3.7	-	1.8	-	7.4	12.9
Depreciation for the year	1.2	-	0.2	-	1.3	2.7
Depreciation on disposals	(0.2)	-	-	-	(2.2)	(2.4)
<b>At 1 January 2018</b>	<b>4.7</b>	<b>-</b>	<b>2.0</b>	<b>-</b>	<b>6.5</b>	<b>13.2</b>
Depreciation for the year	1.4	-	0.2	-	1.3	2.9
Depreciation on disposals	-	-	-	-	(0.2)	(0.2)
<b>At 31 December 2018</b>	<b>6.1</b>	<b>-</b>	<b>2.2</b>	<b>-</b>	<b>7.6</b>	<b>15.9</b>
<b>Carrying amount</b>						
At 31 December 2017	30.1	-	1.2	4.5	5.4	41.2
<b>At 31 December 2018</b>	<b>30.2</b>	<b>-</b>	<b>1.1</b>	<b>4.5</b>	<b>6.3</b>	<b>42.1</b>
On an historical cost basis the comparable amounts of property, plant and equipment are:						
Cost	27.7	-	3.3	0.3	13.9	45.1
Accumulated depreciation	(12.0)	-	(2.2)	-	(7.6)	(21.9)
<b>Net historical cost at 31 December 2018</b>	<b>15.7</b>	<b>-</b>	<b>1.1</b>	<b>0.3</b>	<b>6.3</b>	<b>23.2</b>
Net historical cost at 31 December 2017	15.4	-	1.2	0.3	5.4	22.3

## 19 Intangible assets

- Intangible assets comprise software and trademarks, and are stated at cost. Amortisation is charged on a straight line basis over the estimated useful economic life of the asset (from two to eight years). The impairment of intangible assets is considered whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and provisions are made where necessary.

	<b>Group and ICAEW</b>	
	2018	2017
	£m	£m
<b>Cost</b>		
At 1 January	16.6	16.7
Additions	5.6	6.0
Disposals	-	(6.1)
<b>At 31 December</b>	<b>22.2</b>	<b>16.6</b>
<b>Accumulated amortisation</b>		
At 1 January	7.3	11.3
Amortisation for the year	2.7	2.1
Amortisation on disposals	-	(6.1)
<b>At 31 December</b>	<b>10.0</b>	<b>7.3</b>
<b>Carrying amount at 31 December</b>	<b>12.2</b>	<b>9.3</b>

Principally the assets are software for ICAEW's internal systems and external digital resources. The main additions in the year related to the development of ICAEW's Business Systems Transformation programme as well as upgrades to the website and supporting digital infrastructure. Amortisation charges are allocated to departments on the basis of use of ICAEW's systems through the overhead allocation. At 31 December 2018 there were £0.9m of contracts for capital expenditure not provided for in these financial statements (2017: £nil).

## 20 Investments in subsidiaries and associates

The following entities, all registered in England, have been treated as subsidiaries on the basis that ICAEW has control as it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns:

	Activity
ICAEW Foundation	Makes charitable donations of particular interest to ICAEW
PD Leake Trust	Provides grants for accountancy research, conferences and publications
Chartered Accountants' Permanent Education Trust	Provides exam prizes
Chartered Accountants' Trust for Education and Research	Owens and operates the ICAEW library. Provides grants for accounting research, conferences and publications
Chartered Accountants' Library Limited	Trading subsidiary of Chartered Accountants' Trust for Education and Research
Chartered Accountants' Charitable Investment Pool	Common investment fund managing the investments of the other charitable trusts

The trusts, although separately administered, are accounted for as a single charity under the authority of a uniting direction from the Charity Commission. There is an agreement between the above trusts and ICAEW to provide administrative services to the trusts. The total value of the transactions amounted to £0.3m (2017: £0.3m). At the year end, the trusts owed ICAEW £nil (2017: £nil).

ICAEW holds 100% interest in the share capital of the following subsidiary undertakings, all incorporated in England and Wales, through its direct wholly owned subsidiary ICAEW Ltd. The international companies provide marketing services for ICAEW and the ICAEW Legal Services Compensation Scheme Ltd activity is set out below. The value of these services during 2018 was £5.6m (2017: £5.6m). At the year end £1.4m (2017: £0.7m) was owed by ICAEW and £0.5m (2017: £0.5m) was owed to ICAEW.

		2018 dividends paid £m	2017 dividends paid £m
	Activity and cost of investment		
ICAEW Malaysia Limited	Representative office for ICAEW in Malaysia, Indonesia and Vietnam. Cost £1	0.1	-
ICAEW China Limited	Representative office for ICAEW in China. Cost £2	-	-
ICAEW Middle East Limited	Representative office for ICAEW in the Middle East. Cost £1	0.1	0.4
ICAEW SEA Limited	Representative office for ICAEW in South East Asia. Cost £1	-	0.4
ICAEW Europe Limited	Representative office for ICAEW in Europe. Cost £1	0.1	-
ICAEW Legal Services Compensation Scheme Ltd - a company limited by guarantee	Evaluates and administers claims for compensation arising from the obligations in relation to firms authorised or licensed under ICAEW's Legal Services Regulations.	-	-

The following related companies, all with their principal place of business in the UK, have been treated as associates. In each case, and notwithstanding the majority ownership of CCAB Limited and the Chartered Accountants' Compensation Scheme Limited, ICAEW exercises significant influence through its power to participate in the financial and operating policy decisions through its representation on the board of directors; participation in the policy-making process; and through the existence of material transactions between the company and ICAEW, but ICAEW does not control the companies.

