THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Accounts : 2003

www.icaew.co.uk/review

FINANCIAL REVIEW

These Accounts should be read in conjunction with the Annual Review

Overview

The Institute's gross income for 2003 increased by 6.3% to £47.1 million (2002: £44.3 million). The retained surplus for the year was £0.54 million compared with a like-for-like deficit of £1.26 million in 2002 (after eliminating the exceptional profits and tax charges associated with the sale of ABG Professional Information in 2002). The result includes a further year of higher than expected case costs from the Joint Disciplinary Scheme in respect of existing cases (up £0.6 million compared with 2002), partially offset by fines and cost recoveries of £1.2 million (2002: £1.1 million), primarily from the completed investigation into Wickes.

The Institute's balance sheet remains strong. Despite a further decrease in the value of Chartered Accountants' Hall, net assets at the end of the year were £37.0 million (2002: £37.9 million). Net cash outflow before movement on short term investments for the year was £11.5 million (2002: £1.3 million) as a result of settling the taxation liabilities arising on the sale of ABG Professional Information in 2002 and the timing of membership subscription renewals. Excluding these two items the cash position for the year was broadly neutral.

Subscriptions and Other Income

Subscriptions and fees increased by 21%, reflecting a 1.6% increase in membership numbers and the approved increase in rates for 2003. Membership numbers continue to increase and at the end of the year stood at 125,643 (2002: 123,654).

Income from subscription based services and commercial activities rose by £0.4 million to £4.8 million. Income from self financing activities (Student Education and Training, Practice Regulation and Faculties) fell by £1.9 million to £16.1 million in line with planned business changes.

Licence fee income amounted to £1.85 million (2002: £1.85 million) in the year arising from our strategic alliance with Wolters Kluwer.

Operating Activities

The fee increases approved by the members in 2003, have enabled us to continue developing the key priorities for the Institute while driving operating efficiencies and cost savings throughout the organisation. Central and administration costs reduced by £0.8 million before overhead recoveries to £15.3 million (2002: £16.1 million). Full time equivalent headcount has increased overall during the year from 425 to 428 (fallen from 488 to 486 including Library and JMU staff who have employment contracts with the Institute). At the same time the number of employees in the central and administrative areas has fallen from 182 to 178.

Investment Income and Taxation

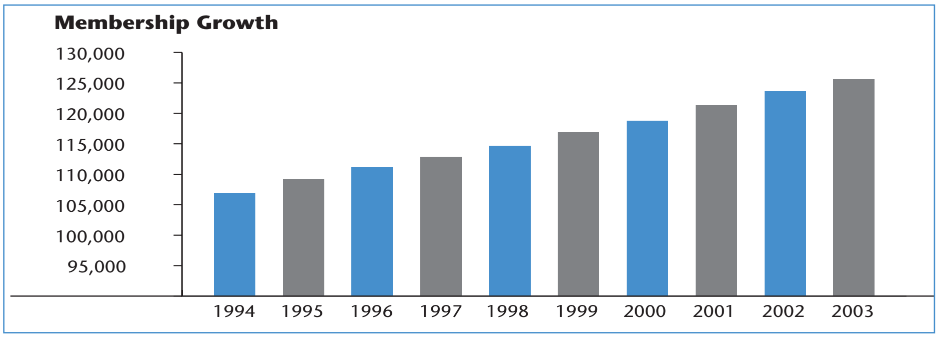
Low interest rates have continued to affect our investment income during 2003. We have achieved non-equity investment returns of 3.8% for the year as a whole (2002: 4.0%), maintaining the majority of our funds available in cash and near cash instruments in line with the Institute's low risk investment strategy. Our equity portfolio yielded gross dividends of 2.7% (2002: 2.2%).

The Institute's 2003 tax charge on its non-mutual activities (investment and licence fee income and trading with non-members) has been reduced by Gift Aid payments to the Chartered Accountants' Trust for Education and Research. Agreement with the Inland Revenue on the liability arising on the sale of ABG Professional Information in 2002 has contributed substantially to a credit of £0.5 million in respect of prior years.

Balance Sheet and Cash Flows

Net assets at 31 December 2003 were £37.0 million (2002: £37.9 million). The valuation of Chartered Accountants' Hall has fallen for the second year in succession to £8.1 million, reflecting a substantial reduction in City property rentals. The reduction of £1.8 million has been dealt with as a reduction in revaluation reserves. The effect of this reduction is offset by increases in the value of the Institute's equity portfolio (up 12.5% to £3.8 million) and an increase in the value of the Rare Book Collection by £0.3 million.

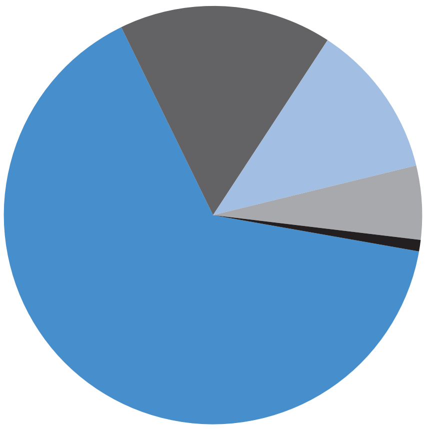
Current cash and short term investment levels have fallen by £11.5 million as a result of the payment of tax liabilities following the disposal of ABG Professional Information in 2002 and the timing of membership renewals. Current liabilities have fallen by a similar amount.



FINANCIAL REVIEW

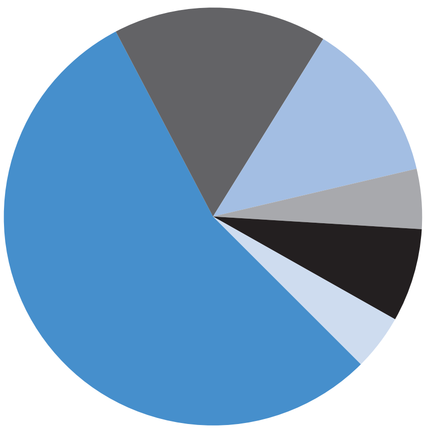
These Accounts should be read in conjunction with the Annual Review

Operating income 2003 (£'000)



- Subscription Based Activities **30,614**
- Practice Regulation **7,752**
- Student Education and Training **5,634**
- Faculties **2,691**
- Participation in External Bodies **415**

Operating expense 2003 (£'000)



- Subscription Based Activities **26,334**
- Practice Regulation **7,941**
- Student Education and Training **6,001**
- Faculties **2,230**
- Participation in External Bodies **3,469**
- Gift Aid and Library funding **2,073**

Information Technology

Implementation of our new membership systems has continued apace and is starting to deliver a more integrated approach to managing our whole relationships with members and firms. Phases encompassing national and regional events booking and audit and insolvency registration have been completed during 2003.

Visits to our website from members, students and others continue to show upward trends. Online activities such as payments of fees and subscriptions and release of examination results are proving popular.

Property Services and Facilities

Property Services and Facilities has completed a new long term maintenance plan for Chartered Accountants' Hall. Major projects have been undertaken during 2003 to repair the Great Hall roof, replace the boilers and upgrade electrical supplies. All have been achieved within budget and without significant disruption to the daily running of the building.

A strategic review of our property requirements in Milton Keynes has started in anticipation of the lease on our Silbury Court premises (which houses the Professional Standards Directorates) coming to an end in 2007.

We continue to market and promote our excellent public facilities at Chartered Accountants' Hall and are pleased that both room bookings and esca, our restaurant, have continued to perform satisfactorily.

Michael Izza
Chief Operating Officer
16 March 2004

TREASURER'S REPORT

Overview

It is pleasing to report a satisfactory financial outcome for the year, my first as Treasurer. Once again members will not be surprised to learn that the Institute faced substantial challenges during the year. Changes in membership subscription patterns, lower than expected investment income returns and a further year of higher than anticipated case costs from the Joint Disciplinary Scheme, emphasise the continuing need for vigilance and tight financial management.

Our planning, forecasting and management reporting processes are well established with both The Board and with the Council. I am grateful to Michael Izza, our Chief Operating Officer, for the rigour and candour with which he engages the Council throughout the year.

I would like to thank Peter Smith, my predecessor as Treasurer, for his contribution and wisdom over the past two years and to wish him well for the future.

International Accounting Standards

The Institute will adopt IAS from 2005. Preparation is already under way with initial briefings to The Board during 2003 and a continuous programme of training and assessment. I am pleased that our Finance and Technical Strategy teams have been working together to produce a practical case study of how we are going about preparing for implementation in 2005 and an initial assessment of the likely impact on the Institute's financial reporting. The case study is published at www.icaew.co.uk/technicalpolicy and will be updated regularly between now and 2005.

