

ICAEW FINANCIAL STATEMENTS 2012



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

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

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

Because of us, people can do business with confidence.

These financial statements should be read in conjunction with ICAEW's Annual Review 2012.

FINANCIAL REVIEW

ICAEW's financial statements for 2012 include the charitable trusts associated with ICAEW together with our international subsidiaries. The commentary below relates primarily to the operating activities of ICAEW.

RESULTS

Total income was £82.7m, £0.3m higher than in 2011. The retained deficit after tax for the year was £1.2m (2011: £3.6m restated surplus). The result reflects volatility in a number of material provisions, including AADB, pensions and other operating areas. The net AADB charge for 2012 was £1.8m (2011: £1.2m net credit).

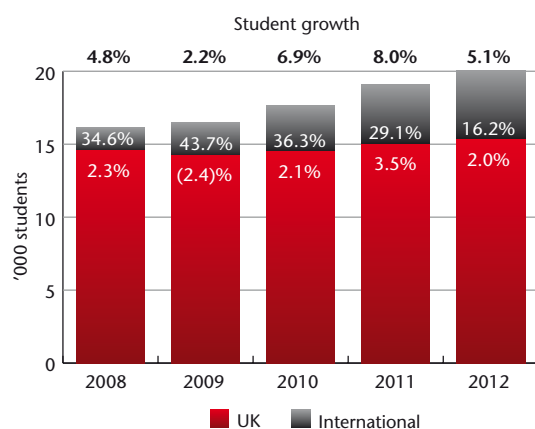
Net assets at 31 December 2012 were £20.2m, a reduction of £5.1m over the 2011 net assets of £25.3m. Cash and cash equivalents ended the year at £3.4m, reflecting a net cash outflow of £1.7m in the year, including £6.0m contributions to reduce the pension scheme deficit. Total cash and investments stood at £34.6m at the end of the year, a reduction of £0.4m on 2011.

The consolidated outcome for the year, including the results of ICAEW's charitable trusts, was a deficit after tax of £0.9m (2011: restated surplus £4.0m).

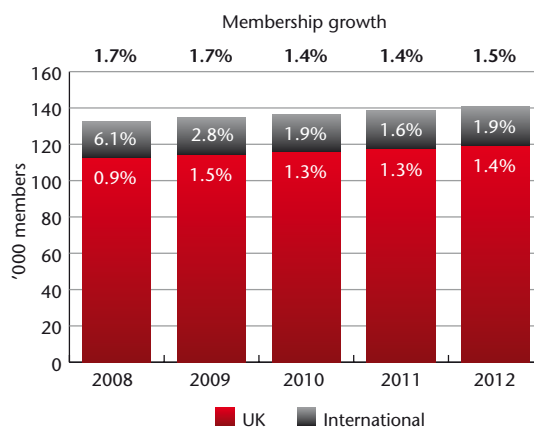
The 2011 results have been restated as we have adopted IAS 19 (revised) early. Net interest on the pension deficit is therefore determined by applying the discount rate to both the liability and asset calculations. This has reduced the 2011 reported result by £0.5m, with a matching reduction in the actuarial loss reported for the year. The value of the pension deficit and net assets are unchanged. In addition we have revised our management responsibilities; the results for 2012 reflect the new structure.

STUDENT AND MEMBERSHIP GROWTH

2012 ACA student intake of 6,201 (2011: 5,951) was the highest for over 20 years and reflects both increases in our market share in the UK and growth in our number of overseas students. Total ACA student numbers at the end of 2012 stood at 20,037 (2011: 19,073). In addition 903 students signed up for our foundation level Certificate in Finance, Accounting and Business (2011: 814).



Membership grew by 1.5% to 140,573, from admissions of newly-qualified students to membership, together with reciprocal and similar arrangements with members of other institutes.



INCOME

Revenue from members' fees and subscriptions rose by 5.0% to £39.6m. 2012 saw the end of our specific contractual arrangements with Wolters Kluwer which had arisen from the sale of our publishing arm ABG in 2002 and had contributed £2.8m in 2011 from licence fees and related income.