	Activity
The Joint Insolvency Examination Board (JIEB) - a company limited by guarantee	Conducts exams in insolvency practice to meet the education requirements of the Insolvency Act 1986. ICAEW is one of seven subscribers, each of whom has guaranteed £1 in the event of the company being wound up. ICAEW provides exam services. JIEB has a year-end date of 30 June.
Fraud Advisory Panel (FAP) - a company limited by guarantee	Registered charity which carries out research into, and education in, all aspects of fraud prevention, detection, prosecution and deterrence. ICAEW has the right to appoint up to one third of the directors of the company. ICAEW provides grant funding together with administration services.
CCAB Limited (CCAB)	Undertakes activities of mutual interest to five major accountancy bodies in the British Isles. ICAEW is the majority shareholder but does not have the majority of voting shares on the board. ICAEW provides administration and secretarial services. ICAEW shareholding 60.5%.
Chartered Accountants' Compensation Scheme Limited (CACS)	Evaluates and administers claims for compensation arising from the obligations of ICAEW, the Institute of Chartered Accountants of Scotland and Chartered Accountants Ireland as recognised professional bodies under the Financial Services Act 1986 and as designated professional bodies under the Financial Services and Markets Act 2000. ICAEW is the majority shareholder but does not have the majority of voting shares on the board. ICAEW provides administration and secretarial services. ICAEW shareholding 80.0%.
Chartered Accountants Worldwide Limited (CAW) - a company limited by guarantee	Supports, develops and promotes the vital role that chartered accountants play throughout the global economy. ICAEW is one of five founder members each of whom has guaranteed £1 in the event of the company being wound up. ICAEW provides administration and secretarial services.

The companies all operate on a not-for-profit basis. There is a full list of subsidiaries and associates at [icaew.com/review](http://icaew.com/review)

Financial information relating to the associates is summarised below:

	JIEB 2018 £m	FAP 2018 £m	CCAB 2018 £m	CACS 2018 £m	CAW 2018 £m	<b>Total 2018 £m</b>	<b>Total 2017 £m</b>
Assets	0.1	0.2	1.2	0.1	0.4	<b>2.0</b>	<b>2.8</b>
Liabilities	-	(0.1)	(1.2)	(0.1)	(0.4)	<b>(1.8)</b>	<b>(2.7)</b>
Net assets	0.1	0.1	-	-	-	<b>0.2</b>	<b>0.1</b>
Revenue	0.1	0.2	5.0	0.1	0.4	<b>5.8</b>	<b>5.6</b>
Result from continuing operations and total comprehensive income	0.1	-	-	-	-	<b>0.1</b>	<b>0.1</b>
Services provided by ICAEW during the year, including grant funding	-	0.1	0.1	-	0.1	<b>0.3</b>	<b>0.3</b>
Balances due from associates at 31 December	-	-	-	0.2	-	<b>0.2</b>	<b>1.9</b>
Balances due to associates at 31 December	-	-	-	-	-	<b>-</b>	<b>-</b>
Group share of net assets at 31 December	-	0.1	-	-	-	<b>0.1</b>	<b>0.1</b>

None of the above companies had any discontinued operations in the year or previous year.

**21 Financial assets: available for sale investments**

- All our investments are publicly traded in the UK or on other major capital markets and the substantial majority are denominated in sterling. They are held for the purposes of generating long-term investment income and are considered to be level 1 assets as defined by IFRS 13 – Fair Value Measurement and are treated as non-current available for sale investments. They are included at fair value at the year-end date. Gains and losses on re-measurement are taken to the investment revaluation reserve initially and are recognised in other comprehensive income. On disposal, the cumulative gain or loss previously recognised in reserves is reclassified to profit or loss.
- At each year-end date, an assessment is made as to whether there are indicators that an available for sale equity instrument is impaired and a loss allowance is required. Judgement is used to determine whether a significant or prolonged decline in the fair value of the security below its cost could represent impairment and also consider any risk of default. Impairment charges are recognised in the income statement.

	Group			Group		
	Interest-bearing investments 2018	Equities and unit trusts 2018	Total 2018	Interest-bearing investments 2017	Equities and unit trusts 2017	Total 2017
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.4	52.6	<b>58.0</b>	5.0	50.1	<b>55.1</b>
Additions	0.6	16.6	<b>17.2</b>	0.4	8.5	<b>8.9</b>
Disposals	(0.1)	(8.4)	<b>(8.5)</b>	-	(8.4)	<b>(8.4)</b>
Gains on disposal	-	0.9	<b>0.9</b>	-	0.6	<b>0.6</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	(4.3)	<b>(4.3)</b>	-	1.8	<b>1.8</b>
<b>At 31 December</b>	<b>5.9</b>	<b>57.4</b>	<b>63.3</b>	<b>5.4</b>	<b>52.6</b>	<b>58.0</b>

On an historical cost basis the comparable amounts of investments are:

At 31 December	<b>5.9</b>	<b>50.3</b>	<b>56.2</b>	<b>5.4</b>	<b>41.4</b>	<b>46.8</b>
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	ICAEW			ICAEW		
	Interest-bearing investments 2018	Equities and unit trusts 2018	Total 2018	Interest-bearing investments 2017	Equities and unit trusts 2017	Total 2017
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.0	37.7	<b>42.7</b>	5.0	35.3	<b>40.3</b>
Additions	-	16.7	<b>16.7</b>	-	8.0	<b>8.0</b>
Disposals	-	(8.0)	<b>(8.0)</b>	-	(7.2)	<b>(7.2)</b>
Gains on disposal	-	0.8	<b>0.8</b>	-	0.4	<b>0.4</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	(3.3)	<b>(3.3)</b>	-	1.2	<b>1.2</b>
<b>At 31 December</b>	<b>5.0</b>	<b>43.9</b>	<b>48.9</b>	<b>5.0</b>	<b>37.7</b>	<b>42.7</b>

On an historical cost basis the comparable amounts of investments are:

At 31 December	<b>5.0</b>	<b>38.4</b>	<b>43.4</b>	<b>5.0</b>	<b>28.9</b>	<b>33.9</b>
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The methods and valuation techniques used to measure fair value are unchanged compared to the previous year.

Within group investments are charitable funds of £14.3m (2017: £15.3m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £6.6m (2017: £2.9m).

The trustee of ICAEW's defined benefit pension scheme has an interest noted in up to £10.0m of the investment portfolio of ICAEW (see note 28).

## 22 Inventories

- Inventories are stated at the lower of cost, using the first in first out basis, and net realisable value. Using information available at the year-end date, ICAEW makes judgements based on experience on the level of provision required to account for potential unsaleable inventories.

	2018	Group and ICAEW 2017
	£m	£m
Learning materials	<b>0.9</b>	<b>0.9</b>

There was no provision against learning materials at the year end (2017: £nil).

## 23 Trade and other receivables - current

- Trade receivables and other receivables are categorised as loans and receivables as required by IFRS 9. The principal component of trade and other receivables is amounts due from ICAEW's members and member firms, and in the case of disciplinary fines and costs, certain former members, and are short-term.
- The carrying value of trade receivables is considered a reasonable approximation of fair value. Trade and other receivables are stated at cost less allowances made for doubtful receivables after initial recognition, which approximates fair value. It is considered that all the above financial assets which are not impaired or past due are of good credit quality.
- Trade receivables are grouped based on shared credit risk characteristics. Impairment of receivables is based on expected credit losses for each group based on historic credit losses and any other indicators that ICAEW will not be able to collect all amounts due to it. The loss allowance is recognised in the income statement.

	2018	Group 2017 restated	2018	ICAEW 2017 restated
	£m	£m	£m	£m
Trade receivables and other receivables	18.3	16.7	17.3	16.0
Amounts owed by subsidiaries	-	-	0.5	0.5
Amounts owed by associates	0.2	1.9	0.2	1.9
Prepayments	4.2	2.8	4.0	2.6
Accrued income	3.8	4.2	3.8	3.8
	<b>26.5</b>	<b>25.6</b>	<b>25.8</b>	<b>24.8</b>
Less: provision for impairment of trade and other receivables	(0.8)	(0.8)	(0.8)	(0.8)
	<b>25.7</b>	<b>24.8</b>	<b>25.0</b>	<b>24.0</b>

All receivables have been reviewed for indicators of impairment. Certain trade receivables, principally in relation to disciplinary fines and costs from members, member firms and former members, were found to be impaired, and a loss allowance of £0.8m (2017: £0.7m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	2018	Group 2017 restated	2018	ICAEW 2017 restated
	£m	£m	£m	£m
Balance at 1 January	0.4	0.5	0.4	0.5
Additional loss allowance arising from first time adoption of IFRS 15	0.5	0.4	0.5	0.4
Impairment losses recognised during the year	0.2	0.3	0.2	0.3
Previous impairment losses reversed	(0.3)	(0.4)	(0.3)	(0.4)
	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

The additional provision arising from first time adoption of IFRS 15 relates to disciplinary fines and costs from members which are now treated as income when receivable, and against which a provision for impairment losses is now made.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	Group		ICAEW	
	2018	2017	2018	2017
	£m	£m	£m	£m
More than one month but not more than three months	1.3	1.3	1.3	1.3
More than three months	0.2	-	0.2	-
	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.3</b>

## 24 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and investments in money market instruments representing short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are categorised as loans and receivables as required by IFRS 9.

Forward contracts are used to cover known foreign currency exposures. Forward contracts for the purchase of foreign currency totalling £5.2m were in place at the year-end (2017: £4.9m) and there were no material fair value differences at the end of either period. US dollar and euro bank accounts stood at £0.7m (2017: £0.3m) equating to 2% (2017: 2%) of cash and cash equivalent balances.

The income statement effect of a 0.25% change in the average market interest rate on current cash and equivalents, and cash balances within the available for sale portfolio, held at the reporting date that are sensitive to changes in interest rates would be £107,000 (2017: £41,000). All other variables are held constant.

## 25 Trade and other payables

- Trade and other payables are categorised as current financial liabilities measured at amortised cost as required by IFRS 9. All the above trade and other payables are short-term and are payable within one month. Subscriptions, admission fees and other income in advance relate to income received during 2018 but relating to 2019 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.
- Life membership income and income from other long-term licence agreements is deferred over future years and reported within other income in advance.
- Admission fees are treated as a material right under IFRS 15 and income recognised over the expected duration of membership with income deferred accordingly.
- Grant income received is held within other income and advance and long-term grant liabilities and will be taken to the income statement to match the expenditure.

