THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

INSPIRING CONFIDENCE

FINANCIAL STATEMENTS 2006

Contents

These financial statements should be read in conjunction with the Institute's annual review 2006.

The role of chartered accountants in the world's economies has never been more important. People making financial decisions need knowledge and guidance based on the highest technical and ethical standards.

Our members provide this better than anyone. They challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity.

As their Institute, we create the environment in which those skills are constantly developed, recognised and valued. We shape opinion, understanding and delivery, to ensure the highest standards in business and in the public interest.

Because of us, people can do business with confidence.

Financial statements – make a choice

You can choose to read future copies of the financial statements on the Institute's website rather than receiving printed copies. If you select this option, you will get an email with the link to the online document. You can see this year's version at www.icaew.com/review. If you would like to opt for digital editions in future, follow the 'digital review' links from www.icaew.com/review

CORPORATE GOVERNANCE STATEMENT

Constitution

The Institute is a body incorporated by Royal Charter. As such, the provisions of the Combined Code on Corporate Governance (the Code) and of the Companies Act do not apply to its governance. The Institute operates within the terms of the Charter and accompanying bye-laws and regulations. The Institute council has nonetheless agreed that the Institute should also comply with good corporate practice and, in particular, the Code, whenever practicable.

The terminology of the Code is directed towards relevant listed companies. As a result, it does not read directly across to Institute governance structures. The council has therefore interpreted the main terms of the Code widely, although some of these remain an imperfect match. The council believes that the Institute is in compliance with relevant provisions of the Code. It has made adjustments where necessary to bring Institute practice more into line with the Code where it is appropriate to do so, given the Institute's status as a chartered corporation and member body.

Institute meetings

The Charter and bye-laws reserve certain matters to Institute members in general meeting including the receipt and consideration of the annual review and the financial statements of the Institute with the report of the auditors.

The annual review is one of the principal means of communication with members. Member participation in the business of the annual and special meetings is encouraged by a letter from the president included with the meeting documentation. The president reports at the annual meeting on achievements during the year and opens the meeting to questions from the floor on matters germane to the Institute or the profession.

The Institute council

The council ordinarily meets seven times a year and is responsible for the management of the affairs and business of the Institute in accordance with Charter clause 2(a). It considers, reviews and approves policy, strategy, operational plans and budgets proposed by the board and the departmental boards. It also reviews the activities and performance of the boards and the Institute's annual review and financial statements. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws.

Council members take decisions in the best interests of the Institute as a whole. They operate in accordance with a code of conduct which makes explicit reference to objectivity in decision-making.

As at 31 December 2006, the council comprised 96 members as follows:

- 66 members elected by the membership from 22 constituencies (which have the same boundaries as the district societies)
- 20 members co-opted on the recommendation of the nominating committee in order to preserve a balance between the various interests requiring representation on the council and to provide seats for members with specialist skills or experience
- 10 members ex officio (the office-holders (president, deputy-president and vice-president), the two immediate past presidents, and the elected chairmen of the faculty committees).

Each council member receives an induction on joining the council. Brief details of each council member, including their present principal employment commitments together with their record of attendance at council meetings in 2006, appear in the annual review.

Elections

The Institute conducts elections to the council in alternate years when one half of the elected members retire by rotation. In the intervening years, the Institute may hold elections required as a result of resignations. Any member with a registered address in a constituency at the qualifying date may stand in, join in nominating a member for, or vote in, an election to the council in the constituency concerned. Members outside England and Wales may opt to vote in the constituency of their choice. Members are usually elected for four-year terms, beginning and ending after the annual meeting in the year in question, in accordance with principal bye-law 35.

Council members normally choose the incoming Institute vice-president by ballot in January each year. The council then formally elects each of the office-holders at its first meeting after the annual meeting each year in accordance with principal bye-law 43. In the normal course of events, the council elects the vice-president in the two succeeding years to serve as deputy-president and then president of the Institute. In June 2006, as a consequence of the then deputy-president indicating that he did not wish his name to go forward for election as president, the council exceptionally elected a president, deputy-president and vice-president at both its June and December meetings.

The council elects its chairman annually from amongst its members.

The president, other office-holders and chief executive

The president and other office-holders act as the leading ambassadors of the Institute. The office-holders have no formal personal powers other than those procedural matters specified in the principal bye-laws. The office-holders represent the views of the council and the wider membership within the Institute to ensure that they are

CORPORATE GOVERNANCE STATEMENT
(continued)

taken into account in the development of Institute strategy and policies. They counsel and advise the chief executive. The president acts as chairman of Institute meetings and the Consultative Committee of Accountancy Bodies (CCAB). He also chairs the Institute board.

The chief executive represents the Institute at home and abroad, presents the views of the council to government, other public bodies and the public. He operates within the framework of delegations approved by the council. He is responsible to the council for the development, promotion and management of the Institute in order to achieve the strategy set by the council. He implements Institute policies in support of the strategy by harnessing the efforts of volunteers and staff and by building effective relationships with policy-makers and opinion formers, and with members. He is responsible for the overall management of the staff and for ensuring that the Institute operates effectively and efficiently.

The Institute complies with the provisions of the Code relating to the separation of roles and responsibilities of president and chief executive. It is likely, for all practical purposes, both that the president will meet the criteria for independence set out in the Code and that the chief executive will not, on standing down, then become president.

The board

The board is responsible, on behalf of the council, for all matters relating to the development and implementation of the Institute strategy, operational plans in support of the

The members of the board (for whom brief biographical details can be found in the *Institute – governance and structure* under *council* section of the Institute's website at www.icaew.com) during 2006 were:

	Position	**Appointed**	**Retired**	**Attendance**
Volunteer members				
Ian Cherry	elected by the council			10/11
Graham Durgan	Deputy-President to 7 June		7 June	2/5
Richard Dyson	Vice-President to 7 June; Deputy-President from 7 June to 6 December; President and Chairman from 6 December			10/11
David Furst	Vice-President from 7 June to 6 December; Deputy-President from 6 December	7 June		5/6
Martin Hagen	Chairman, professional standards board; Vice-President from 6 December			6/11
Philip Hollins	Treasurer			7/11
Ian Morris	President and Chairman to 6 December		6 December	7/10
Clive Parritt	elected by the council	20 June		5/6
Andrew Ratcliffe	Chairman, technical strategy board			8/11
Mark Spofforth	Chairman, learning & professional development board			8/11
Robert Webb	elected by the council		20 June	4/5
Jan Weber	Chairman, member services board			9/11
Staff members				
Eric Anstee	Chief Executive to 6 December		6 December	9/10
Robert Hodgkinson	Executive Director, Technical Strategy			11/11
Michael Izza	Chief Operating Officer to 6 December; Chief Executive from 6 December			10/11
Raymond Madden	Executive Director, Learning & Professional Development			8/11
Vernon Soare	Executive Director, Professional Standards	3 January		9/11

Robin Fieth was appointed to the board on 22 January 2007 as Executive Director, Finance and Operations

CORPORATE GOVERNANCE STATEMENT
(continued)

strategy, and Institute resources, together with other matters delegated by the council. The board reports to each meeting of the council on its activities.

The head of executive office oversees the provision of reports to the board and provides advice on governance issues as required. Senior staff report to the board on a monthly basis on performance against operational plans. The executive director, finance and operations reports monthly to the board on financial performance. He also reports regularly on key risks and internal controls.

The composition, meetings and proceedings of the board comply with the provisions of the Code with the exception of the provision relating to the appointment of a 'senior independent director'. In practice, there are already mechanisms in place within the Institute to achieve the objective of this code provision. These include the ability of members generally to raise issues with their constituency representatives on the council and for members of the council to raise issues with the office-holders, with the chairman of the council, or with the elected members of the board.

A specific induction programme for board members was introduced in 2005. The board has evaluated its performance and will continue this process in 2007.

The membership of the board is largely ex officio (by virtue either of election as an office-holder by the council or appointment as an executive director, a departmental board chairman or as treasurer on the recommendation of the nominating committee) and comprises both non-executive volunteers and senior staff. Notice periods for the staff members are set at less than one year, except for the chief executive whose notice period is one year. The council also elects two members directly to the board from amongst its membership for terms of two years.

The volunteer members will meet the criteria for independence as set out in the Code and may seek independent professional advice if thought necessary on any issue. Each member of the board is indemnified against loss and expense (other than that incurred by negligence or wilful default).

Terms of reference for the key committees can be found in *The Institute – governance and structure* under *The Institute Committees* section of the Institute's website at www.icaew.com.