Professional standards income, including practice regulation and disciplinary-related income, increased by £0.2m to £14.2m.

In order to better focus on our commercial activities, we restructured our management responsibilities in 2012. Our commercial and shared services department delivered £9.9m income in the year including elements which were previously within member services and learning and professional development.

Investment income reduced to £1.1m in 2012, principally as a result of the end of our licence fee income stream from Wolters Kluwer.

EXPENDITURE

Operating expenditure increased to £83.9m, a rise of 5.5% excluding the impact of cost recoveries from AADB. We have continued to exert tight control over our costs, while investing in our strategy. In particular we have invested in the development of our publishing and commercial activities, and our qualifications.

During 2012 we charged costs of £3.5m to the income statement in relation to the AADB, an increase of £0.8m on 2011. This was partly offset by cost recoveries of £0.1m (2011: £0.8m) imposed by AADB tribunals and returned to ICAEW.

The AADB carries out independent investigations of the work and conduct of chartered accountants, both in public practice and elsewhere, where this has given rise to public concern.

TAX

The net corporation tax charge for the year was £nil (2011: less than £0.1m).

PENSIONS

ICAEW's defined benefits pension scheme was closed to further member benefit accrual on 30 June 2010.

As part of the agreement to the closure of the scheme, we agreed to make deficit funding contributions of £6.0m a year for three years from 1 July 2010, reducing to £3.5m a year thereafter until the deficit is eliminated. A charge remains over Chartered Accountants' Hall and the fund has an interest in up to £10.0m of our investment portfolio. A covenant agreement is in place with the trustee with various trigger points and remedies in the event of a breach.

Employees who participated in the scheme were invited to join ICAEW's defined contribution pension arrangements, with transitional enhanced employer contributions payable until June 2013.

The 2010 actuarial valuation showed a deficit of £22.5m at 31 March 2010. The deficit funding arrangements referred to above were intended to eliminate this deficit in around five years. With our support, the trustee has developed an investment strategy intended to make the scheme entirely self-sufficient by around 2025. The next triennial valuation is due as at 31 March 2013, at which point the funding plan will be revised.

The scheme deficit has again been affected by the turbulence in the financial markets arising from the crisis in the eurozone and across the global economy. A desktop valuation of the funding position at 31 December 2012 estimated the scheme deficit at £24.9m, a reduction of £15.2m on the estimated deficit at 2011 of £40.1m. At the end of 2011 a red trigger event arose on the covenant arrangements but was deemed to be a temporary event and no additional funding contributions were required into the scheme. There were no equivalent red trigger events at the end of 2012.

Further details are given in note 26 to the financial statements.

FINANCIAL POSITION

Net assets at 31 December 2012 were £20.2m – a reduction of £5.1m on the 2011 position. The main element of this relates to the contributions to fund our pension scheme of £6.0m. At the year end the deficit had reduced to £4.9m from £6.0m in 2011 but only after these deficit funding contributions, resulting in an actuarial loss in the year.

During 2012, the market value of our long-term investments rose to £31.2m from £29.9m in 2011.

The value of Chartered Accountants' Hall was unchanged at £9.1m as at 31 December 2012, despite investment during the year, resulting in a revaluation loss of £0.5m.

Trade and other payables were £32.5m (2011: £29.6m). This reflects an increase in 2013 subscription income in advance. Trade and other receivables were £9.6m (2011: £12.4m), with the bulk of the reduction arising from disciplinary income due from AADB at the end of 2011.

We have provided £8.1m (2011: £8.6m) of costs relating to the AADB at 31 December 2012, reflecting their current case load. Case costs are forecast on the basis of the available information on actual or prospective cases. The accuracy of this forecast depends on assumptions made about the progress of individual cases and is subject to a significant degree of uncertainty. We do not take account of any potential future income from fines or cost recoveries from the AADB before a formal judgement has been made.