Pensions

Despite a marked improvement in the world's capital markets during 2003, the funding deficit on our defined benefit pension arrangements increased substantially, mainly reflecting an increase in forecast price inflation from 2.25% to 2.75% and an actuarial re-assessment of life expectancy after retirement. This year's FRS 17 disclosures show a deficit at 31 December 2003 of £26.6 million compared with £22.2 million at the end of 2002.

As we have reported in previous years, we agreed to increase employer cash contributions to the scheme by £1.3 million during the period 2002–2004. We have also taken a number of steps to restrict our liabilities, firstly by closing the scheme to new members in July 2000, secondly by increasing employee contributions by 1% from the end of 2002 and thirdly by limiting the future pension entitlement for members of the scheme with less than ten years' service.

The next full actuarial valuation of the scheme is due to take place in 2004. The indication from our actuaries is that we should be planning to increase employer contributions by between £1.5 million and £2.5 million a year from the start of 2005. Our current reserves of £37.0 million are substantially earmarked for continuing operations and for future investment to maintain and increase our reputation and income. Consequently, the funding of the pension deficit will need to be drawn from the Institute's future income streams.

Outlook for 2004 and Beyond

The challenges for the Institute will undoubtedly increase again in 2004. The current strategic review will reset the objectives for 2005 and onwards and will require your Council to re-appraise our future priorities and funding needs. Continuing global concern over failures in corporate governance and control require us more than ever to promote the importance and value of our profession and in particular its reputation for excellence and high ethical standards. The unprecedented pace of change in worldwide accounting and auditing standards and regulation places a great responsibility on the Institute to continue to provide technical thought leadership and effective support for all our members in business and practice. It is vital that the Institute's international reputation is sustained and developed further.

The demands on our resources are ever increasing. I am pleased that continual efforts are being made to improve the efficiency and effectiveness of the way the Institute manages its affairs. As members we should all be concerned to ensure that our Institute is properly funded in these challenging times so that it has the resources to address these major issues effectively on our behalf.

Philip Hollins
Treasurer
16 March 2004

CORPORATE GOVERNANCE STATEMENT

Constitution

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

The Council has therefore reviewed the Institute's compliance with the provisions of the revised Combined Code issued by the Financial Reporting Council in July 2003. Although the revised Code applies for reporting years beginning on or after 1 November 2003, the Council has agreed that the Institute should report its compliance status with the terms of the revised Code in its report for the year ended 31 December 2003.

The terminology of the revised Code is, of course, directed towards 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 broadly in compliance with relevant Principles and Provisions of the revised Code. It has made, or is making, adjustments where necessary to bring Institute practice more into line with the revised 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. The ordinary annual business of the Institute includes the reception and consideration of the annual report of the Council and the accounts of the Institute with the report of the auditors.

The annual report (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 arrangements for notice of, and resolutions, proxy votes and attendance at, Institute annual and special meetings, and the content of the annual report, comply with the provisions of the Combined Code. From the annual and special meetings in 2004, the Institute will also indicate the level of proxies lodged in respect of each resolution.

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 the overall Institute Strategy and Strategic Plan, including the Institute budget. It scrutinises policies, policy changes and budgets proposed by The Board and the Directorate Boards in support of the Strategy. It also reviews the activities and performance of the Directorate Boards. 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 2003, the Council comprised 96 members as follows:

> 69 members elected by the membership at large from 22 constituencies (which have the same boundaries as the District Societies);

> 16 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; and

> 11 members *ex officio* (the Office-Holders (President, Deputy-President and Vice-President), the two immediate Past-Presidents, the elected Faculty Committee Chairmen and the Chairman of the Practice Society Committee).

Each Council member receives an induction on joining the Council. Brief details of each Council member, including their present employment commitments together with their record of attendance at Council meetings in 2003, appear in the Annual Review.

Elections

The Institute conducts elections to the Council in alternate years when approximately 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 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. Council 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 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.

The Council elects its own Chairman annually from amongst its members.

The President and Chief Executive

The President (the Combined Code 'Chairman') and other Office-Holders act as the leading ambassadors of the Institute. They 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 taken into account in the development of Institute Strategy and policies. They counsel and advise the Chief Executive. The President, in particular, represents the Institute at home and abroad, presents the views of the Council to Government, other public bodies and the public, and acts as Chairman of Institute meetings and of the CCAB. He also chairs The Board.

The Chief Executive 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.

CORPORATE GOVERNANCE STATEMENT

The Institute complies with the provisions of the Code relating to the separation of roles and responsibilities of Chairman and Chief Executive. It is likely, for all practical purposes, both that the President will ordinarily 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 (formerly called 'the Executive Board') is responsible, on behalf of the Council, for all matters relating to the development and implementation of the Institute's Strategy and operational plans in support of the 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 in conjunction with the President, Chief Executive and Executive Directors and provides advice on governance issues as required. Senior staff report to each meeting of The Board on performance against operational plans. The Chief Operating Officer reports monthly to The Board on performance against budget. He also reports three times a year 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 the 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 will be introduced in 2004. The Board has agreed to undertake, from 2004, an annual evaluation of its performance and that of its supporting committees and members. 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 Directorate 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 and Chief Operating Officer whose notice periods are 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 ordinarily 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). The members of The Board (for whom brief biographical details can be found in the 'about the Institute' section of the Institute website) during 2003 were:

Volunteer members	Position	Appointed	Retired	Attendance
Debbie Anthony	Chairman, Education and Training Board	4 June		5/6
Ian Cherry	Elected by the Council			11/11
Paul Druckman	Vice-President to 4 June; Deputy-President from 4 June			8/11
Maurice Ede	Chairman, Professional Standards Board			8/11
Bruce Gray	Chairman, Member Services Board			9/11
Philip Hollins	Treasurer	4 June		5/6
David Illingworth	Deputy-President to 4 June; President and Chairman from 4 June			11/11
Geoffrey Mitchell OBE	Chairman, Technical Strategy Board	4 June		3/6
Ian Morris	Vice-President from 4 June	4 June		5/6
Peter Smith	Treasurer		4 June	5/5
Mark Spofforth	Chairman, Education and Training Board		4 June	5/5
Nigel Turnbull	Chairman, Technical Strategy Board		4 June	5/5
Robert Webb	Elected by the Council			10/11
Peter Wyman	President and Chairman		4 June	4/5

Staff members				
Eric Anstee	Chief Executive	15 September		3/4
Brian Chiplin	Executive Director, Education and Training			10/11
Sally Hinkley CBE	Executive Director, Professional Standards	12 February		10/10
Michael Izza	Chief Operating Officer			10/11
Peter Owen CB	Secretary General		5 September	6/7

CORPORATE GOVERNANCE STATEMENT

Audit Committee

The Audit Committee is responsible, on behalf of the Council, for ensuring that all activities of the Institute are subject to independent review and audit, and for monitoring the Institute's relationship with its auditors. 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 Council approved revised and updated terms of reference for the Audit Committee in October 2003 which reflect, so far as is practical and appropriate, the recommendations of the *Audit Committees – Combined Code of Guidance* (the Smith Report), and thus of the revised Combined Code.

The Chairman of the Audit Committee reports annually to the Council. With effect from October 2003, the Audit Committee has made the minutes of its meetings available to The Board.

Gerry Acher CBE resigned from the Audit Committee on 19 February 2004.

The members of the Audit Committee during 2003 were:

	Position	Appointed	Retired	Attendance
Gerry Acher CBE	Non-Council Member			1/3
John Anderson OBE	Non-Council Member			2/3
Arthur Bailey	Council Member and Chairman			3/3
Phillip Day	Non-Council Member			3/3
Roger Gould	Non-Council Member			3/3
Philip Hollins	Council Member		4 June	1/1
Peter Jenkins	Council Member	4 June		0/2
Clive Parritt	Council Member		4 June	1/1
George Ridgway	Non-Council Member			1/3
Nigel Turnbull	Non-Council Member	4 June		1/2

Remuneration Committee

The Remuneration Committee keeps under review, on behalf of The Board, the elements of the remuneration packages 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 Institute otherwise complies with relevant provisions of the Code relating to remuneration policy, service contracts and compensation.

The members of the Remuneration Committee during 2003 were:

	Position	Appointed	Retired	Attendance
Dennis Cox				3/3
Paul Druckman		4 June		1/2
Richard Dyson		10 July		1/1
Philip Hollins		4 June		2/2
David Illingworth			4 June	1/1
David McBride	Chairman from 4 June			3/3
Mark Spofforth	Chairman to 4 June		4 June	1/1

The proceedings and procedures of the Remuneration Committee comply with relevant provisions of the Code.