### Current liabilities

	Group		ICAEW	
	2018	2017 restated	2018	2017 restated
	£m	£m	£m	£m
Subscriptions and admission fees in advance	31.8	15.0	31.8	15.0
Admission fee deferred income obligations	1.5	1.4	1.5	1.4
Amounts owed to subsidiaries	-	-	1.4	0.7
Other income in advance	13.3	11.2	13.3	11.2
Trade payables	3.6	3.0	3.2	2.9
Other payables	9.2	8.2	9.2	7.3
Income tax and social security payables	1.3	1.1	1.3	1.1
Accruals	9.2	9.6	8.6	9.7
	<b>69.9</b>	<b>49.5</b>	<b>70.3</b>	<b>49.3</b>

### Current liabilities

	Group		ICAEW	
	2018	2017 restated	2018	2017 restated
	£m	£m	£m	£m
Admission fee deferred income obligations	28.3	26.9	28.3	26.9
Subscriptions and other income in advance	2.1	2.0	2.1	2.0
Other payables	0.1	-	-	-
	<b>30.5</b>	<b>28.9</b>	<b>30.4</b>	<b>28.9</b>

	Group and ICAEW	
	2018	2017
	£m	£m
Revenue recognised in the period included in opening balances		
Subscriptions and admission fees in advance	15.2	14.9
Admission fee deferred obligations	1.5	1.5
Other income	11.2	11.4

## 26 FRC Conduct Committee provision

- ICAEW is required to reimburse the FRC for the costs incurred in relation to its disciplinary schemes. ICAEW therefore makes provision for the estimated future external costs of Conduct Committee disciplinary cases based on the extent to which present obligations arising from past events up to 31 December 2018 can be reliably estimated. The estimated costs of completing the stage of each case at 31 December 2018 has been provided for.
- ICAEW reviews the adequacy of the provision through a review of past case cost estimates, consideration of case management and progress and discussions of current cases with relevant individuals at the FRC. However, the accuracy of both the provision and the forecast of the period over which it will be used will depend on assumptions made about the progress of individual cases and judgements on information provided by the FRC, and is subject to a significant degree of judgement and a range of potential outcomes. In setting the provision, no account is taken of any potential fines or cost recoveries potentially due to ICAEW from tribunals not yet completed. The provision is not discounted.

The FRC Conduct Committee is part of the FRC and is responsible for operating and administering two independent disciplinary schemes: the Audit Enforcement Procedure (AEP) and the Accountancy Scheme. These cover members of ICAEW and the following participating institutes: *the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, Chartered Accountants Ireland and the Institute of Chartered Accountants of Scotland*. The FRC Conduct Committee also operates and administers a separate independent disciplinary scheme (the Actuarial Scheme) covering members of the *Institute and Faculty of Actuaries*.

At the year end, the provision covers a total of 30 live cases involving ICAEW members and member firms (2017: 26) and is expected to be used over the next three to five years.

The provision is based on the present obligations of ICAEW which can be most reliably estimated at the year-end date. However, the obligation extends to any case costs incurred by the FRC and which may exceed the extent of the FRC's work which can be reasonably estimated at 31 December 2018, for example if the FRC escalates a case to the next stage. These additional obligations form a contingent liability outlined in note 31.

In making this provision there is uncertainty of potential costs arising on all cases, but as yet there have not been any cases investigated under the AEP which have reached a conclusion. Consequently we cannot yet say whether case costs under this scheme will be on average higher or lower than under the Accountancy Scheme and this uncertainty is reflected in the provision. Trends in average costs and the progress towards completion is taken into account in setting the provision. At the year-end, 21 of the 30 cases were AEP matters.

ICAEW meets the provision, together with any obligations arising from new investigations as they arise, through additional charges to its income statement and a levy on member firms conducting audit work. The levy is raised to help ICAEW manage the settlement of costs incurred by the FRC which are invoiced quarterly in arrears.

	Group and ICAEW	
	2018	2017
	£m	£m
Balance at 1 January	13.0	12.0
Charge to income statement	5.1	6.0
Amounts paid	(6.2)	(5.0)
Balance at 31 December	<b>11.9</b>	<b>13.0</b>
Provision expected to be used within one year	5.0	5.0
Provision expected to be used after more than one year	6.9	8.0
	<b>11.9</b>	<b>13.0</b>



## 27 Provisions for future liabilities

- In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, provision is made for an estimate of dilapidations costs on the leasehold property in relation to both repairs and reinstatement relating to conditions in place at the reporting date. The reinstatement provision is matched by an asset which is being depreciated over the remaining lease term.
- Provision is also made for the rent-free period on the leasehold property which is being released over the life of the lease.

	Group and ICAEW	
	2018	2017
	£m	£m
Balance at 31 December	<b>1.1</b>	<b>1.1</b>

These provisions are expected to be used on termination of the lease in 2023; the actual outflows will vary dependent upon agreement with the landlord at that time.