CASH FLOW

Cash balances at 31 December 2012 were £3.4m. Net cash outflow was £1.7m compared to a £5.2m outflow in 2011. Our cash profile fluctuates on an annual cycle, this year peaking at £43.8m in February and bottoming out at £1.4m in November.

Funding of the AADB saw a cash outflow of £4.0m (2011: £2.9m).

ICAEW provided £6.0m (2011: £6.4m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £3.8m (2011: £2.7m). We expect to incur £3.0m of capital expenditure in 2013.

RESERVES POLICIES

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

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

Our strategic priorities are summarised in our Annual Review 2012.

CHARITABLE TRUSTS

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

During the year we made donations under gift aid to our charitable trusts amounting to £1.6m (2011: £1.7m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.1m (2011: £0.1m).

CREDITOR PAYMENT POLICY

It is our policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers. We then pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2012 were 20 days (2011: 20 days).

POLITICAL DONATIONS

During the year, we held a small number of events for the Labour and Conservative parties. Donations in kind in relation to these events totalled £26,000.

OUR SUSTAINABILITY COMMITMENT

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

There are three main ways in which we implement this.

- **Economy** – the provision of accurate, trusted information is central to the success of an economic system. We bring people together to share their views, are involved in research, and produce guidance for the wider business community on sustainability. This work helps us to support business to deliver long-term sustainable economic value and people to do business with confidence.
- **Society** – we recognise the impact we make on society. We believe that financial capability, social mobility and fundraising are essential to long-term economic success. We engage in various activities and programmes which support staff, individuals, organisations and communities around the world.
- **Environment** – we recognise that business has a significant impact on the environment, and although ICAEW does not operate in a business sector which causes significant pollution, we aim to promote and follow environmental practices, and reduce the negative impacts of our activities. On an international scale, we convene the debate on climate change policy in government forums and financial institutions.

You can find more information about our commitment to corporate responsibility in our Annual Review 2012.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The council has a reasonable expectation that ICAEW has adequate resources to continue in operational existence for the foreseeable future. The council receives and approves a three-year operational plan each year, which comprises forecast income statements, cash flow summaries, statements of financial position and key non-financial indicators. These are the basis of the monthly management accounts which are reviewed by the board.

ICAEW's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in our Annual Review 2012. The financial position of ICAEW, its cash flows and liquidity position are described in the financial review above. In addition the accounting policies include ICAEW's objectives, policies and processes for managing its reserves, its financial risk management objectives, details of its hedging activities and its exposure to liquidity risk.

The council believes that ICAEW has adequate financial resources and is well placed to manage its business risks successfully despite the current economic outlook and market conditions which may affect pension scheme funding. As a result, the going concern basis is considered appropriate.

INTERNAL CONTROL

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

The key elements of the system of internal control are listed below.

Risk management

The council, through the board, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by ICAEW. This process has been in place for the whole of 2012 and has continued up to the date on which this document was approved.

Each department identifies and reviews the risks faced by ICAEW, assessing both the controls in place and key actions required to manage the significant risks. These assessments are reported regularly to the audit committee, board and the council. Directors also report regularly to the board on any changes in risks and key risk highlights.

The assessment of risk is linked with the evolving ICAEW strategy in compliance with the guidance Internal Control: Guidance for Directors on the Combined Code (October 2005).

Annually in March, the council undertakes a review to consider:

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

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

- New EU Audit regulations take regulatory responsibilities away from professional bodies such as ICAEW, or the Legal Services Board could create regulatory competition, threatening ICAEW's position in the market – we maintain strong regulatory relationships with government and FRC. Our European Office is engaging closely with EU/EC, providing a detailed review of legislative proposals. Our communications strategy and plan is implemented and coordinated through regular steering group meetings.
- Failure or breach of physical or data security systems (eg as a result of penetration or breakdown of ACA assessment process or procedure, especially internationally) or data loss, resulting in damage to reputation and disruption to operations – we have revised our tender and new supplier policies to include due diligence re: IT security. We have reviewed our applications security access and we undertake regular system penetration and data loss recovery tests on our key systems.
- Limitations on resources or exceptional in-year costs such as pension, FRC/AADB requirements or other disruptive events resulting in a significant impact on cash and therefore on operations and delivery of strategy – we maintain robust budget and forecast processes, monitor developments regularly with key stakeholders and amend activity as necessary.