CORPORATE GOVERNANCE STATEMENT

Nominating Committee

The Nominating Committee is responsible for recommending the appointment of co-options and of committee chairmen to the Council and for all matters relating to other appointments to committees etc, including succession planning. It reviews appointments annually (other than for appointments to the *quasi* judicial committees in the Professional Standards area, where appointments are for fixed terms) and makes recommendations and appointments on the basis of the best person for the job. The Committee is developing post and person specifications for those key positions currently without them.

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 composition, meetings and proceedings of the Nominating Committee comply with the provisions of the Code. The Nominating Committee members during 2003 were:

	Position	Appointed	Retired	Attendance
Paul Druckman	Vice-President to 4 June; Deputy-President from 4 June			2/3
Stella Fearnley	Elected by the Council		1 November	1/2
Michael Groom	Past-President			2/3
David Illingworth	Deputy-President to 4 June; President and Chairman from 4 June			3/3
Sheilagh Moffat	Elected by the Council	1 November		1/1
Ian Morris	Vice-President	4 June		2/2
Peter Rosewell	Elected by the Council			2/3
Graham Ward	Past-President		3 June	1/1
Peter Wyman	President and Chairman to 4 June; Past-President from 4 June			3/3

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 Directorate Board (or Treasurer in the case of the Chief Operating Officer) and the Chief Executive.

The Committee met in 2003 to consider the appointment of the Chief Executive. This appointment was facilitated by the use of an open advertisement and an external search consultancy.

A Special Committee (comprising the volunteer members of The Board and the Chairman of the Remuneration Committee) is convened in the event that the removal of a senior staff member is required.

Directorate Boards

Four Directorate Boards steer the development of policy for the Institute's member-facing functions. The Boards also exercise a general oversight of the work programmes of the Institute's member-facing Directorates through their involvement in the planning and budgeting process.

The Boards and their Chairmen in 2003 were:

Board	Chairman
Education and Training	Mark Spofforth to 4 June; Debbie Anthony from 4 June
Member Services	Bruce Gray
Professional Standards	Maurice Ede
Technical Strategy	Nigel Turnbull to 4 June; Geoffrey Mitchell OBE from 4 June

CORPORATE GOVERNANCE STATEMENT

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 to 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, religion and belief, 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 both by a formal recruitment process and a performance appraisal system, which identifies necessary training needs. The Institute is committed to the core values of integrity, openness, mutual respect and teamwork, and excellence and professionalism.

The Institute is accredited as an 'Investor in People' and is committed to the training and development of all its employees to enable them to meet both corporate and personal objectives.

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 2003 were 12 days (31 December 2002: 5 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. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Wider Aspects of Internal Control
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.

Each Directorate 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 key risk assessments are reported three times a year to the Management Team, The Board and the Council.

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*.

In March 2004 Council undertook its regular annual 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 key elements of the system of internal control are:

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.

Budgets
Detailed annual budgets are prepared by the staff for approval by The Board and the Council. 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 assesses risk and reviews controls, based on a four year, risk-based plan with more frequent reviews where necessary. The Department ensures that recommendations to improve controls are followed up by management. The Internal Audit Department reports formally to the Audit Committee which reviews the risk analysis and testing of the system of internal financial and wider controls. 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 2003.

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 surplus or deficit 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:

> selected suitable accounting polices 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.

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.

INDEPENDENT AUDITORS' REPORT
to the members of the Institute of Chartered Accountants in England and Wales

We have audited the financial statements on pages 10 to 28.

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 United Kingdom Accounting Standards 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 requirements and United Kingdom Auditing Standards. 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 Council's report is 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 the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial Review, the Treasurer's Report, the Corporate Governance Statement, the Five Year Summary and the Annual Review. 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 United Kingdom Auditing Standards 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 judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of affairs of the Institute as at 31 December 2003 and of its surplus for the year then ended.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
London
16 March 2004

REVENUE ACCOUNT
for the year ended 31 December 2003

Note		Income £'000	Expenditure £'000	2003 Net £'000	2002 Net £'000
	Subscriptions and other income				
	Subscriptions and fees	**23,932**	–	**23,932**	19,772
	Licence and data access fees	**1,850**	–	**1,850**	1,850
		25,782	–	**25,782**	21,622
	Subscription based services				
1	Members' Education and Training	**662**	**(2,740)**	**(2,078)**	(1,385)
2	Professional Standards	**664**	**(3,019)**	**(2,355)**	(2,154)
3	Member Services	**1,978**	**(7,875)**	**(5,897)**	(5,836)
4	Technical Strategy	**226**	**(3,361)**	**(3,135)**	(2,548)
5	Central Activities	**1,302**	**(9,339)**	**(8,037)**	(7,315)
		4,832	**(26,334)**	**(21,502)**	(19,238)
	Self financing activities				
6	Student Education and Training	**5,634**	**(6,001)**	**(367)**	(206)
7	Practice Regulation	**7,752**	**(7,941)**	**(189)**	(531)
8	Faculties	**2,691**	**(2,230)**	**461**	367
		16,077	**(16,172)**	**(95)**	(370)
9	**Participation in External Bodies**	**415**	**(3,469)**	**(3,054)**	(2,073)
10	**Gift Aid and Library funding**	–	**(2,073)**	**(2,073)**	(1,900)
	Totals of income and expenditure	**47,106**	**(48,048)**		
	(2002 Totals of income and expenditure	*44,322*	*(46,281))*		
11	**Operating deficit**			**(942)**	(1,959)
12	Sale of ABG Professional Information – discontinued operations			**269**	22,181
	Net realised and unrealised gains/(losses) on listed investments			**110**	(1,158)
13	Investment income			**930**	953
	Surplus before taxation			**367**	20,017
14	Taxation			**77**	(5,522)
	Net surplus after taxation			**444**	14,495
	Add back: deficit attributable to self financing activities			**95**	370
27	**Net surplus transferred to accumulated fund**			**539**	14,865

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2003

	2003 £'000	2002 £'000
Net surplus transferred to accumulated fund	**539**	14,865
Net surpluses/(deficits) transferred to/(from) self financing activities		
Student Education and Training deficit for the financial year	**(367)**	(206)
Practice Regulation net deficit for the financial year	**(189)**	(531)
Faculty surpluses for the financial year	**461**	367
	(95)	(370)
Net surplus after taxation	**444**	14,495
Unrealised deficit on the revaluation of tangible fixed assets	**(1,679)**	(2,993)
Unrealised surplus on the revaluation of fixed asset investments	**433**	208
Deferred tax on revaluation of fixed asset investments	**(131)**	(62)
Total recognised (losses) and gains relating to the year	**(933)**	11,648

ADDITIONAL STATEMENTS
for the year ended 31 December 2003

	2003 £'000	2002 £'000
Note of historical cost surplus		
Net surplus before taxation	**367**	20,017
Shortfall of actual depreciation charge over historical cost depreciation	**(233)**	(189)
Decrease in market value of short-term investments over cost	**27**	51
Historical cost surplus before taxation	**161**	19,879
Taxation	**69**	(5,538)
Historical cost surplus after taxation	**230**	14,341

	2003 £'000	2002 £'000
Reconciliation of movements in total reserves		
Net surplus after taxation for the year	**444**	14,495
Unrealised deficit on the revaluation of tangible fixed assets	**(1,679)**	(2,993)
Increase in market value of investments net of tax	**302**	146
Net (decrease)/increase in reserves	**(933)**	11,648
Reserves at 1 January	**37,885**	26,237
Reserves at 31 December	**36,952**	37,885

BALANCE SHEET
at 31 December 2003

Note		2003 £'000	2002 £'000
	Fixed assets		
15	Tangible fixed assets	**17,277**	18,571
16	Investments in subsidiary and related undertakings	**3**	3
17	Other investments	**20,425**	19,403
		37,705	37,977
	Current assets		
18	Stocks	**409**	666
19	Debtors: amounts receivable within one year	**7,974**	8,929
20	Debtors: amounts receivable after more than one year	**7,500**	8,500
21	Short-term investments	**3,031**	14,491
	Cash at bank and in hand	**1,294**	1,409
		20,208	33,995
22	**Creditors:** amounts falling due within one year	**(13,180)**	(25,659)
	Net current assets	**7,028**	8,336
	Total assets less current liabilities	**44,733**	46,313
	Provisions for liabilities and charges		
23	Staff Pensions Fund	**(2,141)**	(2,680)
25	Joint Disciplinary Scheme	**(3,079)**	(3,196)
26	Chartered Accountants' Compensation Scheme	**(2,561)**	(2,552)
		(7,781)	(8,428)
		36,952	37,885
	Reserves		
27	Revaluation reserve	**8,496**	9,942
27	Investment revaluation reserve	**403**	300
27	Accumulated fund	**20,688**	20,183
		29,587	30,425
	Reserves retained by self financing activities		
6	Student Education and Training	**977**	1,344
7	Practice Regulation	**4,480**	4,669
8	Faculties	**1,908**	1,447
		7,365	7,460
		36,952	37,885