## 28 Pension benefits

### Defined benefit scheme

- Retirement benefits are accounted for under IAS 19 - Employee Benefits (revised). The net asset/liability on the defined benefit scheme is the fair value of the scheme assets less the present value of the defined benefit liabilities at the end of the reporting period.
- Scheme liabilities are measured by qualified actuaries on an actuarial basis using the projected unit credit method, and are discounted at appropriate high-quality corporate bond rates that have terms to maturity which approximate to the terms of the related liability.
- Scheme assets which are held in a separate trustee-administered fund are measured at fair value. Scheme assets may include equities, securities and cash together with qualifying insurance policies.
- Net interest is determined by applying the discount rate to both the liability and asset calculations. In addition, scheme administration costs, which are paid directly by ICAEW, are included in the defined benefit obligation, offset by a corresponding non-cash increase in contributions by the employer.
- The discount rate is determined with reference to high quality corporate bonds that have terms to maturity approximating the terms of the related pension obligation.
- The assumption for long-term inflation is based on market expectation of long-term future inflation at the year end, as measured by the difference between yields on fixed interest and index-linked government bonds.
- The assumptions relating to the mortality of current and future pensioners are based on bespoke data using up-to-date pooled experience from occupational pension schemes and taking into account the characteristics of each individual member that are known to affect life expectancy. Allowance is made for future mortality improvements in line with the projection model issued by the Institute and Faculty of Actuaries. Improvements are assumed to have peaked and decline at older ages. This is consistent with the assumption used in the most recent actuarial valuation.
- Actuarial gains and losses are recognised in full in other comprehensive income as they arise.
- As a result of the recent case regarding Lloyds Bank pension schemes, an estimated potential liability in relation to GMP equalisation on the Staff Pensions Fund has been included as past service cost in the income statement.

Until 30 June 2010, ICAEW operated a defined benefit staff pension scheme (the scheme) which provided participating members of staff with retirement benefits based on their final pensionable salary. The assets of the scheme continue to be held by a separate trustee-administered fund.

The most recent completed valuation of the scheme was carried out by Hymans Robertson LLP as at 31 March 2016 on the projected unit credit method, taking into account the closure of the scheme to future accrual from 30 June 2010. At the valuation date, the market value of the assets of the scheme was £176.4m, which represented 90% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

A recovery plan has been agreed with the trustee whereby ICAEW has undertaken to make monthly payments totalling £1.6m per year until the deficit is eliminated, to be reviewed at the next triennial valuation, together with any additional employer contributions required under the trust deed and rules. Total payments by ICAEW to the scheme during 2018 for past service costs amounted to £1.6m (2017: £1.6m). Contributions to the scheme in 2019 are estimated at £1.6m, together with contributions in kind in relation to the administration costs of the scheme. The next triennial review will be as at 31 March 2019.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of the actuarial assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement.

In conjunction with the 2016 valuation of the scheme, ICAEW agreed to continuation of a charge over Chartered Accountants' Hall and the trustee having an interest noted in up to £10.0m of the investment portfolio of ICAEW.

#### Desktop actuarial valuation

The actuary has provided a desktop actuarial update on the scheme's financial position as at 31 December 2018. This review estimated that the deficit, based on assumptions consistent with the 2016 triennial valuation, was £14.7m, reflecting a funding level of 93% (2017: £10.6m with a 95% funding level). This does not include the impact of GMP equalisation; the approximate impact of GMP equalisation would be a c0.29% increase in liabilities on the funding basis - ie, an increase of c£0.6m to the liabilities.

The desktop actuarial valuation is prepared using the following key assumptions:

- Pre-retirement discount rate - Bank of England gilt curve plus 1.25% pa (varies by term)
- Inflation - Bank of England gilt inflation curve (varies by term)
- Life expectancy - bespoke mortality base tables with future improvements based on the 2011 CMI projection model and a long-term rate of 1.5% pa (improvements are assumed to have peaked and decline at older ages)

The main reason for the difference between this desktop actuarial valuation and the IAS 19 valuation relates to the discount rates applied.

The following table highlights the sensitivities of the funding level in the above desktop actuarial valuation to changes in each of these assumptions individually; the effect of changing more than one assumption would not necessarily be equal to the sum of the two individual changes. As a result of the buy-in annuities held, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 6%	15.9
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 4%	10.3
Longevity	Increase by 1 year	Decrease by 1%	3.8

#### IAS 19 valuation

The scheme's actuary provides a separate report for IAS 19 purposes at each year end. The assumptions made at 31 December 2018 by the board on the advice of the scheme's actuary were:

	2018	2017
Discount rate	2.80%	2.50%
Rate of inflation	3.20%	3.15%
Pension 5% LPI increase rate (% pa)	3.10%	3.05%

IAS 19 states that the discount rate used should have regard to returns on high quality corporate bonds of a term consistent with the term of the post-employment benefit obligations. A yield curve of iBoxx AA bonds has been used to estimate an appropriate discount rate for the scheme's liabilities, which are estimated to have a weighted average term of 18 years.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 22.9 years (men) and 24.3 years (women); and for current non-pensioners of 24.7 years (men) and 26.4 years (women). These assumptions have been changed from those in the 2016 valuation and in the 2017 IAS 19 valuation, to reflect the latest CMI model and population data.

The table below summarises the split of defined benefit obligation between deferred members and pensioners. There are no active members.

	Number of members	Liability split	Duration - years
Deferred members	326	48.7%	20.7
Pensioners	420	51.3%	12.8
Total/weighted average	<b>746</b>	<b>100.0%</b>	<b>16.7</b>

The scheme actuary has confirmed that the assumptions adopted by management are within their acceptable range for the purposes of the IAS 19 valuation.

The following table highlights the sensitivities of the funding level in the IAS 19 valuation, as calculated by the actuary, to changes in each of the assumptions individually; the effect of changing more than one assumption would not necessarily be equal to the sum of the two individual changes. As a result of the buy-in annuities held, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 6.8%	11.6
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 5.4%	9.7
Longevity	Increase by 1 year	Decrease by 3.0%	5.4

The following table summarises the results of the IAS 19 valuation of the fund:

	2018 £m	2017 £m
Present value of funded obligations	(179.8)	(194.9)
Fair value of plan assets	192.2	200.6
Scheme surplus	<b>12.4</b>	<b>5.7</b>

In accordance with IFRIC 14, the defined benefit pension scheme rules and funding arrangements were reviewed and, with supporting legal advice, ICAEW considers that it has an unconditional right to a refund assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme. Accordingly any surplus arising on valuation is recognised as a scheme asset.