Audit committee

The audit committee is responsible, on behalf of the council, for ensuring that all significant activities of the Institute are subject to independent review and audit, for monitoring the Institute's relationship with its auditors, for reviewing internal controls and assessing risk. Its terms of reference reflect the requirements of the Code so far as is practical and appropriate. None of its members are members of the board. The chairman of the committee must be a member of the council and at least one member must be a non-council member. It meets at least three times a year. The treasurer attends its meetings. Both the internal and external auditors attend its meetings and have direct access to its chairman. The external auditors attend at least one meeting per year, or part thereof, without the Institute management being present.

The members of the audit committee during 2006 were:

		Appointed	Retired	Attendance
John Anderson OBE	non-council member		7 June	0/1
Brian Boswell	council member	7 June		2/3
Alun Bowen	non-council member			2/4
Bruce Gray	council member			4/4
Sheilagh Moffat	council member			4/4
Clive Parritt	council member and Chairman to 30 June		30 June	2/2
Michael Pavia	council member and Chairman from 30 June			4/4
Michael Sherry	council member	7 June		3/3

The chairman of the audit committee reports annually to the council. The audit committee makes the minutes of its meetings available to the board.

CORPORATE GOVERNANCE STATEMENT
(continued)

Remuneration committee

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for Institute staff, including the chief executive and executive directors. Staff are remunerated with reference to their annual performance rating and to benchmark market salaries. Institute staff contracts do not include provisions for compensation payable on early termination. None of the members of the council receive remuneration for services to the Institute, other than reimbursement of out of pocket expenses and payments on a normal commercial basis, in particular in connection with lecturing and writing.

The members of the remuneration committee during 2006 were:

		Appointed	Retired	Attendance
Richard Dyson	council member		6 December	2/2
Maurice Ede	council member	7 June		1/1
Philip Hollins	council member and Treasurer			2/2
David Illingworth	council member to 6 June; non-council member from 6 June			1/2
David McBride	council member and Chairman			2/2
Clive Parritt	council member			2/2

Martin Hagen was appointed to the committee on 22 January 2007

Nominating committee

The nominating committee is responsible for making recommendations to the council for co-options and for the appointment of committee chairmen and has direct responsibility for all other appointments and for succession planning. Appointments to committees are normally for terms of two years and are reviewed annually (except appointments to the quasi judicial committees in the professional standards area, where appointments are for fixed terms of three years). The committee makes recommendations and appointments on the basis of the best person for the job and against agreed profiles.

The nominating committee deals with much of its business by correspondence and meets only as required. Its membership is largely ex officio, including the two most recent past presidents, but also includes two members elected for terms of two years by the council from amongst its members.

The members of the nominating committee during 2006 were:

	Position	Appointed	Retired	Attendance
Paul Druckman	past President			2/5
Graham Durgan	Deputy-President to 7 June		7 June	0/2
Richard Dyson	Vice-President to 7 June; Deputy-President from 7 June to 6 December; President from 6 December			5/5
David Furst	Vice-President from 7 June to 6 December; Deputy-President from 6 December	7 June		2/3
Martin Hagen[1]	elected by the council to 6 December; Vice-President from 6 December			4/5
David Illingworth	past President to 7 June		7 June	2/2
Sheilagh Moffat	elected by the council			5/5
Ian Morris	President to 6 December; past President from 6 December			5/5
Peter Wyman	past President	7 June	6 December	3/3

[1] Paul Wagstaff was elected to the committee by the council on 12 January 2007

CORPORATE GOVERNANCE STATEMENT
(continued)

Senior staff appointments committee
The senior staff appointments committee has responsibility for all matters relating to the recruitment and appointment of the chief executive and executive directors. Its membership comprises (for the appointment of the chief executive) the president or one other office-holder (chairman), the chairman of council and three members of the council appointed by the nominating committee; and (for the appointment of an executive director) the president or one other office-holder (chairman), the chairman of council, one member of the council appointed by the nominating committee, the chairman of the relevant department board (or treasurer in the case of the executive director, finance and operations) and the chief executive.

The committee met in 2006 to consider the appointment of the chief executive and in early 2007 to consider the appointment of the executive director, finance and operations. The first of these appointments was facilitated by the use of external search consultancies.

A special committee (comprising the volunteer members of the board and the chairman, remuneration committee) is convened in the event that the removal of a senior staff member is required.

Departmental boards
Four departmental boards steer the development of policy for the Institute's member-facing functions. These boards also exercise a general oversight of the work programmes of the Institute's member-facing departments through their involvement in the planning and budgeting process.

Employees
The Institute 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. The Institute believes that these key principles enable its employees to enjoy work, develop as individuals and provide the best possible service to the Institute, its members, the public and colleagues thus contributing to the continued success of the organisation.

It is the Institute's policy to treat all employees fairly and equally regardless of race, sex, sexual orientation, gender re-assignment, marital status, or disability. Should existing employees suffer a disability the Institute will do all it can to accommodate that disability and to assist the employee to continue their career with the Institute in their existing role where possible, or in an alternative position.

Staff skills are maintained on an ongoing basis and there is an opportunity for all staff to discuss their training and development needs on an annual basis. The Institute is committed to the core values of integrity, openness, mutual respect and teamwork, and excellence and professionalism.

Creditor payment policy
It is the Institute's policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2006 were 14 days (31 December 2005: 19 days).

Going concern
The financial statements have been prepared on a going concern basis. The council has a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future.

Internal control
The council is responsible for the Institute's system of internal control and for reviewing its effectiveness. The audit committee, on behalf of the council, reviews the effectiveness of the system from information and regular reports provided by management, internal audit and the external auditors. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. It includes all controls including financial, operational and compliance, and risk management.

The key elements of the system of internal control are:

Risk management
The council, through the board, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by the Institute. This process has been in place for the whole of the 2006 financial year and has continued up to the date on which this document was approved.

Each department identifies and reviews the risks faced by the Institute and assesses both the controls in place and key actions required to manage the significant risks. The assessments of the significant risks are reported regularly to the management team and the audit committee. During the year, changes in risks and key risk highlights are reported to the board each month by directors.

The assessment of risk is linked with the evolving Institute strategy in compliance with the guidance *Internal Control: Guidance for Directors on the Combined Code.*

Annually in March, the council undertakes a regular 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
- how the risks have changed over the period under review and any significant issues.

CORPORATE GOVERNANCE STATEMENT
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Delegation
There is a clear organisational structure, detailing lines of authority and control responsibilities. There are defined revenue and capital spend authorisation limits in place.

Business plans and budgets
Detailed business plans and budgets are prepared by the staff for approval by the board and the council. Key performance targets have been agreed and monthly monitoring of achievement against these is undertaken. Actual results are compared to approved budgets on a monthly basis and reported to each meeting of the board and the council. Revised annual forecasts are also prepared and reported three times a year. A summary of both the monthly results, and forecast reviews is posted on the council members' website.

Internal audit
The internal audit department provides assurance that risk management processes are addressing the significant risks faced by the Institute and assesses the controls in place. The department ensures that where control weaknesses are identified, appropriate action to improve the level of control is taken by management. The internal audit department reports formally to the audit committee. The committee also receives reports from the staff and the external auditors on important control matters.

Review
The council, through the reports it receives from the board and through the audit committee, has reviewed the effectiveness of the Institute's system of internal control in operation during 2006. Where control weaknesses have been identified, remedial action has been or is being taken and none of these weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the annual report.

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

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

- prepared the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union (EU)
- selected suitable accounting polices and applied them consistently
- made judgements and estimates that are reasonable and prudent
- followed applicable accounting standards
- prepared the financial statements on a going concern basis.

The council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Institute. It is also responsible for safeguarding the assets of the Institute and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmation
Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware
- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

For the purposes of this declaration, all members of the board are deemed directors of the Institute.

Charitable donations
During the year the Institute made donations under gift aid to its charitable trusts amounting to £1,380,000 (2005: £2,475,000) and to other charitable organisations of £nil (2005: £6,762). The Institute's charitable trusts approved grants in the year to the Institute of £nil (2005: £997,000) and to other organisations of £108,000 (2005: £170,000).