Approved on behalf of the Council

David J. Illingworth
President
16 March 2004

Philip Hollins
Treasurer

CASH FLOW STATEMENT
for the year ended 31 December 2003

Note		2003 £'000	2003 £'000	2002 £'000	2002 £'000
	Cash flow from operating activities		**(6,811)**		4,266
	Returns on investment and servicing of finance:				
	Income received on investments		**1,501**		200
	Taxation		**(5,480)**		(199)
	Capital expenditure and financial investment:				
	Purchase of tangible fixed assets	**(1,745)**		(1,097)	
	Sale of tangible fixed assets	**4**		16	
	Purchase of fixed asset investments	**(81,060)**		(19,560)	
	Realisation of fixed asset investments	**81,043**		3,529	
	Net cash outflow for capital expenditure and financial investment		**(1,758)**		(17,122)
12	**Sale of ABG Professional Information:**				
	Consideration and deferred consideration for sale	**1,000**		15,500	
	Payment in consideration for transfer of net liabilities	**–**		(2,181)	
	Costs of the transaction	**–**		(1,706)	
			1,000		11,613
	Cash flow before management of liquid resources and financing		**(11,548)**		(1,232)
	Management of liquid resources:				
	Purchase of short-term investments	**(112,186)**		(197,649)	
	Realisation of short-term investments	**123,619**		198,725	
			11,433		1,076
33	**Net decrease in cash in the year**		**(115)**		(156)

Reconciliation of operating deficit to cash flow from operating activities

	2003 £'000	2002 £'000
Operating deficit	**(942)**	(1,959)
Investment income allocated to self financing activities	**(434)**	(303)
	(1,376)	(2,262)
Depreciation	**1,025**	1,093
Decrease in stocks	**257**	145
Decrease/(increase) in current debtors	**647**	(2,310)
(Decrease)/increase in creditors	**(6,159)**	6,822
Decrease in provisions	**(647)**	(424)
Loss on disposals of tangible fixed assets	**14**	44
(Gain)/loss on disposals and revaluations of other fixed asset investments	**(572)**	1,158
Cash flow from operating activities	**(6,811)**	4,266

Reconciliation of net cash flow to change in net funds

Note		2003 £'000	2002 £'000
	Decrease in cash in the year	**(115)**	(156)
	Decrease in liquid resources	**(11,433)**	(1,076)
	Net change in market value of short-term investments over cost	**(27)**	(51)
	Change in net funds	**(11,575)**	(1,283)
	Net funds at 1 January	**15,900**	17,183
33	Net funds at 31 December	**4,325**	15,900

ACCOUNTING POLICIES

I Convention
The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention as modified by the revaluation of freehold properties, collections and other investments.

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

Other income, including licence fees and income in association with professional conduct and Joint Disciplinary Schemes, is recognised when receivable.

III Tangible Fixed Assets and Depreciation
Freehold Properties
Freehold properties are revalued periodically on an existing use basis and are included in the Balance Sheet at their revalued amounts. Surpluses on revaluations are transferred to the revaluation reserve. Deficits arising from market 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 Revenue Account.

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. A transfer is made annually from the revaluation reserve to the accumulated fund for the difference between the amount of depreciation charged on the revalued amount and that charged on an historical cost basis.

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.

Silver Collection and Antiques
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, 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 Revenue Account.

Other Tangible Fixed Assets
Depreciation is charged on other tangible fixed assets on a straight line basis over the estimated useful economic lives of the assets ranging from three to ten years.

The impairment of fixed assets is considered annually and provisions are made where necessary.

IV Investments
Investments in subsidiary and related undertakings are stated at cost, subject to provisions for impairment. To the extent that the Institute bears costs arising from these undertakings, they appear within the appropriate cost headings in the Revenue Account. Subsidiary and related undertakings are not consolidated on the basis that any changes that would result from consolidation would be immaterial.

Sterling fixed and floating rate securities, equities and unit trusts held for the purposes of generating long term investment income are treated as fixed asset investments and are included in fixed assets at market value. Realised gains and losses are dealt with in the Revenue Account. Unrealised gains are transferred to an investment revaluation reserve. Unrealised losses are charged against the investment revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Revenue Account.

Sterling fixed and floating rate securities held as part of the Institute's working capital funds are treated as current investments and are included in current assets at market value. Realised and unrealised gains and losses are dealt with in the Revenue Account.

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

VI Operating Leases
Premiums on leasehold properties are capitalised and are amortised on a straight line basis over the shorter of the lease term and the period until a review date on which the rent is first adjusted to the prevailing market rate.

Other operating lease costs are charged to the Revenue Account on a straight line basis over the period of the relevant agreement.

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

VIII Pensions
Defined Benefit Scheme
The expected costs of providing pensions under the Institute's defined benefit Staff Pensions Fund, as calculated periodically by qualified actuaries, is charged to the Revenue Account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Defined Contribution Schemes
Contributions under defined contribution schemes are charged to the Revenue Account as incurred.

IX Deferred Taxation
Deferred taxation is provided in full, without discounting, on timing differences that result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred taxation is not provided on the revaluation of properties and collections unless there is a binding agreement to sell them at the Balance Sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

X Professional Conduct and Joint Disciplinary Scheme
Provision is made for the estimated future external costs of major disciplinary cases relating to events which occurred prior to the Balance Sheet date.

XI Foreign Currencies
Transactions in foreign currencies are translated into Sterling at the actual rate at the time of the transactions. Differences arising on foreign currencies are dealt with in the Revenue Account.

XII Self Financing Activities
It is the intention of the Council that, taking one year with another, the costs of self financing areas should be borne by those members and/or firms deriving benefit from such areas. In calculating the surplus or deficit 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 2003

1 Members' Education and Training

The Members' Education and Training Directorate has received grants from the Chartered Accountants' Trust for Education and Research totalling £550,000 (2002: £520,000).

2 Professional Standards

	2003 Income £'000	2003 Expenditure £'000	2003 Net £'000	2002 Net £'000
Disciplinary	**529**	**(3,011)**	**(2,482)**	(2,289)
Practice Regulation	**135**	**(8)**	**127**	135
	664	**(3,019)**	**(2,355)**	(2,154)

3 Member Services

	2003 Income £'000	2003 Expenditure £'000	2003 Net £'000	2002 Net £'000
Product Sales and Development	**1,114**	**(1,483)**	**(369)**	77
Local and Regional Services	**403**	**(3,590)**	**(3,187)**	(3,148)
Focuses and Research Unit	**17**	**(873)**	**(856)**	(746)
Advisory and other Member Services	**345**	**(1,174)**	**(829)**	(1,456)
Member Services administration	**99**	**(755)**	**(656)**	(563)
	1,978	**(7,875)**	**(5,897)**	(5,836)

4 Technical Strategy

	2003 Income £'000	2003 Expenditure £'000	2003 Net £'000	2002 Net £'000
International	**4**	**(297)**	**(293)**	(313)
Faculties – Institute funded	**–**	**(698)**	**(698)**	(789)
Technical Departments	**169**	**(2,051)**	**(1,882)**	(903)
Technical Support	**53**	**(315)**	**(262)**	(543)
	226	**(3,361)**	**(3,135)**	(2,548)

During the year the Centre for Business Performance, whose income and expenditure is included in Technical Support, administered research projects which were funded by the PD Leake Trust. Funding paid to third parties by the Trust in 2003 amounted to £251,000 (2002: £343,000) and has not been included in these financial statements.

5 Central Activities

	2003 Income £'000	2003 Expenditure £'000	2003 Net £'000	2002 Net £'000
Accommodation	**43**	**(1,979)**	**(1,936)**	(2,465)
Common Office Services	**49**	**(2,982)**	**(2,933)**	(3,289)
Membership Records	**43**	**(904)**	**(861)**	(690)
Communications	**44**	**(2,620)**	**(2,576)**	(2,839)
Information Technology Directorate	**28**	**(3,417)**	**(3,389)**	(3,001)
Finance and Accounting	**–**	**(1,293)**	**(1,293)**	(1,156)
Council	**–**	**(229)**	**(229)**	(200)
Members' Facilities	**1,047**	**(2,164)**	**(1,117)**	(1,152)
Executive and Administration	**48**	**(995)**	**(947)**	(1,258)
	1,302	**(16,583)**	**(15,281)**	(16,050)
Less: Allocated to other activities or recovered from outside bodies (including notional rent of £702,000 (2002: £731,000))	**–**	**7,244**	**7,244**	8,735
	1,302	**(9,339)**	**(8,037)**	(7,315)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

6 Student Education and Training – self financing

Costs which are directly attributable to the education and training of students are funded from examination and authorisation fees. The accumulated surplus from those fees is held in a separate account by Chartered Accountants' Trustees Limited to meet any future shortfalls.