#### Reconciliation of defined benefit obligation - whole scheme

	2018 £m	2017 £m
Opening defined benefit obligation	194.9	193.9
Administration cost	0.4	0.3
Past service cost	0.6	-
Interest on obligation	4.8	5.1
Actuarial (gains)/losses arising from changes in financial assumptions	(14.5)	4.7
Benefits and expenses paid	(6.4)	(9.1)
Closing defined benefit obligation	<b>179.8</b>	<b>194.9</b>

The administration costs of the scheme are paid directly by ICAEW. Past service costs arise from the impact of the estimated GMP equalisation following a case in late 2018 regarding Lloyds Bank pension schemes. This estimate has been prepared by the scheme's actuaries, using the latest guidance and advice, however, this estimate is based on a number of assumptions which will be considered when preparing the actual liability calculations in 2019.

#### Reconciliation of fair value of plan assets - whole scheme

	2018 £m	2017 £m
Opening fair value of plan assets	200.6	195.1
Net interest income on plan assets	5.0	5.2
Contributions by the employer	1.9	1.9
Actuarial (losses)/gains arising from return on assets, excluding amounts included in net interest	(8.9)	7.5
Benefits and expenses paid	(6.4)	(9.1)
Closing fair value of plan assets	<b>192.2</b>	<b>200.6</b>
Actual return on assets	(3.9)	12.7

Contributions by the employer include deficit funding payments, together with contributions in kind of £0.4m (2017: £0.3m) in relation to administration costs paid directly.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2018	2017
Equities	34%	39%
Debt securities - Government bonds	7%	9%
Debt securities - Corporate bonds	4%	21%
Insurance contracts	25%	26%
Absolute return bond	20%	-
Cash and cash equivalents	10%	5%
	<b>100%</b>	<b>100%</b>

The scheme trustee intends to reduce investment risk over a period of time, with the aim of ultimately creating a mainly bond portfolio where the value of the assets moves in a similar way to the liabilities when there is a change in inflation or interest rates.

In terms of setting long-term objectives for the scheme, the key elements agreed between the trustee and ICAEW are as follows.

- The long-term objective is for the scheme to be self-sufficient, based on the scheme's current funding position and the agreed recovery plan, in around nine years.
- The interim target is to be fully funded on the technical provisions basis by 2024.

The stochastic modelling carried out as part of the 2016 valuation helped the trustee identify funding and investment strategies that would provide a reasonable probability of meeting their long-term target while taking an acceptable level of risk that ICAEW could tolerate. Given the agreed contribution payments and the strength of ICAEW's covenant, the current asset allocation was identified as appropriate, although it will be regularly reviewed in light of emerging changes to the scheme, the wider economy and general market conditions.

The trustee had previously agreed to implement a plan to reduce the risks in the scheme as it moves progressively closer towards the objective of self-sufficiency. The process aims to give the trustee the ability to capture good investment performance as and when the right opportunities arise. The default option is to disinvest from equities in order to invest in bonds and other lower risk assets but sufficient flexibility has been built into the process to allow investment in alternative assets if market conditions do not support the default option.

As part of the continued process to manage scheme volatility, the trustee has purchased two buy-in annuities to provide funding for the liabilities of a portion of the largest pension liabilities. The annuities are in the name of the trustee and are an asset of the fund and the corresponding pensioner obligations also remain as liabilities of the fund. The policies have been valued by the scheme actuary on a basis to value the underlying liabilities secured by the policy. It assumes that the fair value of the asset is equal to this liability value which is determined and is consistent with the scheme's ongoing funding basis. The asset is included as insurance contracts elsewhere in this note.

The fair values of the main asset categories can be summarised as follows:

	Quoted £m	Unquoted £m	Total £m
Equities	65.0	-	65.0
Debt securities	21.4	-	21.4
Insurance contracts	-	48.3	48.3
Absolute return bond	39.1	-	39.1
Cash and cash equivalents	18.4	-	18.4
	<b>143.9</b>	<b>48.3</b>	<b>192.2</b>

**Amounts recognised in the income statement within staff costs are as follows:**

	2018 £m	2017 £m
Administration cost	(0.4)	(0.3)
Past service costs	(0.6)	-
Net interest income on plan assets	5.0	5.2
Interest on obligation	(4.8)	(5.1)
	<b>(0.8)</b>	<b>(0.2)</b>

**Amounts recognised as other comprehensive income:**

	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest)	(8.9)	7.5
Actuarial gain/(loss) on changes in demographic assumptions	7.1	-
Actuarial gain/(loss) on changes in financial assumptions	7.6	(3.5)
Experience re-measurements	(0.2)	(1.2)
Actuarial gain	<b>5.6</b>	<b>2.8</b>

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £3.6m (2017: £9.2m).

**Defined contribution scheme**

For the Group Personal Pension Scheme (defined contribution scheme), the contributions under the scheme are charged to the income statement as they become due and payable.