Delegation

We have a clear organisational structure, detailing lines of authority and control responsibilities. There are defined revenue and capital spend authorisation limits in place.

Business plans and budgets

Staff prepare detailed business plans and budgets for the board and the council to approve. We have agreed key performance targets and monitor achievement against these on a monthly basis. Actual results are compared to approved budgets or latest forecasts on a monthly basis and reported to each meeting of the board and the council. We also prepare revised annual forecasts and report on these three times a year. We post a summary of the monthly results and forecast reviews to the council members' website.

Internal audit

Internal audit provides assurance that risk management processes are addressing the significant risks faced by ICAEW and assesses the controls in place. It ensures that management takes appropriate remedial action if control weaknesses are identified. Internal audit reports formally to the audit committee and has direct access to the chairman of the committee. The committee also receives reports from the staff and the external auditors on important control matters.

Review

The council, through the reports it receives from the board and through the audit committee, has reviewed the effectiveness of ICAEW's system of internal control in operation during 2012. Where control weaknesses have been identified, remedial action was, or is being taken. None of these weaknesses resulted in any material losses, contingencies or uncertainties that would require disclosure in the Annual Review.

CORPORATE GOVERNANCE STATEMENT

Our approach to governance

ICAEW is a chartered corporation and operates under the terms of its Royal Charter, bye-laws and regulations. Nonetheless, we choose to measure our governance against the UK Corporate Governance Code. We believe that we comply with relevant provisions of the Code, recognising that parts of the Code do not relate exactly to the governance of a professional and membership body. The underlying principle is that our governance must support the delivery of our strategy.

ICAEW meetings

The Charter and bye-laws reserve certain matters to ICAEW members in general meeting. This includes consideration of the Annual Review and the financial statements with the report of the auditor.

ICAEW council

Council considers, reviews and approves strategy, operational plans and budgets proposed by the board. 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 to the board, the departmental boards and to the chief executive within an overall framework of financial approval limits.

In 2012, council met six times. As at 31 December 2012, it comprised 82 members. The majority of council members are directly elected by ICAEW members, with the remainder co-opted or ex officio. Council elects its chairman annually from among its members. You will find brief details of each council member, including their status and record of attendance at council meetings in 2012, in the Annual Review 2012.

Council members do not receive remuneration. They are reimbursed for travel and subsistence costs incurred on ICAEW business. They may receive other payments, on a normal commercial basis, particularly in connection with lecturing and writing.

The office-holders and chief executive

The ICAEW office-holders (President: Clive Parritt (to 13 June), Mark Spofforth (from 13 June); Deputy-President: Mark Spofforth (to 13 June), Martyn Jones (from 13 June); Vice-President: Martyn Jones (to 13 June); Arthur Bailey (from 13 June)) have no formal personal powers other than the procedural matters specified in the principal bye-laws. They have an ambassadorial role, meeting members and stakeholders and promoting ICAEW. They represent the views of the council and the wider membership within ICAEW and ensure that these are taken into account in the development of ICAEW strategy and policies. They counsel and advise the chief executive. The president chairs the annual and special meetings of members and the ICAEW board.

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

Diversity

In February 2012 council approved the ICAEW diversity policy in relation to council, board and committee membership. The overall aim of this policy is to represent broadly within the membership of council, boards and committees the diversity, including gender, of ICAEW membership as a whole. Moreover, the membership of council, boards and committees should have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively, while ensuring the engagement of the best person for the job.

The board

The board is responsible for monitoring the development and implementation of ICAEW strategy, including reviews of key risks. The chief executive and executive directors report to each board meeting on performance against operational plans and financial performance. The board reports on its activities to each council meeting.