	2003 £'000	2002 £'000
Income	5,634	6,541
Expenditure	(6,001)	(6,747)
Deficit for the year	(367)	(206)
Reserves at 1 January	1,344	1,550
Reserves at 31 December	977	1,344

7 Practice Regulation – self financing

	Authorisation of Investment Business £'000	Audit Regulation £'000	Insolvency Licensing £'000	Total 2003 £'000	Total 2002 £'000
Income	1,435	5,342	975	7,752	8,755
Expenditure	(1,498)	(5,653)	(790)	(7,941)	(9,286)
Surplus/(deficit) for the year	(63)	(311)	185	(189)	(531)
Reserves at 1 January	3,558	1,051	60	4,669	5,200
Reserves at 31 December	3,495	740	245	4,480	4,669

8 Faculties

	Tax Faculty £'000	Faculty of Information Technology £'000	Faculty of Finance and Management £'000	Audit and Assurance Faculty £'000	Corporate Finance Faculty £'000	Total 2003 £'000	Total 2002 £'000
Income	671	420	616	556	428	2,691	2,701
Expenditure	(747)	(485)	(629)	(674)	(393)	(2,928)	(3,123)
Less: Funded by general membership subscriptions	230	80	53	272	63	698	789
	(517)	(405)	(576)	(402)	(330)	(2,230)	(2,334)
Surplus for the year	154	15	40	154	98	461	367
Reserves at 1 January	350	196	413	417	71	1,447	1,080
Reserves at 31 December	504	211	453	571	169	1,908	1,447

9 Participation in External Bodies

	Total Cost to the Institute £'000	Borne by self financing activities £'000	Net 2003 £'000	Net 2002 £'000
Accountancy Foundation	(1,250)	591	(659)	(640)
Consultative Committee of Accountancy Bodies	(743)	–	(743)	(538)
International Federation of Accountants	(215)	–	(215)	(191)
Joint Disciplinary Scheme costs	(2,597)	–	(2,597)	(1,850)
Joint Disciplinary Scheme fines	415	–	415	316
Joint Disciplinary Scheme cost recoveries	745	–	745	830
	(3,645)	591	(3,054)	(2,073)

Joint Disciplinary Scheme fines and cost recoveries of £1,160,000 in aggregate shown above relate primarily to the completed investigation into Wickes (2002: £1,146,000 principally in respect of Polly Peck and Barings).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

10 Gift Aid

Payments of £2,070,000 (2002: £1,900,000) were made in the year under gift aid to the Chartered Accountants' Trust for Education and Research, which funds the Institute Library and education in the field of accountancy and related subjects. A further £3,000 (2002: £Nil) was paid by way of gift aid to the Worshipful Company of Chartered Accountants.

11 Operating Deficit

The operating deficit of £942,000 (2002: £1,959,000) is stated after charging:

	2003 £'000	2002 £'000
Staff costs	**17,366**	16,453
Depreciation	**1,025**	1,093
Loss on disposal of tangible fixed assets	**14**	44
Amounts payable under operating leases – plant and machinery	**95**	109
– other	**579**	927
Audit fees	**44**	43
Other payments to auditors	**–**	18

In addition, an amount of £7,000 was paid to the auditors in 2002 in relation to the disposal of the business of ABG Professional Information, and depreciation amounting to £338,000 in 2002 was included within closure costs in calculating the surplus on disposal of ABG Professional Information.

The operating deficit 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 2003 these payments amounted to £1,739,000 (2002: £2,044,000). Of this amount £161,000 (2002: £185,000) was in relation 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 such services amounted to £45,000 (2002: £70,000) in total.

12 Sale of ABG Professional Information

The surplus arising on the sale of ABG Professional Information comprises:

	2003 £'000	2002 £'000
Sale proceeds	**–**	15,000
Deferred consideration	**–**	10,000
	–	25,000
Costs of the transaction	**–**	(971)
Closure costs and onerous lease provision	**269**	(1,848)
Surplus before tax	**269**	22,181
Corporation tax	**–**	(6,055)
Net surplus	**269**	16,126

The cash flows arising from the sale of the publishing business of ABG Professional Information were:

	2003 £'000	2002 £'000
Consideration at completion	**–**	15,000
Deferred consideration	**1,000**	500
Taxation paid	**(5,907)**	–
Net cash (outflow)/inflow	**(4,907)**	15,500

13 Investment Income

	2003 £'000	2002 £'000
Bank interest receivable	**66**	67
Realised gains from certificates of deposit	**1,115**	1,126
Other financial income	**144**	71
Dividend income	**93**	94
	1,418	1,358
Net change in market value of certificates of deposit over cost	**(27)**	(51)
	1,391	1,307
Reallocated to self financing activities	**(434)**	(303)
Interest payable	**(27)**	(51)
Net investment gains and income	**930**	953

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

14 Taxation

	2003 £'000	2002 £'000
UK corporation tax:		
On income for the year	**(245)**	109
On sale of the publishing business of ABG Professional Information	**–**	(6,055)
Adjustment for previous periods	**500**	81
Current tax	**255**	(5,865)
Deferred tax:		
Origination and reversal of timing differences	**(178)**	343
Tax on operating surplus	**77**	(5,522)

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 the Chartered Accountants' Trust for Education and Research, which funds education in the field of accountancy and related subjects, including the administration of the Library.

Factors affecting the tax charge for the year

	2003 £'000	2002 £'000
Net surplus before taxation	**367**	20,017
Add back: deficit on transactions with members	**903**	4,025
	1,270	24,042
Net surplus attributable to investment gains and income and transactions with non members multiplied by standard rate of corporation tax in the UK of 30%	**(381)**	(7,213)
Effects of:		
Capital allowances for period in excess of depreciation charged	**–**	18
Capital losses and unrealised capital gains on equities and unit trusts	**20**	165
Inflationary element of deferred consideration on disposal of ABG Professional Information	**14**	(508)
Indexed 1982 valuation of ABG Professional Information	**–**	1,707
Losses not utilised	**(9)**	(65)
Items not chargeable/deductible for tax purposes	**74**	(33)
Franked investment income not taxable	**28**	28
Other adjustments, including marginal relief	**9**	(45)
Adjustments in respect of prior years	**500**	81
	255	(5,865)

The Institute anticipates that tax charges in future years may be affected by continued donations under gift aid to the Chartered Accountants' Trust for Education and Research.

No provision has been made for deferred tax on gains arising from the revaluation of the Institute's silver collection and antiques as a tax liability would only crystallise if items from the collections were sold. There is no intention to dispose of these assets. A deferred tax asset of £195,000 (2002: £167,000) relating to non-trade losses has not been recognised as its future recovery is uncertain. Deferred tax assets relating to capital allowances and pension contributions have not been recognised as they are not material.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

15 Tangible Fixed Assets

	Freehold Property £'000	Short Leasehold Property £'000	Historic Collections £'000	Furniture, Computers and Equipment £'000	Total £'000
Cost or valuation					
At 1 January 2003	**12,981**	**810**	**3,059**	**7,808**	**24,658**
Transfers in	**–**	**–**	**–**	**15**	**15**
Additions at cost	**131**	**–**	**3**	**1,289**	**1,423**
Disposals at cost or valuation	**–**	**(526)**	**–**	**(374)**	**(900)**
Surplus/(deficit) on revaluation	**(2,057)**	**–**	**313**	**–**	**(1,744)**
At 31 December 2003	**11,055**	**284**	**3,375**	**8,738**	**23,452**
At valuation	**11,055**	**–**	**3,375**	**–**	**14,430**
At cost	**–**	**284**	**–**	**8,738**	**9,022**
	11,055	**284**	**3,375**	**8,738**	**23,452**
Accumulated depreciation					
At 1 January 2003	**64**	**721**	**–**	**5,302**	**6,087**
Transfers in	**–**	**–**	**–**	**10**	**10**
Depreciation for the year	**135**	**18**	**–**	**872**	**1,025**
Depreciation on disposals	**–**	**(526)**	**–**	**(356)**	**(882)**
Adjustment on revaluation	**(65)**	**–**	**–**	**–**	**(65)**
At 31 December 2003	**134**	**213**	**–**	**5,828**	**6,175**
Net book amount at 31 December 2003	**10,921**	**71**	**3,375**	**2,910**	**17,277**
Net book amount at 31 December 2002	12,917	89	3,059	2,506	18,571
On an historical cost basis the comparable amounts for tangible fixed assets are:					
Cost	**10,613**	**284**	**161**	**8,738**	**19,796**
Accumulated depreciation	**4,949**	**213**	**–**	**5,828**	**10,990**
Net historical cost at 31 December 2003	**5,664**	**71**	**161**	**2,910**	**8,806**
Net historical cost at 31 December 2002	5,878	89	158	2,506	8,631

The valuations of the freehold properties, Chartered Accountants' Hall, London, and Gloucester House, Milton Keynes, have been reviewed by CB Richard Ellis Ltd, Chartered Surveyors on the basis of their existing use at 31 December 2003. The freehold properties were last fully revalued at 31 December 2001 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Surpluses on revaluation over the original net historical cost have been credited to the revaluation reserve.