The defined contribution scheme provides benefits based upon contributions made and investment returns achieved. The assets of the scheme are held in a separate trustee fund. ICAEW contributes 9% of pensionable earnings for participating employees. Employees contribute a minimum of 4%. Employees not in the scheme are offered auto-enrolment at statutory minimum contributions. The amount charged to the income statement during the year for these schemes was £2.6m (2017: £2.4m). There were no contributions payable to the scheme at the year-end date (2017: £nil).

**29 Related parties**

The group and ICAEW operating results include reimbursement of members' expenses on ICAEW activities and payments on a normal commercial basis to members and member firms for services, particularly in connection with lecturing and writing. In 2018 these payments in aggregate amounted to £2.1m (2017: £1.8m). Of this, £473,000 (2017: £344,000) was paid for services to member firms which have a partner or employee who is a member of council. The amounts paid to individual council members for services was £nil (2017: £2,000) in total.

Transactions and balances between ICAEW and its subsidiaries and associates is set out in note 20 above.

ICAEW provides accounting and operational support to the Natural Capital Coalition (NCC), an unincorporated multi-stakeholder collaboration bringing together initiatives and organisations to harmonise approaches to natural capital. ICAEW hosts the secretariat and Robert Hodgkinson is a member of the NCC's board of directors. The amount held by ICAEW as agent of the NCC at the year-end date was £0.4m; amounts owed to ICAEW were £0.1m (2017: £0.4m and £0.1m respectively).

**30 Reserves**

ICAEW reserves are set at a level equivalent to between three and six months of expenditure through the income statement and for cash and investment balances to be at least sufficient to cover between three and six months of annual budgeted/forecast gross cash expenditure. The balance at the end of 2018 exceeded this range but this is expected to be a short-term matter as ICAEW completes its investment in business development and systems.

Reserves comprise the following:

**Revaluation reserve**

Represents the excess of the open market valuation over the depreciated historical cost of ICAEW's historic collections and properties, net of deferred tax.

**Investment revaluation reserve**

Represents unrealised gains and losses arising from the revaluation of available for sale investments over their historical cost.

**Accumulated fund and other reserves**

Represents the retained result of ICAEW and ICAEW group activities and comprises the accumulated fund, faculties, Chartered Accountants' Compensation Scheme and charitable trust reserve funds. In calculating the result to be taken to these reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income where appropriate.

Included within reserves is £3.2m relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations ICAEW is required to maintain a compensation scheme, funded by levies on firms authorised for investment business. This compensation scheme exists to deal with claims received about work carried out by authorised firms

under both the recognised professional body (RPB pre-2001) and designated professional body (DPB post-2001) regimes. ICAEW maintains a reserve to meet anticipated future claims. A levy was made in 2017 on licensed firms under the DPB regime. ICAEW has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

### **31 Contingent liabilities and guarantees**

ICAEW has undertakings to Chartered Accountants' Compensation Scheme Limited for its agreed proportion of claims for compensation and administration costs, of amounts up to but not exceeding £10.0m in any one year. Payments for individual claims are limited to a maximum of £50,000. ICAEW's share of the costs of the scheme is recovered from those firms licensed by ICAEW under the Financial Services and Markets Act 2000 and those firms previously authorised by ICAEW under the Financial Services Act 1986 as appropriate.

As a recognised supervisory body (RSB) ICAEW is required to meet the costs incurred by the FRC in conducting investigations and disciplinary matters under the Audit Enforcement Procedure and the Accountancy Scheme. Under these current arrangements, ICAEW and other RSBs must meet the costs arising for cases involving their members or member firms and any fines or cost recoveries awarded are returned to the RSB. This obligation continues to the end of a case but the decision to progress a case to the next stage is made by the FRC on completion of the current stage of investigation. For this reason, the most reasonable estimates of case work currently in progress are included in the FRC case cost provision - see note 26. However, it is possible that a number of the cases in progress will be taken to subsequent stages which cannot be reasonably foreseen. This contingent liability, over and above the year-end provision of £11.9m, based on the average costs of progression for all cases which were live as at 31 December 2018, amounts to a potential contingent liability of £10.0m. ICAEW will meet these potential charges through a programme of levies on member firms and charges to the income statement.