The board comprises non-executives, principally council members ex officio, and senior executives. The council elects two of its members directly to the board for a two-year term. The elected members fulfil the role of 'senior independent director'. In 2012, the board met 10 times.

The board undertook a review of its own effectiveness in the autumn of 2012. This showed that, overall, the board works well. The review raised a small number of detailed issues about the operation of the board which it is addressing, including the diversity of its membership.

The members of the board (for whom you can find brief biographical details on the ICAEW website at [Home > Who we are > Governance > ICAEW Board](#)) during 2012 were:

	Position	Appointed	Retired	Attendance
Andrew Baigent*	chairman, learning and professional development board; director, Group Financial Management Improvement Department of Health			9/10
Arthur Bailey*	elected by council (to 13 June); vice-president (from 13 June) consultant, Begbies and Kingston Smith			10/10
Penny Bickerstaff*	chairman, member services board; independent management consultant		13 June	3/4
Ian Davies*	elected by council; senior independent director, Harvey Nash plc			9/10
Robin Fieth	executive director, members and operations			10/10
Howard Gross*	chairman, members board; chief executive, Gross Klein	13 June		4/6
Sharron Gunn	executive director, commercial	1 January		8/10
Richard Harwood*	chairman, professional standards board; principal, Harwoods			10/10
Robert Hodgkinson	executive director, technical strategy			10/10
Michael Izza	chief executive			10/10
Jeremy Jennings*	co-opted member; global director, regulatory and government relations, Ernst & Young LLP, Brussels			7/10
Martyn Jones*	vice-president (to 13 June); deputy-president (from 13 June) consultant			10/10
Hilary Lindsay*	elected by council; lecturer, the Open University Business School	13 June		6/6
Clive Parritt*	president and chairman (to 13 June); chairman, Baronsmead VCT 2 plc; DiGiCo Europe Ltd; BG Consulting Group Ltd and non-executive director, London & Associated Properties plc and other companies		13 June	3/4
Mark Protherough	executive director, learning and professional development			10/10
Andrew Ratcliffe*	chairman, technical strategy board; partner, PricewaterhouseCoopers LLP			10/10
Vernon Soare	executive director, professional standards			8/10
Mark Spofforth*	deputy-president (to 13 June); president and chairman (from 13 June); partner, Spofforths			10/10

* council member

Audit committee

The audit committee is responsible, on behalf of the council, for ensuring that all significant activities of ICAEW are subject to independent review and audit; monitoring ICAEW's relationship with its auditors; reviewing internal controls; and assessments of risk. The audit committee met four times in 2012. Both the internal and external auditors attend its meetings and have direct access to its chairman. The external auditors attend at least one meeting (or part of a meeting) each year without ICAEW management present.

The members of the audit committee during 2012 were:

	Position	Appointed	Retired	Attendance
Penny Bickerstaff	independent management consultant	13 June		2/3
Brian Boswell	charity trustee & financial adviser to Property Management Co		13 June	1/1
Stuart Bridges	chief financial officer, Hiscox Ltd			3/4
John Cain	audit partner, KPMG LLP			3/4
Ian Cherry*	chairman; chief executive, A I Cherry Ltd			4/4
David Chitty*	partner, Crowe Clark Whitehill LLP			4/4
Mary Hardy	head of risk assurance, London Organising Committee of the Olympic and Paralympic Games Ltd			3/4
Neeraj Kapur*	chief financial officer, Secure Trust Bank PLC			1/4
Andrew Ratcliffe*	vice-chairman; partner, PricewaterhouseCoopers LLP			4/4

* council member

The chairman of the audit committee reports annually to the council. The audit committee provides a summary report of its proceedings to council after each meeting and makes the minutes of its meetings available to the board.