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 valuations of the Institute's historic collections at 31 December 2003 were carried out by Professor Gerald Benney *(the Benney silver collection)*; William Walter Antiques Limited *(other silver)*; John Drury Rare Books *(rare books)* and Christies and The Fine Art Society *(period furniture, pictures and sculptures)*. Surpluses on revaluation over the original net historical cost have been credited to the revaluation reserve.

There were no contracts for capital expenditure not provided for in these financial statements at 31 December 2003 (2002: £Nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

16 Investments in subsidiary and related undertakings

The Institute has the following interests in subsidiary and related undertakings:

Subsidiary Undertakings	Shareholding and Voting %	2003 Cost £	Institute interest in net assets £	Activity	2002 Cost £
CCAB Limited	**51.7**	**517**	**517**	Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles.	517
Consultative Committee of Accountancy Bodies Limited	**50.0**	**1**	**1**	Protects a name relevant to CCAB Limited.	1
Joint Monitoring Unit Limited	**80.0**	**800**	**800**	Monitors compliance with Investment Business Regulations under the Financial Services and Markets Act 2000 and with Audit Regulations under the Companies Act 1989 on behalf of the Institute and other professional bodies.	800
Chartered Accountants' Compensation Scheme Limited	**80.0**	**800**	**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.	800
Chartered Accountants' Independent Financial Services Limited	**100.0**	**1**	**1**	Protects a name relevant to the Institute.	1
CAIFS Limited	**100.0**	**1**	**1**	Protects a name relevant to the Institute.	1
Chartered Accountants' Trustees Limited	**100.0**	**100**	**100**	Acts as corporate trustee of the various charitable trusts connected with the Institute.	100
F.C.A. Limited	**100.0**	**100**	**100**	Acts as corporate trustee of the Institute of Chartered Accountants' Staff Pensions Fund.	100
A.C.A. Limited	**100.0**	**100**	**100**	Acts as corporate trustee of the Chartered Accountants' Employees' Superannuation Scheme.	100
The Society of Incorporated Accountants Limited	**100.0**	**100**	**100**	Protects a name relevant to the Institute.	100
ICAEW Limited	**100.0**	**1**	**1**	Protects a name relevant to the Institute.	1
Chartac Limited	**100.0**	**2**	**2**	Protects a name relevant to the Institute.	2
Related Undertakings					
Accountancy and Financial Publishing Limited	**50.0**	**100**	**6,160**	Prepares learning materials for use in the Institute's examinations.	100
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.	–
The Foundation for Accountancy and Financial Management (A company limited by guarantee)	–	–	–	Promotes education and training in accountancy and financial management to the developing countries in Central and Eastern Europe. The Institute is one of four subscribers each of whom has guaranteed £1 in the event of the company being wound up.	–
Joint Insolvency Monitoring Unit (A company limited by guarantee)	–	–	–	Monitors compliance of insolvency practitioners with the Insolvency Act 1986 on behalf of the Institute and other professional bodies. The Institute is one of two subscribers each of whom has guaranteed £10 in the event of the company being wound up.	–
Chartered Accountants' Property Leasing (A company limited by guarantee)	–	–	–	Holds the leases of premises occupied by District Societies. The Institute as subscriber has guaranteed £250,000 in the event of the company being wound up.	–
		2,623			2,623

The undertakings are all registered in England and Wales or Scotland, and operate on a not for profit basis.

Joint Monitoring Unit Limited ceased trading on 31 December 2003. On 1 January 2004 the company's assets and liabilities at that date were transferred to the Institute at their aggregate net book value of £1,000.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

16 Investments in subsidiary and related undertakings (continued)

The Institute incurs administrative expenses on behalf of the subsidiary and related undertakings. The Institute's share of the annual costs of each subsidiary or related undertaking is included in the Revenue Account.

The balances due (to)/from the subsidiary undertakings as at 31 December were:

	2003 £'000	2002 £'000
CCAB Limited	**(209)**	210
Joint Monitoring Unit Limited	**(206)**	(391)
Chartered Accountants' Compensation Scheme Limited	**(9)**	16

17 Other investments

	Fixed and Floating Interest Securities £'000	Equities and Unit Trusts £'000	Total £'000
Market value			
At 1 January 2003	**16,126**	**3,277**	**19,403**
Additions	**80,467**	**593**	**81,060**
Disposal proceeds	**(80,427)**	**(616)**	**(81,043)**
Realised gains	**462**	**61**	**523**
Change in market value of investments:			
Credit to Revenue Account	**–**	**49**	**49**
Recognised in Statement of Total Recognised Gains and Losses	**–**	**433**	**433**
At 31 December 2003	**16,628**	**3,797**	**20,425**
On an historical cost basis the comparable amounts of investments are:			
At 31 December 2003	**16,627**	**3,242**	**19,869**
At 31 December 2002	15,856	3,207	19,063

Fixed and floating interest securities (including certificates of deposit) are held through an independent custodian and equities and unit trusts are held by an investment management company.

18 Stocks

	2003 £'000	2002 £'000
Paper and stationery	**12**	16
Publications, other products and sundry stocks	**397**	650
	409	666

19 Debtors: amounts receivable within one year

	2003 £'000	2002 £'000
Other debtors	**3,045**	3,459
Deferred consideration receivable	**1,000**	1,000
Prepayments	**1,367**	1,296
Chartered Accountants' Trustees Limited	**977**	1,344
Deferred Taxation	**178**	487
Accrued income	**1,407**	1,343
	7,974	8,929

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

20 Debtors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Deferred consideration receivable	**7,500**	8,500

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

	2003 £'000	2002 £'000
Within one year	**1,000**	1,000
Within two to five years	**4,000**	4,000
After more than five years	**3,500**	4,500
	8,500	9,500

21 Short-term Investments

	Market Value 2003 £'000	Cost 2003 £'000	Market Value 2002 £'000	Cost 2002 £'000
Fixed and floating interest securities	**3,031**	**3,018**	14,491	14,452

Fixed and floating interest securities are held through an independent custodian.

22 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Subscriptions and admission fees in advance	**4,036**	10,466
Other income in advance	**2,124**	2,368
Trade creditors	**1,984**	1,278
Corporation tax	**346**	6,080
Income tax and social security payments	**680**	591
Accruals	**4,010**	4,876
	13,180	25,659

23 Staff Pension Funds

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 Institute's share of contributions is charged to the Revenue Account so as to spread these costs over the average remaining service lives of participating employees.

Pension costs under SSAP 24
The most recent valuation of the fund was carried out by Bacon & Woodrow Limited as at 5 April 2001 and was based on the following principal annual assumptions:

Price inflation	2.4% p.a.
Increase in pensionable earnings	4.4% p.a.
Increase in pensions payable	2.4% p.a.
Investment rates of return and rates used to discount scheme liabilities:	
Pre-retirement	6.8% p.a.
Post-retirement	5.3% p.a.

At the valuation date, the market value of the assets of the fund was £53.6 million and the actuarial value of those assets represented 102% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

23 Staff Pension Funds (continued)

On the basis of the most recent valuation the agreed rate of employer's contribution is currently 15.7% of pensionable earnings for participating employees with less than ten years' service with the Institute and 22.5% for employees with more than ten years' service. Employee contributions during 2003 ranged from 6% to 7% (2002: 5% to 6%). The Institute has agreed to make additional employer contributions of £400,000, £500,000 and £400,000 in respect of the years ended 31 December 2002, 2003 and 2004 respectively in respect of back-dated benefits awarded to participating employees attaining ten years' service with the Institute during that period.

The pension costs for the period for this scheme were £1,151,000 (2002: £1,178,000). This was after deducting £173,000 (2002: £188,000) in respect of the amortisation of experience surpluses that are being recognised over 14 years, the average remaining service lives of employees.

The movement on the Staff Pensions Fund account was:

	2003 £'000	2002 £'000
Pension costs	**1,151**	1,178
Contributions paid	**(1,690)**	(1,700)
	(539)	(522)
Provision at 1 January	**2,680**	3,202
Provision at 31 December	**2,141**	2,680

The balance on the Staff Pensions Fund represents the excess of employer pension costs charged to the Revenue Account in previous periods under SSAP 24 over the actual contributions paid to the fund in accordance with the advice of the scheme's actuaries. This balance is being amortised over the average expected remaining service lives of participating employees.