INDEPENDENT AUDITORS' REPORT

to the members of the Institute of Chartered Accountants in England and Wales for the year ended 31 December 2006

We have audited the group and Institute financial statements (the financial statements) on pages 8 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Institute's members, as a body. Our audit work has been undertaken so that we might state to the Institute's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Institute and the Institute's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of council and auditors

The council's responsibilities for preparing the annual report and the financial statements in accordance with applicable law and IFRSs as adopted for use in the EU are set out in the statement of financial responsibilities of the council.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the annual review and corporate governance statement are not consistent with the financial statements, if the Institute has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. The other information comprises only the annual review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Institute's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the EU, of the state of affairs of the group and the Institute as at 31 December 2006 and of the result of the group and the Institute for the year then ended; and
- the information given in the corporate governance statement is consistent with the financial statements.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors

London, England
20 March 2007

GROUP INCOME STATEMENT

for the year ended 31 December 2006

	Note	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
Subscriptions and other income							
Subscriptions and fees		30,566	–	30,566	28,186	–	28,186
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		32,416	–	32,416	30,036	–	30,036
Subscription based services							
Members' learning & professional development	1	699	(6,174)	(5,475)	482	(5,143)	(4,661)
Professional standards	2	1,201	(3,579)	(2,378)	1,285	(3,760)	(2,475)
Member services	3	2,335	(4,391)	(2,056)	2,049	(5,244)	(3,195)
Regional services	4	334	(4,241)	(3,907)	476	(4,116)	(3,640)
Technical strategy	5	19	(5,290)	(5,271)	8	(4,562)	(4,554)
Central activities	6	1,347	(10,881)	(9,534)	1,498	(10,594)	(9,096)
		5,935	(34,556)	(28,621)	5,798	(33,419)	(27,621)
Self-financing activities and charitable trusts							
Student learning & professional development	7	7,579	(5,239)	2,340	6,635	(5,464)	1,171
Practice regulation	8	11,618	(11,300)	318	12,003	(10,782)	1,221
Faculties	9	2,988	(3,278)	(290)	2,647	(3,014)	(367)
Charitable trusts	10	58	(1,091)	(1,033)	39	(1,052)	(1,013)
		22,243	(20,908)	1,335	21,324	(20,312)	1,012
Participation in external bodies	11	605	(4,341)	(3,736)	158	(3,336)	(3,178)
Operating result	13	**61,199**	**(59,805)**	**1,394**	**57,316**	**(57,067)**	**249**
Investment income	14	3,592	–	3,592	3,316	–	3,316
Group share of associates' results after tax	18	–	(6)	(6)	9	–	9
Result before taxation		**64,791**	**(59,811)**	**4,980**	**60,641**	**(57,067)**	**3,574**
Taxation	15			(195)			8
Net result after taxation	30			**4,785**			**3,582**
Result attributable to self-financing activities and charitable trusts				(3,809)			(3,175)
Net result transferred to accumulated fund	30			**976**			**407**

INSTITUTE INCOME STATEMENT

for the year ended 31 December 2006

	Note	Income £'000	Expenditure £'000	2006 Net £'000	Income £'000	Expenditure £'000	2005 Net £'000
Subscriptions and other income							
Subscriptions and fees		30,566	–	30,566	28,186	–	28,186
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		32,416	–	32,416	30,036	–	30,036
Subscription based services							
Members' learning & professional development	1	563	(6,174)	(5,611)	1,030	(5,143)	(4,113)
Professional standards	2	1,201	(3,579)	(2,378)	1,285	(3,760)	(2,475)
Member services	3	2,335	(4,391)	(2,056)	2,049	(5,244)	(3,195)
Regional services	4	334	(4,241)	(3,907)	476	(4,116)	(3,640)
Technical strategy	5	(93)	(5,290)	(5,383)	458	(4,562)	(4,104)
Central activities	6	1,347	(10,445)	(9,098)	1,498	(10,155)	(8,657)
		5,687	(34,120)	(28,433)	6,796	(32,980)	(26,184)
Self-financing activities							
Student learning & professional development	7	7,579	(5,239)	2,340	6,635	(5,464)	1,171
Practice regulation	8	11,618	(11,300)	318	12,003	(10,782)	1,221
Faculties	9	2,988	(3,278)	(290)	2,647	(3,014)	(367)
		22,185	(19,817)	2,368	21,285	(19,260)	2,025
Participation in external bodies	11	605	(4,341)	(3,736)	158	(3,336)	(3,178)
Gift aid and library funding	12	–	(1,380)	(1,380)	–	(2,475)	(2,475)
Operating result	13	**60,893**	**(59,658)**	**1,235**	**58,275**	**(58,051)**	**224**
Investment income	14	2,722	–	2,722	2,587	–	2,587
Result before taxation		**63,615**	**(59,658)**	**3,957**	**60,862**	**(58,051)**	**2,811**
Taxation	15			(195)			8
Net result after taxation	30			**3,762**			**2,819**
Result attributable to self-financing activities				(2,780)			(2,421)
Net result transferred to accumulated fund	30			**982**			**398**

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2006

	Note	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Net result transferred to accumulated fund		**976**	**407**	**982**	**398**
Net results for the financial year transferred to/(from) self-financing activities and charitable trusts:					
Student learning & professional development		2,431	1,238	2,431	1,238
Practice regulation		568	1,467	568	1,467
Faculties		(219)	(284)	(219)	(284)
Charitable trusts		1,029	754	–	–
	30	3,809	3,175	2,780	2,421
Net result after taxation recognised in the income statement in the year		4,785	3,582	3,762	2,819
Revaluation of property, plant and equipment					
– valuation gains	16	3,795	264	3,795	264
Available for sale investments					
– valuation gains	19	482	766	235	284
Actuarial loss recognised in year	27	(4,990)	(1,970)	(4,808)	(1,910)
Deferred tax	21	(1)	(92)	(1)	(92)
Net losses not recognised in the income statement in the year		(714)	(1,032)	(779)	(1,454)
Total recognised income in the year	30	**4,071**	**2,550**	**2,983**	**1,365**

BALANCE SHEETS
as at 31 December 2006

	Note	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Assets					
Non-current assets					
Property, plant and equipment	16	19,753	15,821	19,744	15,799
Intangible assets	17	2,646	2,244	2,646	2,244
Investments in subsidiaries and associates	18	58	64	3	3
Financial assets:					
Available for sale investments	19	35,381	33,237	24,659	23,311
Other receivables	20	4,500	5,500	4,500	5,500
Deferred tax asset	21	1,028	949	1,028	949
		63,366	**57,815**	**52,580**	**47,806**
Current assets					
Inventories	22	631	303	631	303
Trade and other receivables	23	13,616	11,486	13,545	11,722
Cash and cash equivalents	24	13,617	8,936	13,491	8,853
		27,864	**20,725**	**27,667**	**20,878**
Total assets		**91,230**	**78,540**	**80,247**	**68,684**
Liabilities					
Current liabilities					
Trade and other payables	25	(25,873)	(22,973)	(25,622)	(22,664)
Current tax liabilities		(662)	(156)	(662)	(156)
		(26,535)	**(23,129)**	**(26,284)**	**(22,820)**
Non-current liabilities					
Trade and other payables	26	(4)	(29)	–	–
Staff Pensions Fund liability	27	(26,050)	(21,918)	(25,218)	(21,208)
Joint Disciplinary Scheme provision	28	(2,233)	(2,206)	(2,233)	(2,206)
Accountancy Investigation and Discipline Board provision	29	(3,163)	(2,209)	(3,163)	(2,209)
Deferred tax liability	21	(696)	(571)	(696)	(571)
		(32,146)	**(26,933)**	**(31,310)**	**(26,194)**
Total liabilities		**(58,681)**	**(50,062)**	**(57,594)**	**(49,014)**
Total net assets		**32,549**	**28,478**	**22,653**	**19,670**
Reserves					
Revaluation reserve	30	11,090	7,358	11,090	7,358
Investment revaluation reserve	30	793	620	793	620
Accumulated fund	30	4,675	6,787	4,620	6,726
		16,558	**14,765**	**16,503**	**14,704**
Reserves retained by self-financing activities and charitable trusts					
Student learning & professional development		4,491	2,277	4,491	2,277
Practice regulation		(2,020)	(1,270)	(2,020)	(1,270)
Faculties		801	1,136	801	1,136
Chartered Accountants' Compensation Scheme		2,878	2,823	2,878	2,823
Charitable trust endowment funds		6,702	6,047	–	–
Charitable trust unrestricted funds		3,139	2,700	–	–
		15,991	**13,713**	**6,150**	**4,966**
	30	**32,549**	**28,478**	**22,653**	**19,670**