## List of council members and their attendance during 2018

<b>APLIN Paul</b> President	5/5	<b>CHOW Edward</b> Co-opted	4/4	<b>LINDSAY Hilary</b> Ex-officio	5/5	<b>STEVENS Clive</b> Elected, South Eastern	5/5
<b>ARNOLD Nicola</b> Elected, London	4/5	<b>CLEHANE Noel</b> Co-opted	5/5	<b>LORD Gilly</b> Ex-officio	5/5	<b>TEVIOTDALE Wilma</b> Elected, West Yorkshire	2/5
<b>ASTON Lee</b> Elected, West of England	5/5	<b>COLES Mark</b> Elected, US	5/5	<b>MALTHOUSE John</b> Elected, Liverpool	5/5	<b>THOMPSON Rob</b> Ex-officio	3/5
<b>BABIAK Jan</b> Co-opted	4/5	<b>CRACKETT David</b> Elected, Europe & Eurasia	5/5	<b>MATHERS Kate</b> Co-opted	5/5	<b>TINDLE Robert</b> Elected, Northern	5/5
<b>BACCHUS Malcolm</b> Elected, London	5/5	<b>DAVIES Ian</b> Elected, Southern	5/5	<b>MATTHEWS David</b> Vice President	5/5	<b>TUCKER Peter</b> Elected, Beds, Bucks & Herts	5/5
<b>BATTY Andrew</b> Elected, London	4/5	<b>DAWSON Andrew</b> Elected, East Anglian	3/5	<b>McBRIDE David</b> Elected, London	5/5	<b>UNERMAN Jeffrey</b> Co-opted	5/5
<b>BAWDEN Clive</b> Elected, Birmingham & West Midlands	5/5	<b>DUFFIELD Peter</b> Elected, Humberside & District	5/5	<b>MERALI Mo</b> Ex-officio	4/4	<b>WARBURTON Carol</b> Elected, South Wales	5/5
<b>BAYLEY Carl</b> Elected, Scotland	5/5	<b>DURGAN Graham</b> Elected, Thames Valley	5/5	<b>MERCHANT Roger</b> Elected, Leicester & Northants	5/5	<b>WATTERSON Juan</b> Co-opted	3/5
<b>BENNEYWORTH Rebecca</b> Elected, West of England	3/5	<b>DYMOTT Laura</b> Elected, London	4/5	<b>MOFFAT Sheilagh</b> Elected, Birmingham & W Midlands	4/5	<b>WILKINSON Fiona</b> Deputy-President	5/5
<b>BERNARDEZ Jessica</b> Ex-officio	5/5	<b>EBDON Lydia</b> Elected, West Yorkshire	5/5	<b>MONFRIES Mary</b> Ex-officio	2/4	<b>WOODINGS Anthony</b> Elected, Manchester	3/5
<b>BEWSHER Clare</b> Elected, Oceania	5/5	<b>FIELD Susan</b> Elected, London	4/5	<b>MUIRHEAD Martin</b> Co-opted	4/5	<b>YIANNPOULOS Emil</b> Elected, Europe & Eurasia	5/5
<b>BLAIR David</b> Elected, East Anglia	5/5	<b>GAN Dato'</b> Co-opted	4/5	<b>MUMBY Jeremy</b> Elected, Nottingham, Derby & Lincoln	5/5	The following were also members of Council in 2018	
<b>BLAIR Derek</b> Elected, Beds, Bucks & Herts	5/5	<b>GORDON Graeme</b> Elected, Thames Valley	5/5	<b>NUNN Richard</b> Co-opted	5/5		
<b>BOSS Jeremy</b> Ex-officio	5/5	<b>GROSS Howard</b> Elected, London	4/5	<b>OUKO Eddie</b> Co-opted	4/5	<b>COX John</b> Elected, Staffs, Salop and Wolverhampton	2/4
<b>BOWYER Evie</b> Elected, London	4/5	<b>GRUNDY Oliver</b> Co-opted	4/5	<b>PAMPIGLIONE Harry</b> Co-opted	5/5	<b>FONG Mark</b> Co-opted	1/1
<b>BRENNAN Helen</b> Elected, London	5/5	<b>GUNAPALA San</b> Co-opted	5/5	<b>PARKER Nick</b> Ex-officio	5/5	<b>HOPKINS-BURTON Richard</b> Elected, Birmingham & W Midlands	0/3
<b>BRITTEN Kathryn</b> Elected, London	5/5	<b>HENSHAW Stephanie</b> Ex-officio	4/5	<b>PENNY Julia</b> Elected, London	5/5	<b>KAPUR Neeraj</b> Ex-officio	1/1
<b>BROOKS Will</b> Elected, London	5/5	<b>HOLLIS Peter</b> Elected, Sheffield	5/5	<b>QUINLAN Michael</b> Elected, Croydon	5/5	<b>MELLOR David</b> Co-opted	1/3
<b>CAIRNS Ben</b> Co-opted	2/5	<b>HUGHES Nigel</b> Elected, Beds, Bucks & Herts	4/5	<b>RHYS Mark</b> Ex-officio	2/3	<b>PACITTI Mark</b> Ex-officio	1/1
<b>CALDARA Angela</b> Elected, London	4/5	<b>HYAMS Alan</b> Elected, Manchester	3/5	<b>RICKETTS Brian</b> Elected, Liverpool	4/5	<b>RATCLIFFE Andrew</b> Ex-officio	1/1
<b>CANNING-JONES David</b> Co-opted	4/5	<b>IOANNOU Constantine</b> Elected, London	5/5	<b>ROLISON Paul</b> Elected, South Essex	5/5	<b>SPOFFORTH Alex</b> Elected, South Eastern	3/4
<b>CARR David</b> Ex-officio	5/5	<b>JENKINS Peter</b> Elected, London	5/5	<b>RUSSELL Samantha</b> Elected, London	4/5		
<b>CARTWRIGHT Richard</b> Elected, Southern	5/5	<b>KAUR Pam</b> Co-opted	3/5	<b>SADEK Anis</b> Co-opted	5/5		
<b>CEARNS Kathryn</b> Co-opted	4/5	<b>KOURRIS George</b> Elected, Europe	4/5	<b>SMALE Caroline</b> Elected, South Western	5/5		
<b>CHEESMAN Heather</b> Elected, South Eastern	2/5	<b>LEPORIERE Vincenzo</b> Co-opted	4/5	<b>SMITH Jeffrey</b> Elected, Thames Valley	5/5		
<b>CHERRY Ian</b> Chair of Council, Elected, North West	5/5	<b>LEUNG Esther</b> Ex-officio	3/4	<b>SMITH, Susan</b> Elected, South Eastern	5/5		
		<b>LIM David</b> Co-opted	5/5	<b>STEINBERG Nathan</b> Elected, London	5/5		

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Over 180,000 of these are ICAEW Chartered Accountants and students. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

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