Pension costs under FRS 17

The following additional disclosures are presented in respect of the defined benefit scheme under the transitional requirements of FRS 17: Retirement Benefits on the basis of the actuarial valuation of the fund carried out by Bacon & Woodrow Limited as at 5 April 2001, updated to 31 December 2003 by Hymans Robertson:

	2003 £'000	2002 £'000	2001 £'000
The fair value of the assets			
Equities	**41,966**	32,112	35,735
Corporate bonds	**934**	928	955
Government bonds	**10,270**	10,225	10,253
Cash	**703**	736	3,317
	53,873	44,001	50,260
Present value of scheme liabilities	**(80,492)**	(66,173)	(60,470)
Scheme deficit	**(26,619)**	(22,172)	(10,210)

The next actuarial valuation of the fund is due to be carried out as at 5 April 2004. Hymans Robertson have indicated that under normal actuarial assumptions, and assuming that market circumstances do not change dramatically, a substantial scheme deficit should be contemplated, resulting in the need to increase employer contributions by between £1.5 million and £2.5 million a year from 2005, assuming that the deficit is to be funded over the anticipated remaining service lives of participating employees.

The assumptions made at 31 December were:

	2003	2002	2001
Price inflation	**2.75%**	2.25%	2.50%
Increase in pensionable earnings	**4.25%**	4.25%	4.50%
Increase in pensions payable	**2.75%**	2.25%	2.50%
Scheme liability discount rate	**5.50%**	5.50%	5.80%
Expected return on bonds	**4.75%**	5.00%	4.90%
Expected return on equities	**7.50%**	7.00%	8.40%

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

23 Staff Pension Funds (continued)
The following tables illustrate the impact that the full implementation of FRS 17 would have had on key aspects of the Institute's financial statements for the year ended 31 December 2003.

The impact of the scheme deficit on reserves calculated on this basis is illustrated below:

	2003 £'000	2002 £'000
Reserves as reported:		
Accumulated fund	**20,688**	20,183
Reserves retained by self financing activities	**7,365**	7,460
	28,053	27,643
Adjustments:		
SSAP 24 pensions provision	**2,141**	2,680
FRS 17 scheme deficit	**(26,619)**	(22,172)
Reserves on FRS 17 basis	**3,575**	8,151

Amounts which would have been charged to operating profit:

	2003 £'000	2002 £'000
Current service cost	**(2,022)**	(3,229)
Curtailment and settlements	**–**	768
	(2,022)	(2,461)

Amounts which would have been (charged)/credited to other financial income:

	2003 £'000	2002 £'000
Expected return on pension scheme assets	**2,863**	3,717
Interest on pension scheme liabilities	**(3,653)**	(3,537)
Net return	**(790)**	180

Amounts which would have been recognised in the Statement of Total Recognised Gains and Losses:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	**6,271**	(10,638)
Experience losses arising on the scheme liabilities	**(88)**	(683)
Changes in assumptions underlying the present value of the scheme liabilities	**(10,085)**	(476)
Actuarial loss	**(3,902)**	(11,797)

Movement in deficit during the year:

	2003 £'000	2002 £'000
Deficit as at 1 January	**(22,172)**	(10,210)
Current service cost	**(2,022)**	(3,229)
Employer contributions	**2,267**	2,116
Curtailments and settlements	**–**	768
Other finance (expense)/income	**(790)**	180
Actuarial loss	**(3,902)**	(11,797)
Deficit as at 31 December	**(26,619)**	(22,172)

Experience gains and losses:

	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	**6,271**	(10,638)
Percentage of scheme assets	**11.64%**	-24.18%
Experience losses on scheme liabilities:		
Amount (£'000)	**(88)**	(683)
Percentage of the present value of the scheme liabilities	**-0.11%**	-1.03%
Total losses recognised in statement of total recognised gains and losses:		
Amount (£'000)	**(3,902)**	(11,797)
Percentage of the present value of the scheme liabilities	**-4.85%**	-17.83%

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

23 Staff Pension Funds (continued)

Defined Contribution Scheme
The Institute also operates a defined contribution staff pension scheme for employees who are not entitled to participate in the defined benefits scheme. The defined contribution scheme provides benefits based upon contributions made and investment returns achieved. The scheme first received contributions in July 2000. 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 4%.

The amount charged to the Revenue Account during the year in respect of this scheme was £470,000 (2002: £335,000). There were no contributions payable to the scheme at the Balance Sheet date (2002: £Nil).

24 Deferred Taxation

	2003 £'000	2002 £'000
The provision for deferred taxation comprises:		
Revaluation of short-term investments	**166**	21
Inflationary element of ABG Professional Information deferred consideration	**(344)**	(508)
	(178)	(487)

	2003 £'000
Asset at 1 January	**487**
Deferred taxation credit for the year	
Recognised in Revenue Account	**(178)**
Recognised in the Statement of Total Recognised Gains and Losses	**(131)**
Asset at 31 December	**178**

	2003 £'000	2002 £'000
Potential deferred tax asset not recognised comprises:		
Staff Pensions Fund	**(19)**	(48)
Losses not anticipated to be recovered	**(195)**	(167)
	(214)	(215)

25 Joint Disciplinary Scheme

	2003 £'000
Balance at 1 January	**3,196**
Charge to Revenue Account	**2,597**
Amounts paid	**(2,714)**
Balance at 31 December	**3,079**

The Joint Disciplinary Scheme is funded by two participant bodies, this 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 Joint Disciplinary Scheme in respect of cases arising from events up to 31 December 2003. The provision is expected to be utilised over the next three years.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

26 Chartered Accountants' Compensation Scheme

	Designated Professional Body Scheme 2003 £'000	Investment Business Scheme 2003 £'000	Total 2003 £'000
Balance at 1 January	**162**	**2,390**	**2,552**
Additional levy raised transferred to provision	**170**	–	**170**
Interest allocation on funds held transferred to provision	**11**	**124**	**135**
Amounts paid	**(13)**	**(283)**	**(296)**
Balance at 31 December	**330**	**2,231**	**2,561**

Responsibility for "mainstream" authorisation of investment business transferred to the Financial Services Authority on 1 December 2001. From this date the Institute has Designated Professional Body status and therefore retains responsibility for "non-mainstream" investment business.

In accordance with Investment Business Regulations in force before 1 December 2001 the Institute was required to maintain a compensation scheme, funded by levies on firms authorised for investment business. This compensation scheme continues to exist to deal with claims received after 1 December 2001 in respect of work carried out before that date and maintains a provision to meet anticipated future claims. The provision is expected to be utilised over a period of approximately ten years. The Institute has reserved the right to make further levies on firms authorised for investment business before 1 December 2001 should additional funds be required.

27 Reserves

	Revaluation Reserve 2003 £'000	Investment Revaluation Reserve 2003 £'000	Accumulated Fund 2003 £'000	Total 2003 £'000
Revenue Account surplus	–	–	**539**	**539**
Net change in market value of long-term investments over cost	–	**433**	–	**433**
Deferred tax attributable to above	–	**(131)**	–	**(131)**
Reclassification of gains realised in the year	–	**(199)**	**199**	–
Reclassification of freehold depreciation	**233**	–	**(233)**	–
Decrease in valuation of tangible fixed assets	**(1,679)**	–	–	**(1,679)**
	(1,446)	**103**	**505**	**(838)**
Reserves at 1 January	**9,942**	**300**	**20,183**	**30,425**
Reserves at 31 December	**8,496**	**403**	**20,688**	**29,587**

The revaluation reserve represents the excess of the open market valuation over the depreciated historical cost of fixed assets. The investment revaluation reserve represents the excess of unrealised gains on fixed asset investments over their historical cost.

The accumulated fund at 31 December 2003 includes the net surplus of £16,395,000 (2002: £16,126,000) arising from the sale of the ABG Professional Information business in January 2002, which the Council has determined as not currently being available for general purposes. Accordingly, future increases in pension scheme funding will be made from operating cash flows.

28 Leasing Commitments

Operating Leases

At 31 December the Institute had the following annual commitments for payments under non-cancellable operating leases:

	Land and Buildings 2003 £'000	Plant and Machinery 2003 £'000	Land and Buildings 2002 £'000	Plant and Machinery 2002 £'000
Operating leases which expire:				
– within one year	**114**	**12**	496	27
– in the second to fifth years inclusive	**424**	**59**	808	52
– after five years	**12**	–	12	–
	550	**71**	1,316	79

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

29 Staff

Staff Employed
The average numbers of staff employed by the Institute during the year were:

	2003	2002
Education and Training	**55**	54
Professional Standards	**81**	83
Member Services	**90**	87
Technical Strategy and Faculties	**48**	43
Central Activities	**178**	182
Total employees directly financed by the Institute	**452**	449
Full time equivalents	**428**	425

These figures do not include 46 staff (2002: 46) whose employment costs were borne by the Joint Monitoring Unit Limited during the year and 13 staff (2002: 12) whose employment costs are borne by Chartered Accountants' Trust for Education and Research although they have contracts of employment with the Institute.