Approved on behalf of the council

Richard Dyson
President
20 March 2007

Michael Izza
Chief Executive

CASH FLOW STATEMENTS

for the year ended 31 December 2006

	Note	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Cash flows from operating activities					
Result before taxation		4,980	3,574	3,957	2,811
Depreciation and amortisation		1,764	1,530	1,751	1,518
Losses on disposal of property, plant and equipment		4	6	4	6
Investment income	14	(3,592)	(3,316)	(2,722)	(2,587)
		3,156	1,794	2,990	1,748
(Increase)/decrease in inventories		(328)	99	(328)	99
Increase in other receivables		(2,130)	(909)	(1,823)	(918)
Increase in other payables		2,784	6,452	2,860	6,528
Non-cash movement in provisions		5,842	4,399	5,903	4,461
Cash generated from operations		9,324	11,835	9,602	11,918
Income taxes received/(paid)		356	(345)	356	(345)
Cash outflow on Staff Pensions Fund liability		(1,665)	(6,414)	(1,665)	(6,414)
Cash outflow on Joint Disciplinary Scheme and Accountancy Investigation Discipline Board provisions		(4,055)	(1,748)	(4,055)	(1,748)
Net cash generated from operating activities		3,960	3,328	4,238	3,411
Cash flows from investing activities					
Purchase of property, plant and equipment		(908)	(722)	(908)	(711)
Purchase of intangible assets		(1,300)	(811)	(1,300)	(811)
Deferred consideration received		1,000	1,000	1,000	1,000
Purchase of available for sale investments		(62,455)	(78,998)	(49,911)	(67,273)
Disposal of available for sale investments		62,374	78,665	49,900	67,219
Investment income received		2,010	1,626	1,619	1,276
Net cash from investing activities		721	760	400	700
Net increase in cash and cash equivalents in the year		4,681	4,088	4,638	4,111
Net cash and cash equivalents at 1 January		8,936	4,848	8,853	4,742
Net cash and cash equivalents at 31 December	24	13,617	8,936	13,491	8,853

ACCOUNTING POLICIES

I Basis of preparation

The financial statements have been prepared in accordance with IFRSs, and under the historical cost convention as modified by the revaluation of properties and available for sale investments. The Institute has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2006. At the date of authorisation of these financial statements, the following standards and interpretations were in issue, but not yet effective – IFRS 7 and 8, IFRIC 7, 8, 9, 10, 11 and 12. It is considered that, with the exception of IFRS 7 – financial instruments: disclosures, which affects disclosures only and does not affect the financial information or accounting policies, these do not apply to the Institute.

II Critical estimates and judgements

To be able to prepare financial statements according to generally accepted accounting principles, management and 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 provisions and pensions. These estimates are based on historical experience and various other assumptions that management and the board believe are reasonable under the circumstances, the results of which 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.

III Income

Income from fees and subscriptions is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable. Fees and subscriptions received in advance are included within trade and other payables.

Other income, including licence fees and income in association with professional conduct, Joint Disciplinary Scheme (JDS) and Accountancy Investigation and Discipline Board (AIDB) is recognised when receivable.

IV Property, plant and equipment, and depreciation

Freehold properties

Freehold properties are revalued annually at open market value and are included in the balance sheet at their revalued amounts. 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.

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 annum.

Leasehold improvements

Improvements to leasehold properties are capitalised and are depreciated on a straight line basis over the shorter of their estimated useful economic lives and the remaining lease term.

Historic collections

The Institute's collections of silver, rare books, period furniture, pictures and sculptures are revalued annually and are stated at estimated open market values. In view of the nature of these assets, in that the estimated residual value is equal to the carrying amount, no depreciation is provided. Surpluses on revaluation, including surpluses arising from donations of items to the collections, 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.

Other plant and equipment

Depreciation is charged on other plant and equipment on a straight line basis over the estimated useful economic lives of the assets ranging from three to 10 years.

The impairment of property, plant and equipment is considered annually and provisions made where necessary.

V Intangible assets

Intangible assets comprise computer software and are stated at cost. Amortisation is charged on a straight line basis over the estimated useful economic life of the software (between two to five years).

VI Investments

Interest-bearing investments, equities and unit trusts held for the purposes of generating long term investment income are treated as non-current available for sale investments and are included at bid price market value at the balance sheet date. Gains and losses on re-measurement are taken to the investment revaluation reserve initially. On disposal, the cumulative gain or loss previously recognised in reserves is transferred to the income statement.

VII 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.

VIII Inventories

Inventories are stated at the lower of cost and net realisable value.

ACCOUNTING POLICIES
(continued)

IX Operating leases
Operating lease costs are charged to the income statement on a straight line basis over the period of the relevant agreement.

X Grants
Revenue grants receivable are recognised in the period to which they relate.

XI Pensions

Defined benefit scheme
The expected costs of providing pensions under the Institute's defined benefit Staff Pensions Fund liability, as calculated periodically by qualified actuaries using the projected unit method, is charged to the income statement so as to spread the cost over the service lives of employees in the scheme. Actuarial gains and losses are recognised in full
in the statement of recognised income and expense as they arise.

Defined contribution schemes
Contributions under defined contribution schemes are charged to the income statement as they become due and payable.

XII Deferred taxation
Deferred taxation is recognised on all taxable temporary differences, except to the extent that a deferred tax liability arises on the initial recognition of an asset which, at the time of the transaction, affects neither accounting profit nor taxable 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 utilised. 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. In addition, measurement is based on the tax consequences of recovering or settling the carrying amount of assets and liabilities.

XIII Professional Conduct, Joint Disciplinary Scheme and Accountancy Investigation and Discipline Board
Provision is made for the estimated future external costs of major disciplinary cases relating to events which occurred prior to the balance sheet date.

XIV Financial risk management
Forward contracts are used selectively to cover known short-term foreign currency exposures. The fair value of these contracts approximates to their carrying value because of their short-term nature. Gains and losses are recognised when the item being hedged is recognised. Interest bearing investments held for investment purposes are held through an independent custodian. Working capital and longer term funds are held in interest bearing investments with approved issuing banks with at least A rating, for appropriate periods to ensure acceptable levels of liquidity. Financial risk management issues are covered by the Institute's risk management process as set out in the corporate governance statement.

XV Self-financing activities
It is the intention of the council that, taking one year with another, the costs of self-financing activities should be borne by those members and/or firms deriving benefit from such areas. In calculating the result to be taken to reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

1 Members' learning & professional development

	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group 2005 Net £'000
Operations	–	(3,402)	(3,402)	10	(2,826)	(2,816)
Marketing	–	(1,754)	(1,754)	–	(621)	(621)
Development	699	(809)	(110)	472	(1,559)	(1,087)
Executive	–	(209)	(209)	–	(137)	(137)
	699	(6,174)	(5,475)	482	(5,143)	(4,661)

	2006 Income £'000	2006 Expenditure £'000	Institute 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Institute 2005 Net £'000
Operations	(112)	(3,402)	(3,514)	460	(2,826)	(2,366)
Marketing	–	(1,754)	(1,754)	–	(621)	(621)
Development	675	(809)	(134)	570	(1,559)	(989)
Executive	–	(209)	(209)	–	(137)	(137)
	563	(6,174)	(5,611)	1,030	(5,143)	(4,113)

In 2005, members' learning & professional development received grants from the Chartered Accountants' Trust for Education and Research (CATER) totalling £547,000. As at 31 December 2005, the final instalment was accrued; however, following a change in legislation in 2006, this payment was not made.

2 Professional standards

	2006 Income £'000	2006 Expenditure £'000	Group and Institute 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group and Institute 2005 Net £'000
Disciplinary	979	(3,579)	(2,600)	1,065	(3,760)	(2,695)
Practice regulation	222	–	222	220	–	220
	1,201	(3,579)	(2,378)	1,285	(3,760)	(2,475)

3 Member services

	2006 Income £'000	2006 Expenditure £'000	Group and Institute 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group and Institute 2005 Net £'000
Product sales and development	1,744	(2,601)	(857)	1,681	(2,468)	(787)
Advisory and other member services	80	(1,123)	(1,043)	106	(2,254)	(2,148)
Administration	511	(667)	(156)	262	(522)	(260)
	2,335	(4,391)	(2,056)	2,049	(5,244)	(3,195)

Following a restructure in 2006, regional services is now reported as a separate department.

4 Regional services

	2006 Income £'000	2006 Expenditure £'000	Group and Institute 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group and Institute 2005 Net £'000
Regional services	334	(4,241)	(3,907)	476	(4,116)	(3,640)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

5 Technical strategy

	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group 2005 Net £'000
International	–	(477)	(477)	–	(413)	(413)
Institute-funded faculty activities	–	(1,417)	(1,417)	–	(1,273)	(1,273)
Technical departments	19	(2,974)	(2,955)	8	(2,484)	(2,476)
Administrative support	–	(422)	(422)	–	(392)	(392)
	19	(5,290)	(5,271)	8	(4,562)	(4,554)

	2006 Income £'000	2006 Expenditure £'000	Institute 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Institute 2005 Net £'000
International	–	(477)	(477)	–	(413)	(413)
Institute-funded faculty activities	–	(1,417)	(1,417)	–	(1,273)	(1,273)
Technical departments	(93)	(2,974)	(3,067)	458	(2,484)	(2,026)
Administrative support	–	(422)	(422)	–	(392)	(392)
	(93)	(5,290)	(5,383)	458	(4,562)	(4,104)

In 2005, technical strategy received grants from CATER totalling £450,000. As at 31 December 2005, the final instalment was accrued; however, following a change in legislation in 2006, this payment was not made.

6 Central activities

	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	Group 2005 Net £'000
Members' facilities	1,240	(2,578)	(1,338)	1,373	(2,274)	(901)
Accommodation	24	(2,433)	(2,409)	–	(2,462)	(2,462)
Common office services	–	(3,163)	(3,163)	–	(2,667)	(2,667)
Membership records	15	(972)	(957)	26	(1,026)	(1,000)
Communications	39	(5,297)	(5,258)	65	(3,192)	(3,127)
Information technology	–	(4,889)	(4,889)	13	(4,175)	(4,162)
Finance and accounting	–	(958)	(958)	–	(2,329)	(2,329)
Council	–	(220)	(220)	–	(217)	(217)
Executive and administration	29	(1,875)	(1,846)	21	(1,485)	(1,464)
Exceptional item – integration proposals	–	–	–	–	(928)	(928)
	1,347	(22,385)	(21,038)	1,498	(20,755)	(19,257)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £746,000 (2005: £725,000))	–	11,504	11,504	–	10,161	10,161
	1,347	(10,881)	(9,534)	1,498	(10,594)	(9,096)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

6 Central activities (continued)

	Institute			Institute		
	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
Members' facilities	1,240	(2,578)	(1,338)	1,373	(2,274)	(901)
Accommodation	24	(2,433)	(2,409)	–	(2,462)	(2,462)
Common office services	–	(3,163)	(3,163)	–	(2,667)	(2,667)
Membership records	15	(972)	(957)	26	(1,026)	(1,000)
Communications	39	(5,297)	(5,258)	65	(3,192)	(3,127)
Information technology	–	(4,889)	(4,889)	13	(4,175)	(4,162)
Finance and accounting	–	(958)	(958)	–	(2,329)	(2,329)
Council	–	(220)	(220)	–	(217)	(217)
Executive and administration	29	(1,875)	(1,846)	21	(1,485)	(1,464)
Exceptional item – integration proposals	–	–	–	–	(928)	(928)
	1,347	(22,385)	(21,038)	1,498	(20,755)	(19,257)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £746,000 (2005: £725,000))	–	11,940	11,940	–	10,600	10,600
	1,347	(10,445)	(9,098)	1,498	(10,155)	(8,657)

7 Student learning & professional development – self-financing

	Group and Institute			Group and Institute		
	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
Examinations	5,951	(2,985)	2,966	5,384	(3,734)	1,650
Development and administration	1,628	(2,254)	(626)	1,251	(1,730)	(479)
Net operating result	7,579	(5,239)	2,340	6,635	(5,464)	1,171

8 Practice regulation – self-financing

	Group and Institute			Group and Institute		
	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
Authorisation of investment business	1,653	(1,780)	(127)	1,769	(1,812)	(43)
Practice regulation and assurance	9,965	(9,520)	445	10,234	(8,970)	1,264
Net operating result	11,618	(11,300)	318	12,003	(10,782)	1,221

Included within investment business is £55,000 (2005: £67,000) net expenditure relating to the Chartered Accountants' Compensation Scheme.

9 Faculties – self-financing

	Group and Institute			Group and Institute		
	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
Tax Faculty	678	(839)	(161)	662	(764)	(102)
Information Technology Faculty	373	(479)	(106)	351	(414)	(63)
Finance & Management Faculty	628	(623)	5	571	(686)	(115)
Audit & Assurance Faculty	729	(749)	(20)	587	(612)	(25)
Corporate Finance Faculty	580	(588)	(8)	476	(538)	(62)
Net operating result	2,988	(3,278)	(290)	2,647	(3,014)	(367)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

10 Charitable trusts

			Group			Group
	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000
External research grants	–	(84)	(84)	–	(168)	(168)
Other grants	–	–	–	–	(2)	(2)
Library expenditure	32	(924)	(892)	39	(830)	(791)
Other expenditure	26	(83)	(57)	–	(52)	(52)
	58	(1,091)	(1,033)	39	(1,052)	(1,013)

11 Participation in external bodies

					Group and Institute			Group and Institute
	Income 2006 £'000	Total expenditure 2006 £'000	Expenditure borne by self-financing activities 2006 £'000	Net expenditure 2006 £'000	Net 2006 £'000	Income 2005 £'000	Net expenditure 2005 £'000	Net 2005 £'000
Financial Reporting Council	–	(722)	–	(722)	(722)	–	(875)	(875)
Consultative Committee of Accountancy Bodies	26	(379)	–	(379)	(353)	24	(275)	(251)
International Federation of Accountants	–	(370)	–	(370)	(370)	–	(307)	(307)
Accountancy Investigation and Discipline Board	–	(1,642)	1,042	(600)	(600)	–	(600)	(600)
Irish Auditing and Accounting Supervisory Authority	–	(20)	–	(20)	(20)	–	–	–
Joint Disciplinary Scheme:								
Costs	–	(3,395)	–	(3,395)	(3,395)	–	(2,137)	(2,137)
Cost recoveries	–	1,145	–	1,145	1,145	–	858	858
Fines	579	–	–	–	579	134	–	134
	605	(5,383)	1,042	(4,341)	(3,736)	158	(3,336)	(3,178)

12 Gift aid and library funding

Payments of £1,370,000 (2005: £2,465,000) were made by the Institute in the year under gift aid to CATER, which funds the Institute library and education in the field of accountancy and related subjects. A further £10,000 (2005: £10,000) was paid by way of gift aid to the Institute's General Charitable Trust (GCT).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

13 Operating result

The group and Institute operating result is stated after charging:

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Staff costs	28,527	26,380	27,855	25,731
Depreciation on owned property, plant and equipment	841	883	828	871
Amortisation of intangible assets	923	647	923	647
Loss on disposal of property, plant and equipment	4	6	4	6
Amounts payable under operating leases:				
Plant and machinery	225	268	225	268
Other	488	598	488	598
Audit fees	54	59	51	53
Fees payable to the Institute's auditor for other services:				
Due diligence fees	–	28	–	28
Risk management workshop	5	–	5	–
Consultancy work	2	–	2	–

The group and Institute operating result includes reimbursement of volunteer expenses and payments on a normal commercial basis to members and member firms for services, in particular in connection with lecturing and writing. In 2006 these payments in aggregate amounted to £1,589,000 (2005: £1,655,000). Of this £73,000 (2005: £70,000) was paid for services to member firms who have a partner or employee who is also a member of the council. The amounts paid to individual council members for services was £65,000 (2005: £61,000) in total.

14 Net investment income

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Bank interest receivable	65	97	65	97
Interest receivable from investment deposits	1,937	1,640	1,781	1,538
Other financial income	430	337	430	337
Dividend income	405	351	170	102
Realised gains from equities	755	891	276	513
	3,592	3,316	2,722	2,587
Allocated to self-financing activities and charitable trusts	(1,282)	(1,125)	(412)	(396)
Net investment gains and income	2,310	2,191	2,310	2,191

Investment income allocated to self-financing activities and charitable trusts is summarised as follows:

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Student learning & professional development	91	67	91	67
Practice regulation	250	246	250	246
Faculties	71	83	71	83
Charitable trusts	870	729	–	–
	1,282	1,125	412	396

15 Taxation

	Group and Institute 2006 £'000	2005 £'000
Current tax:		
On income for the year	(450)	(139)
Adjustment for previous periods	300	182
	(150)	43
Deferred tax:		
Origination and reversal of timing differences	(45)	(35)
Tax on operating result	(195)	8

The Institute 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, which funds education in the field of accountancy and related subjects, including the administration of the library, and to GCT. The charitable trusts fall outside the scope of corporation tax and accordingly there is no liability in respect of their activities.

Factors affecting the tax charge for the year		Group		Institute
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Net result before taxation	4,980	3,574	3,957	2,811
Add back: result on transactions with members	(3,567)	(3,180)	(2,544)	(2,417)
Net result before taxation on transactions with non-members	1,413	394	1,413	394

	Group and Institute 2006 £'000	2005 £'000
Net result attributable to investment gains and income and transactions with non-members multiplied by standard rate of corporation tax in the UK of 30%	(424)	(118)
Effects of:		
Inflationary element of deferred consideration on disposal of ABG Professional Information	(45)	(35)
Net expenses not chargeable for tax purposes	(27)	(37)
Franked investment income not taxable	50	31
Other adjustments, including marginal relief	(1)	20
Adjustments in respect of prior years	252	147
	(195)	8

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

16 Property, plant and equipment

The freehold properties, Chartered Accountants' Hall, London, and Gloucester House, Milton Keynes, were revalued by CB Richard Ellis Ltd, independent chartered surveyors at 31 December 2006 at open market value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. The property revaluations during the year ended 31 December 2006 resulted in a valuation surplus of £3,795,000 (2005: surplus £264,000).