Employment Costs

	2003 £'000	2002 £'000
Wages and salaries	**14,330**	13,683
Employer's social security costs	**1,425**	1,257
Employer's pension costs	**1,611**	1,513
	17,366	16,453

30 Executive Directors' Remuneration

	Salary 2003 £'000	Bonus 2003 £'000	Benefits 2003 £'000	Total 2003 £'000	Total 2002 £'000
Eric Anstee (appointed 15 September 2003)	**89**	–	–	**89**	–
Michael Izza	**162**	**20**	–	**182**	178
Brian Chiplin	**122**	**14**	**19**	**155**	144
Sally Hinkley (appointed 12 February 2003)	**128**	**14**	–	**142**	–
Peter Owen (retired 5 September 2003)	**132**	–	–	**132**	174
Former Executive Directors	–	–	–	–	221
	633	**48**	**19**	**700**	717

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.

Brian Chiplin and Peter Owen opted to participate in the Institute's defined benefit pension scheme. The value of their respective commuted salaries and of benefits accrued during the year were as follows:

	Salary commuted 2003 £'000	Increase in accrued pension during the year 2003 £'000	Transfer value increase 2003 £'000	Accumulated total accrued pension 2003 £'000	Accumulated total accrued pension 2002 £'000
Brian Chiplin	**22**	**2**	**25**	**11**	9
Peter Owen	**10**	**1**	**17**	**8**	7

Brian Chiplin paid Additional Voluntary Contributions to purchase additional years of service throughout the year. Pension benefits in respect of these have been excluded from the above figures. Michael Izza has commuted salary of £19,500 during the year in return for a contribution to his personal pension plan (2002: £13,000).

31 Segmented Net Assets

In the opinion of the Council, it is not meaningful to allocate the assets of the Institute across its activities as the major assets are not dedicated to specific operations.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

32 Contingent Commitments

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 million 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 £2.5 million 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.

The Institute acts as guarantor for the Accountancy Foundation Limited in respect of a lease for property used by that body and its associated boards. The Accountancy Foundation Limited is funded by the CCAB bodies and the other CCAB bodies have agreed to indemnify the Institute against a proportion of any costs under the guarantee, according to an agreed formula. The Accountancy Foundation's activities will be taken over by the Financial Reporting Council from 1 April 2004 and it is likely that the existing property will be vacated in due course. The cost to the Institute arising from a proposed early surrender of the lease is estimated at £150,000 and this amount has been provided as at 31 December 2003.

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.

The Institute has guaranteed the liabilities of Chartered Accountants' Property Leasing Limited (a company limited by guarantee) up to £250,000 in the event of that company being wound up.

33 Analysis of Changes in Net Funds

	Cash on short-term deposit, at bank and in hand 2003 £'000	Short-term investments 2003 £'000	Total 2003 £'000
Cash flows	**(115)**	**(11,433)**	**(11,548)**
Net change in market value of short-term investments over cost	**–**	**(27)**	**(27)**
	(115)	**(11,460)**	**(11,575)**
Balance at 1 January	**1,409**	**14,491**	**15,900**
Balance at 31 December	**1,294**	**3,031**	**4,325**

FIVE YEAR SUMMARY
for the years ended 31 December 2003

1 Number of Members

	2003	2002	2001	2000	1999
Employed in a practice	***21,011***	*20,691*	*20,153*	*19,413*	*19,150*
In business	***61,558***	*59,721*	*58,168*	*56,301*	*55,028*
Others	***4,573***	*4,620*	*4,500*	*4,741*	*4,659*
Not holding a practising certificate	**87,142**	85,032	82,821	80,455	78,837
Holding a practising certificate	**25,778**	26,112	26,645	26,875	27,183
	112,920	111,144	109,466	107,330	106,020
Retired	**6,090**	6,016	5,553	5,910	5,924
Life members	**6,633**	6,494	6,337	5,531	4,985
	125,643	123,654	121,356	118,771	116,929
Increase	**1.6%**	1.9%	2.2%	1.6%	2.0%

	2003	2002	2001	2000	1999
Registered in the UK/EU	**110,965**	109,306	107,003	104,695	102,891
Registered overseas	**14,678**	14,348	14,353	14,076	14,038
	125,643	123,654	121,356	118,771	116,929
Male	**99,416**	98,716	97,806	96,630	95,809
Female	**26,227**	24,938	23,550	22,141	21,120
	125,643	123,654	121,356	118,771	116,929

The statistics above are estimated on information provided by the members for the Member Profile and also from the membership records. The category of members "Holding a practising certificate" includes some members whose main occupation is not in practice.

2 Income and Expenditure

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Subscriptions and other income	**25,782**	21,622	18,835	17,862	17,588
Members' Education and Training	**(2,078)**	(1,385)	(1,901)	(1,270)	(435)
Professional Standards	**(2,355)**	(2,154)	(2,904)	(2,251)	(2,265)
Exceptional Item – Joint Disciplinary Scheme Recoveries	**–**	–	–	–	3,025
Member Services	**(5,897)**	(5,836)	(6,771)	(4,838)	(7,484)
Technical Strategy	**(3,135)**	(2,548)	(2,968)	(2,765)	(2,880)
Central Activities	**(8,037)**	(7,315)	(8,342)	(7,090)	(3,190)
Student Education and Training	**(367)**	(206)	(1,006)	194	1,111
Practice Regulation	**(189)**	(531)	382	1,291	1,009
Faculties	**461**	367	223	141	91
Participation in External Bodies	**(3,054)**	(2,073)	(3,592)	(1,426)	(2,157)
ABG Professional Information	**–**	–	1,333	1,697	1,496
Gift Aid and Library funding	**(2,073)**	(1,900)	(1,600)	(1,600)	(1,401)
Operating (deficit)/surplus	**(942)**	(1,959)	(8,311)	(55)	4,508
Exceptional items	**269**	22,181	–	–	–
Investment gains/(losses) and income/(expenditure)	**1,040**	(205)	158	993	1,807
Net surplus/(deficit) after exceptional items and before taxation	**367**	20,017	(8,153)	938	6,315
Taxation (see below)	**77**	(5,522)	37	41	(396)
Net surplus/(deficit) after exceptional items and taxation	**444**	14,495	(8,116)	979	5,919
Deficit/(surplus) retained by self financing activities	**95**	370	401	(1,626)	(2,211)
Net surplus/(deficit) added to/(deducted from) accumulated fund	**539**	14,865	(7,715)	(647)	3,708

The taxation charge for 1999 has been computed under SSAP 15.

TRUSTS CONNECTED WITH THE INSTITUTE AND DISPOSITION OF FUNDS

Charitable Trusts

General Charitable Trust (GCT)
Donations to national charitable appeals and charitable purposes of particular interest to the Institute.

Chartered Accountants' Trust for Education and Research (CATER)
The Institute Library, educational fellowships and expenses relating to education in the field of accountancy and related subjects.

Chartered Accountants' Permanent Educational Trust (CAPET)
Accountancy research, subsidies for courses and publications, examination prizes and Institute fellowships.

P D Leake Trust
Major accounting research.

Chartered Accountants' Charitable Investment Pool (CACIP)
Common Investment Fund managing the investments of the other charitable trusts associated with the Institute.

Pension Funds

Institute of Chartered Accountants' Money Purchase Plan
Institute and associated staff.

Institute of Chartered Accountants' Staff Pensions Fund (SPF)
Institute and associated staff (closed fund).

Chartered Accountants' Employees' Superannuation Scheme (CAESS)
Employees of member firms (closed fund).

Retirement Benefits Scheme

Chartered Accountants' Retirement Benefits Scheme (CARBS)
Practitioners (closed fund).

Benevolent Association

Chartered Accountants' Benevolent Association (CABA)
Members, former members and their dependants.

The Institute contributes to CATER's costs, including those of the Library, and bears the costs of the administration of both the Staff Pensions Fund and the Money Purchase Plan. Accounts of the Charitable Trusts and of the Pension Funds are available on request from the Institute's Pensions and Trusts Department, and those of the Benevolent Association are available from The Secretary, CABA.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ
Tel 020 7920 8100 **Fax** 020 7920 0547 **www.icaew.co.uk/review**

OTHPLM 2755