The historical cost of the Institute's silver collection and antiques represents only the cost of items purchased by the Institute. The valuations in respect of these collections also include substantial donations and bequests received by the Institute.

The Institute's historic collections were revalued at open market value at 31 December 2006 by William Walter Antiques Limited (the Benney silver collection and other silver); John Drury Rare Books (rare books) and Christie's and The Fine Art Society (period furniture, pictures and sculptures).

There were no contracts for capital expenditure not provided for in these financial statements at 31 December 2006 (2005: none).

					Group
	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computer hardware and equipment £'000	Total £'000
Cost or valuation					
At 1 January 2006	11,091	284	3,581	7,319	22,275
Additions at cost	351	–	1	630	982
Disposals at cost or valuation	–	–	–	(377)	(377)
Surplus on revaluation	3,636	–	63	–	3,699
At 31 December 2006	15,078	284	3,645	7,572	26,579
At valuation	15,078	–	3,645	–	18,723
At cost	–	284	–	7,572	7,856
	15,078	284	3,645	7,572	26,579
Accumulated depreciation					
At 1 January 2006	191	249	–	6,014	6,454
Depreciation for the year	233	17	–	591	841
Depreciation on disposals	–	–	–	(373)	(373)
Adjustment on revaluation	(96)	–	–	–	(96)
At 31 December 2006	328	266	–	6,232	6,826
Net book amount at 31 December 2006	14,750	18	3,645	1,340	19,753
Net book amount at 31 December 2005	10,900	35	3,581	1,305	15,821
On an historical cost basis the comparable amounts for tangible fixed assets are:					
Cost	11,659	284	162	7,572	19,677
Accumulated depreciation	(5,058)	(266)	–	(6,232)	(11,556)
Net historical cost at 31 December 2006	6,601	18	162	1,340	8,121

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

16 Property, plant and equipment (continued)

	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computer hardware and equipment £'000	Institute Total £'000
Cost or valuation					
At 1 January 2006	11,091	284	3,581	7,123	22,079
Additions at cost	351	–	1	630	982
Disposals at cost or valuation	–	–	–	(377)	(377)
Surplus on revaluation	3,636	–	63	–	3,699
At 31 December 2006	15,078	284	3,645	7,376	26,383
At valuation	15,078	–	3,645	–	18,723
At cost	–	284	–	7,376	7,660
	15,078	284	3,645	7,376	26,383
Accumulated depreciation					
At 1 January 2006	191	249	–	5,840	6,280
Depreciation for the year	233	17	–	578	828
Depreciation on disposals	–	–	–	(373)	(373)
Adjustment on revaluation	(96)	–	–	–	(96)
At 31 December 2006	328	266	–	6,045	6,639
Net book amount at 31 December 2006	14,750	18	3,645	1,331	19,744
Net book amount at 31 December 2005	10,900	35	3,581	1,283	15,799
On an historical cost basis the comparable amounts for tangible fixed assets are:					
Cost	11,659	284	162	7,376	19,481
Accumulated depreciation	(5,058)	(266)	–	(6,045)	(11,369)
Net historical cost at 31 December 2006	6,601	18	162	1,331	8,112

17 Intangible assets

	Group and Institute Computer software 2006 £'000	2005 £'000
At 1 January	3,444	2,587
Additions at cost	1,325	857
At 31 December	4,769	3,444
Accumulated amortisation		
At 1 January	1,200	553
Amortisation for the year	923	647
At 31 December	2,123	1,200
Net book amount at 31 December	2,646	2,244

Amortisation charges are allocated to departments on the basis of the usage of the Institute's systems.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

18 Investments in subsidiaries and associates

The following entities have been treated as subsidiaries on the basis that the Institute, through its nominating committee, controls the appointment of trustee directors:

	Activity
General Charitable Trust	Makes donations to charitable purposes of particular interest to the Institute
PD Leake Trust	Provides grants for accountancy research, conferences and publications
Chartered Accountants' Permanent Educational Trust	Provides examination prizes
Chartered Accountants' Trust for Education and Research	Owns and operates the Institute 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 following principal related companies have been treated as associates. In each case, and notwithstanding the majority ownership of CCAB Limited and the Chartered Accountants' Compensation Scheme Limited, the Institute has significant influence to participate in, but not govern, the financial and operating policies of the companies.

	Shareholding %	2006 cost £	Activity
The Joint Insolvency Examination Board (a company limited by guarantee)	–	–	Conducts examinations in insolvency practice to meet the education requirements of the Insolvency Act 1986. The Institute is one of seven subscribers each of whom has guaranteed £1 in the event of the company being wound up
Fraud Advisory Panel (a company limited by guarantee)	–	–	Registered charity which carries out research into, and education in, all aspects of fraud prevention, detection, prosecution and deterrence
CCAB Limited	51.7%	517	Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles
Chartered Accountants' Compensation Scheme Limited	80.0%	800	Evaluates and administers claims for compensation arising from the Institute's obligations as a recognised professional body under the Financial Services Act 1986 and as a designated professional body under the Financial Services and Markets Act 2000
Dormant companies		1,206	
		2,523	

The companies all operate on a not-for-profit basis. A full list of subsidiaries and associates is available at www.icaew.com/review.

Financial information relating to the associates is summarised below for the year ended 31 December 2006:

	The Joint Insolvency Examination Board 2006 £'000	Fraud Advisory Panel 2006 £'000	CCAB Limited 2006 £'000	Chartered Accountants' Compensation Scheme Limited 2006 £'000
Assets	246	139	1,009	113
Liabilities	(93)	(36)	(1,008)	(112)
Net assets	153	103	1	1
Revenue	141	144	3,872	112
Net result	19	8	–	–
Balances due from/(to) associates as at 31 December 2006	41	–	(754)	14
Group share of net assets as at 31 December 2006	21	35	1	1
Group share of net result for the year ended 31 December 2006	(6)	–	–	–

19 Financial assets: available for sale investments

Group

	Interest-bearing investments 2006 £'000	Equities and unit trusts 2006 £'000	Total 2006 £'000	Interest-bearing investments 2005 £'000	Equities and unit trusts 2005 £'000	Total 2005 £'000
Fair value						
At 1 January	22,222	11,015	33,237	21,040	9,408	30,448
Additions	58,154	4,301	62,455	73,397	5,601	78,998
Disposals	(58,007)	(4,367)	(62,374)	(73,024)	(5,641)	(78,665)
Gains on disposal	826	755	1,581	809	881	1,690
Change in market value of investments:						
Recognised in statement of recognised income and expense	–	482	482	–	766	766
At 31 December	23,195	12,186	35,381	22,222	11,015	33,237
On an historical cost basis the comparable amounts of investments are:						
At 31 December	23,195	9,664	32,859	22,222	8,884	31,106

Within group investments are charitable funds of £10,722,000 (2005: £9,926,000) which are maintained independently of the Institute, and for which investment policies are set, and performance monitored, by the trustee.

Institute

	Interest-bearing investments 2006 £'000	Equities and unit trusts 2006 £'000	Total 2006 £'000	Interest-bearing investments 2005 £'000	Equities and unit trusts 2005 £'000	Total 2005 £'000
Fair value						
At 1 January	18,309	5,002	23,311	17,465	4,195	21,660
Additions	48,292	1,619	49,911	64,096	3,177	67,273
Disposals	(48,276)	(1,624)	(49,900)	(64,051)	(3,168)	(67,219)
Gains on disposal	826	276	1,102	799	514	1,313
Change in market value of investments:						
Recognised in statement of recognised income and expense	–	235	235	–	284	284
At 31 December	19,151	5,508	24,659	18,309	5,002	23,311
On an historical cost basis the comparable amounts of investments are:						
At 31 December	19,151	4,390	23,541	18,309	4,089	22,398

Interest-bearing investments include cash investments of £147,000 (2005: £1,272,000).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

20 Non-current financial assets – other receivables

	Group and Institute	
	2006 £'000	2005 £'000
Deferred consideration receivable	4,500	5,500

Deferred consideration following the sale of the business of ABG Professional Information in 2002 is receivable as follows:

	2006 £'000	2005 £'000
Within one year (included within current assets)	1,000	1,000
Within two to five years	4,000	4,000
After more than five years	500	1,500
	5,500	6,500

Deferred consideration is receivable from Wolters Kluwer NV, a group with annual revenues for 2006 of €3,693m (2005: €3,374m) incorporated in the Netherlands and engaged in publishing and providing information products and services. The carrying value of this asset is considered to be equal to its fair value, as interest is receivable at an appropriate level to compensate for the discounted value of the deferred consideration. The relationship with Wolters Kluwer is managed and monitored through the Institute's risk management process.

21 Deferred taxation

	Group and Institute	
	2006 £'000	2005 £'000
The provision for deferred taxation comprises:		
Revaluation of short-term investments	(336)	(274)
Revaluation of properties and historic collections	(360)	(297)
Deferred tax liability	(696)	(571)
Inflationary element of ABG Professional Information deferred consideration	239	284
Defined benefit pension scheme deficit	789	665
Deferred tax asset	1,028	949
Net deferred tax asset	332	378

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

	Group and Institute				
	Revaluation of short-term investments 2006 £'000	Revaluation of properties and historic collections 2006 £'000	Inflationary element of deferred consideration 2006 £'000	Defined benefit pension scheme deficit 2006 £'000	2006 £'000
Asset at 1 January	(274)	(297)	284	665	378
Recognised in income statement	–	–	(45)	–	(45)
Recognised in statement of recognised income and expense	(62)	(63)	–	124	(1)
Asset at 31 December	(336)	(360)	239	789	332

A deferred tax asset of £369,000 (2005: £177,000) relating to trade losses has not been recognised as its future recovery is uncertain.

22 Inventories

	Group and Institute	
	2006 £'000	2005 £'000
Publications, other products and sundry stocks	631	303

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

23 Trade and other receivables – current

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Trade and other debtors	10,404	8,792	10,302	8,728
Amounts owed by subsidiaries	–	–	31	300
Amounts owed by associates	55	62	55	62
Deferred consideration receivable	1,000	1,000	1,000	1,000
Prepayments	1,620	1,703	1,620	1,703
Accrued income	975	457	975	457
	14,054	12,014	13,983	12,250
Less: provision for impairment of receivables	(438)	(528)	(438)	(528)
	13,616	11,486	13,545	11,722

The principal component of trade and other debtors is amounts due from the Institute's members and member firms, and in the case of disciplinary fines and costs, certain former members. As a result, the council believes there is no further credit risk provision required in excess of the normal provision for impairment of receivables.

24 Cash and cash equivalents

Cash and cash equivalents consist of current balances with banks and money market deposits. They do not include interest-bearing investments held for the long-term. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Cash at bank	5,696	2,976	5,570	2,893
Short term investments	7,921	5,960	7,921	5,960
	13,617	8,936	13,491	8,853

25 Trade and other payables

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Subscriptions and admission fees in advance	8,749	7,741	8,749	7,741
Amounts owed to associates	754	505	754	505
Other income in advance	5,007	4,235	5,007	4,235
Trade payables	2,627	2,542	2,627	2,542
Other payables	2,611	2,905	2,360	2,602
Income tax and social security payables	994	814	994	814
Accruals	5,131	4,231	5,131	4,225
	25,873	22,973	25,622	22,664

26 Other non-current liabilities

	Group 2006 £'000	Group 2005 £'000	Institute 2006 £'000	Institute 2005 £'000
Trade and other payables – grant commitments	4	29	–	–

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

27 Staff Pensions Fund liability

Defined benefit scheme
The Institute operates a defined benefit staff pension scheme which provides participating members of staff with retirement benefits based on their final pensionable salary. The assets of the scheme are held by a separate trustee-administered fund. The scheme was closed to new members on 1 July 2000 and therefore, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The level of contributions required to fund the scheme is assessed by a qualified actuary on a triennial basis using the projected unit method. The most recent valuation of the fund was carried out by Hymans Robertson as at 5 April 2004 on the projected unit method. At the valuation date, the market value of the assets of the fund was £55.2m, which represented 76% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

On the basis of the most recent valuations the agreed rate of employer's contributions ranged from 13.5% and 20.6% of pensionable earnings for participating employees. Employee contributions ranged from 6% to 10%. The Institute agreed to make additional employer contributions during the year in respect of back-dated benefits awarded to participating employees attaining 10 years' service with the Institute during that period of £250,000 (2005: £370,000). The Institute made further monthly payments during 2006 in respect of past service deficits totalling £1,415,000 (2005: £6,044,000). These monthly payments, adjusted for inflationary increases, are anticipated to continue until the next full actuarial valuation.

The scheme's actuaries provide a separate report for IAS 19 Employee Benefits purposes at each year end.

The assumptions made at 31 December on the advice of the scheme's actuaries were:

	2006	2005	2004
Discount rate	5.00%	4.75%	5.25%
Expected return on scheme assets	6.17%	5.97%	6.61%
Future salary increases	4.50%	4.25%	4.25%
Future increases in pensionable earnings	3.00%	2.75%	2.75%

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 62 of 24.1 years (men) and 27.0 years (women); and for current non-pensioners of 25.3 years (men) and 28.1 years (women). These assumptions have been updated for the purposes of the IAS 19 valuation.

The actuaries have confirmed that the assumptions adopted are within their acceptable range for the purposes of the IAS 19 valuation, and have calculated the sensitivity of the liabilities as at 31 December 2006 to certain key assumptions as follows:

	Change in assumption	Effect on value of liabilities %	£'000
Discount rate	Increase/decrease by 0.5% pa	Decrease/increase by 11%	£12,500
Rate of inflation	Increase/decrease by 0.5% pa	Increase/decrease by 11%	£12,500
Real rate of increase in salaries	Increase/decrease by 0.5% pa	Increase/decrease by 4%	£4,500
Longevity	Increase by 1 year	Increase by 3%	£3,500

The following table summarises the results of the updated valuation of the fund:

	Group		Institute	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Present value of funded obligations	(113,063)	(102,165)	(113,063)	(102,165)
Fair value of plan assets	86,772	80,034	86,772	80,034
Whole scheme deficit	(26,291)	(22,131)	(26,291)	(22,131)
Less: relating to other employers	241	213	1,073	923
Scheme deficit relating to the Institute	(26,050)	(21,918)	(25,218)	(21,208)

The scheme is a multi-employer scheme. The Institute is the main employer in the scheme. The assets and liabilities, and share of actuarial gains and losses are split based on active members in the scheme.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

27 Staff Pensions Fund liability (continued)

Reconciliation of defined benefit obligation – whole scheme

	2006 £'000	2005 £'000
Opening defined benefit obligation	102,165	87,043
Current service cost	2,137	1,867
Interest on obligation	4,846	4,579
Contributions by plan participants	781	774
Actuarial loss in year	6,323	10,189
Benefits paid	(3,189)	(2,287)
Closing defined benefit obligation	113,063	102,165

Reconciliation of fair value of plan assets – whole scheme

	2006 £'000	2005 £'000
Opening fair value of plan assets	80,034	61,209
Expected return on assets	4,797	4,257
Contributions by plan participants	781	774
Contributions by the employer	3,061	7,877
Actuarial gains	1,288	8,204
Benefits paid	(3,189)	(2,287)
Closing fair value of plan assets	86,772	80,034
Actual return on assets	6,085	12,460

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

	2006	2005
Equities	69%	71%
Government bonds	26%	26%
Cash	5%	3%

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

	Group		Institute	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Current service cost	(2,137)	(1,867)	(2,137)	(1,867)
Expected return on pension scheme assets	4,797	4,257	4,797	4,257
Interest on pension scheme liabilities	(4,846)	(4,579)	(4,846)	(4,579)
	(2,186)	(2,189)	(2,186)	(2,189)

Amounts recognised in the statement of recognised income and expense:

	Group		Institute	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Actuarial gains on plan assets	1,288	8,204	1,288	8,204
Actuarial losses on obligation	(6,323)	(10,189)	(6,323)	(10,189)
Actuarial loss – whole scheme	(5,035)	(1,985)	(5,035)	(1,985)
Less: relating to other employers within the scheme	45	15	227	75
Actuarial loss in statement of recognised income and expense	(4,990)	(1,970)	(4,808)	(1,910)

27 Staff Pensions Fund liability (continued)

Amounts for the current and previous periods are as follows:

	2006 £'000	2005 £'000
Defined benefit obligation	(113,063)	(102,165)
Plan assets	86,772	80,034
Whole scheme deficit	(26,291)	(22,131)
Actuarial gains on plan assets	1,288	8,204
Actuarial losses on obligation	(6,323)	(10,189)
Cumulative actuarial loss since 1 January 2004	(5,349)	(314)

Money purchase plan/stakeholder scheme

The Institute also operated a money purchase plan for employees who are not entitled to participate in the defined benefits scheme. During 2005 it became apparent that parts of the money purchase plan contained income guarantees for participants, which on a winding up basis, would have resulted in a funding deficit. A provision of £150,000 set aside in 2005 to resolve these funding issues was settled during the year at £146,000 and the Institute has no further participation in, or liability to the scheme.

Following from the Institute's decision to withdraw from the money purchase plan, a stakeholder scheme has been established which provides benefits based upon contributions made and investment returns achieved. The scheme first received contributions in April 2006. The assets of the scheme are held in a separate trustee fund. The Institute contributes 9% of pensionable earnings for participating employees. The employees themselves contribute a minimum of 4%.

The amount charged to the income statement during the year in respect of these schemes was £823,000 (2005: £675,000). There were no contributions payable to the scheme at the balance sheet date (2005: £nil to the money purchase plan).

28 Joint Disciplinary Scheme provision

	2006 £'000
Balance at 1 January	2,206
Charge to income statement – subscription funded	3,394
Amounts paid	(3,367)
Balance at 31 December	2,233

The JDS is funded by two participant bodies; the Institute and The Institute of Chartered Accountants of Scotland. The amount provided is based on the estimated cost to the Institute of investigations by the JDS in respect of cases arising from events up to 31 December 2006. The provision is expected to be utilised over the next two years.

29 Accountancy Investigation and Discipline Board provision

	2006 £'000
Balance at 1 January	2,209
Charge to income statement – subscription funded	1,042
Charge to income statement – practice regulation funded	600
Amounts paid	(688)
Balance at 31 December	3,163

The costs of investigations by the AIDB are funded by the participating Institutes, being the Institute, The Chartered Institute of Management Accountants, The Chartered Institute of Public Finance and Accountancy, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland and The Association of Chartered Certified Accountants. The provision is expected to be utilised over the next three to five years.

Management reviews the adequacy of both the JDS and AIDB provisions on at least a quarterly basis, through reviews of past case cost estimates and discussions of ongoing cases with relevant individuals.

30 Reserves

Group

	Revaluation reserve 2006 £'000	Investment revaluation reserve 2006 £'000	Accumulated fund 2006 £'000	Self-financing reserves 2006 £'000	Charitable funds 2006 £'000	Total 2006 £'000
Reserves at 1 January	7,358	620	6,787	4,966	8,747	28,478
Net result after taxation	–	–	976	2,780	1,029	4,785
Increase in valuation of property, plant and equipment	3,795	–	–	–	–	3,795
Net change in market value of long-term investments over cost	–	235	–	–	247	482
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(3,212)	(1,596)	(182)	(4,990)
Deferred tax attributable to above	(63)	(62)	124	–	–	(1)
	3,732	173	(2,112)	1,184	1,094	4,071
Reserves at 31 December	11,090	793	4,675	6,150	9,841	32,549

Institute

	Revaluation reserve 2006 £'000	Investment revaluation reserve 2006 £'000	Accumulated fund 2006 £'000	Self-financing reserves 2006 £'000	Total 2006 £'000
Reserves at 1 January	7,358	620	6,726	4,966	19,670
Net result after taxation	–	–	982	2,780	3,762
Increase in valuation of property, plant and equipment	3,795	–	–	–	3,795
Net change in market value of long-term investments over cost	–	235	–	–	235
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(3,212)	(1,596)	(4,808)
Deferred tax attributable to above	(63)	(62)	124	–	(1)
	3,732	173	(2,106)	1,184	2,983
Reserves at 31 December	11,090	793	4,620	6,150	22,653

The revaluation reserve represents the excess of the open market valuation over the depreciated historical cost of the Institute's historic collections and properties, net of deferred taxation. The investment revaluation reserve represents the excess of unrealised gains and losses on available for sale investments over their historical cost.

Included within the self-financing reserves is £2,878,000 relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations the Institute 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 in respect of work carried out by authorised firms under both the Recognised Professional Bodies (RPB pre 2001) and Designated Professional Bodies (DPB post 2001) regimes and maintains a provision to meet anticipated future claims. The reserve is expected to be utilised over a period of approximately 10 years. A levy was made in 2006 in respect of licensed firms under the DPB regime. The Institute has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (continued)

31 Leasing commitments

Operating leases

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

	Group and Institute		Group and Institute	
	Land and buildings 2006 £'000	Plant and machinery 2006 £'000	Land and buildings 2005 £'000	Plant and machinery 2005 £'000
Operating leases which expire:				
Within one year	279	24	92	53
In the second to fifth years inclusive	514	313	562	325
After five years	138	–	179	–
	931	337	833	378

During 2006 the Institute reviewed its ongoing property requirements in Milton Keynes and in December 2006, the council approved a proposal to enter a 15 year lease on new premises in central Milton Keynes to be occupied in the course of 2007. It is the council's intention to dispose of Gloucester House, the existing freehold property in Milton Keynes, in due course.

32 Staff costs

	Group		Institute	
Average number of staff employed during the year	2006	2005	2006	2005
Learning & professional development	73	67	73	67
Professional standards	128	132	128	132
Member services	38	44	38	44
Regional services	57	57	57	57
Technical strategy and faculties	68	62	68	62
Central activities	177	176	177	176
Charitable trusts	16	15	–	–
Total employees	557	553	541	538
Full time equivalents	541	527	525	512

Employment costs	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Wages and salaries	23,120	21,315	22,620	20,867
Employer's social security costs	2,326	2,125	2,280	2,086
Employer's pension costs	3,081	2,940	2,955	2,778
	28,527	26,380	27,855	25,731

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2005: one). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with the Institute.

33 Key management compensation – executive directors

	Salary 2006 £'000	Bonus 2006 £'000	Total 2006 £'000	Total 2005 £'000
Eric Anstee (chief executive to 6 December 2006)	348	84	432	389
Michael Izza (chief executive from 6 December 2006)	223	50	273	240
Robert Hodgkinson	210	42	252	156
Raymond Madden	210	42	252	137
Vernon Soare (appointed 3 January 2006)	155	31	186	–
Former executive directors	–	–	–	148
	1,146	249	1,395	1,070

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 Institute benefits such as pension scheme membership, health insurance or a car. Annual bonuses are payable to executive directors on the basis of performance and the recommendation of the remuneration committee. Michael Izza has commuted salary of £21,000 (2005: £20,000) during the year in return for a contribution to his personal pension plan.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006 (continued)

34 Segment information

In the opinion of the council, the Institute's main departments are considered separate reportable business segments as a result of the nature of the products and services, regulatory environment and relevant risks and returns. There are no material geographic segments to report as operations are based in the UK. Segment information relating to income and expenditure is included on the face of the income statement.

Segment net assets

									Group
	Learning & professional development 2006 £'000	Professional standards 2006 £'000	Member services 2006 £'000	Technical strategy 2006 £'000	Central activities 2006 £'000	External bodies 2006 £'000	Charitable trusts 2006 £'000	Unallocated 2006 £'000	2006 £'000
Assets	1,685	501	107	51	1,896	388	10,959	75,643	91,230
Liabilities	(1,340)	(6,801)	(517)	(1,220)	(2,824)	–	(1,118)	(44,861)	(58,681)
	345	(6,300)	(410)	(1,169)	(928)	388	9,841	30,782	32,549

									Group
	Learning & professional development 2005 £'000	Professional standards 2005 £'000	Member services 2005 £'000	Technical strategy 2005 £'000	Central activities 2005 £'000	External bodies 2005 £'000	Charitable trusts 2005 £'000	Unallocated 2005 £'000	2005 £'000
Assets	266	990	151	37	2,073	412	10,095	64,516	78,540
Liabilities	(1,006)	(6,283)	(809)	(1,885)	(1,978)	–	(1,348)	(36,753)	(50,062)
	(740)	(5,293)	(658)	(1,848)	95	412	8,747	27,763	28,478

Trust segment assets include property, plant and equipment, cash and other receivables owned by the trusts. For the main departments, segment assets include inventories, other receivables and other payables directly attributable to these areas; the remaining assets and liabilities are classified as unallocated. Property and intangible asset purchases, related depreciation and amortisation, non-cash expenses and share of results of associates are not allocated to departments, with the exception of the charitable trusts. The charitable trusts own property with a net book value of £9,000 (2005: £22,000), depreciation of £13,000 was charged in the year (2005: £12,000).

35 Contingent liabilities and guarantees

The Institute has undertakings to Chartered Accountants' Compensation Scheme Limited (CACS Ltd) in respect of its agreed proportion of claims for compensation and administration costs, of amounts up to but not exceeding £10,000,000 in any one year. In support of these undertakings, the Institute and the other participants in CACS Ltd have entered into an agreement with CACS Ltd's bankers to guarantee each participant's proportion of a facility which would enable CACS Ltd to meet its obligations in respect of the first £2,500,000 of claims. Payments for individual claims are limited to a maximum of £50,000. The Institute's share of the costs of the scheme is recovered from those firms licensed by the Institute under the Financial Services and Markets Act 2000 and those firms previously authorised by the Institute under the Financial Services Act 1986 as appropriate.

During the year ended 31 December 2001 ABG Professional Information assigned the residue of a property lease to a third party. The Institute signed an authorised guarantee agreement in respect of rents due under the remainder of the lease. The current annual rental is £87,800 and the lease is due to expire in 2013.

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