During the year the audit committee has:

- reviewed the financial statements, having received a report from the external auditors on their review and audit;
- considered the output of the procedures used to manage risk within ICAEW;
- reviewed the effectiveness of ICAEW's internal controls;
- considered the management letter from the external auditors on their review of the effectiveness of internal controls;
- agreed the fees and terms of appointment of the external auditors, including their quality and effectiveness; and
- agreed the work plan of internal audit and reviewed the resulting output from that plan.

The committee has helped council to assess the adequacy of the internal audit plan. The committee has received reports on the work carried out by internal audit and the results of their investigations including management responses, their adequacy and timeliness. At its September 2012 meeting, the committee received an externally commissioned review of the performance of the internal audit team.

In February 2012, the audit committee considered the outcome of an externally-facilitated performance evaluation which took place in late 2011. It reported that the audit committee was well-run, efficient and effective. A number of recommendations were implemented to enable it to satisfy the governance requirements of board and council.

Significant areas of review by the audit committee in the year included 'deep dives' into principal risks, including pensions, AADB provisions, regulatory intervention and data security; reviews of significant control matters as they arose; and key judgement areas in the financial statements, including AADB and pensions.

Auditors

The auditors were first appointed in 2006 and re-appointed following a tender in 2010. The auditor periodically changes its audit partner in accordance with professional and regulatory standards in order to protect independence and objectivity. Rotation of the audit partner took place during 2012. The committee agrees with the audit firm staff rotation policies in relation to ICAEW's audit.

Current ICAEW policy is to tender the external audit every five years.

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

To assess the effectiveness of the auditors the committee reviewed:

- the external auditors fulfilment of the agreed audit plan and variations from it;
- the auditor's report of major issues arising during the course of the audit; and
- the most recent report on the auditors from the FRC's Audit Inspection Unit.

The audit committee is satisfied with the auditors' effectiveness and has recommended to council that Grant Thornton UK LLP be proposed for reappointment for 2013 at the annual meeting.

Financial reporting

Through discussion with management and the external auditor, the audit committee determined that the key judgements with risk of misstatement of ICAEW's financial statements related to provisions for AADB case costs, estimates of the outcome of certain commercial developments and the assumptions relating to pension fund liabilities.

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

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

Review of financial statements

Over the course of the year the audit committee considered many components of business performance in order to ensure it has a full understanding of the operations of ICAEW. This has particular regard to the mix of audit committee members, whereby not all members are also on the council or board. Examples of processes it uses include:

- reviews of the processes undertaken in determining the position adopted in key judgement areas including AADB and pension provisions and commercial arrangements;
- 'deep dives' into risk areas as described above;
- receipt of regular strategy reports from the chief executive and operational reports from the executive director, members and operations;
- requesting members of management to attend audit committee meetings to provide updates on operational and strategic matters; and
- a review of the budget and operational plan.

Through these processes and its monitoring of the effectiveness of controls, internal audit and risk management the audit committee is able to maintain a good understanding of business performance, key areas of judgement and decision-making processes within the organisation. As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as possible) the independence of the external auditors.

Nominating committee

The nominating committee is responsible for making recommendations to the council for co-options, for the appointment of committee chairmen and for honorary membership of ICAEW. It also has direct responsibility for all other committee appointments. The committee makes recommendations and appointments on the basis of the best person for the job and against agreed profiles. The committee deals with much of its business by correspondence and meets only as required.

The members of the nominating committee during 2012 were:

	Position	Appointed	Retired	Attendance
Arthur Bailey*	vice-president (from 13 June) consultant, Begbies and Kingston Smith	13 June		2/3
Susan Field*	elected by council sole practitioner			4/6
Martin Hagen	past-president non-executive director, South West Water and Swallowfield plc, and deputy chairman, Regulatory Decisions Committee, Financial Services Authority		13 June	1/3
Michael Izza	chief executive			5/6
Martyn Jones*	vice-president (to 13 June), deputy-president (from 13 June) consultant			6/6
Sheilagh Moffat*	elected by council partner, Moffat Gilbert			6/6
Clive Parritt*	president and chairman (to 13 June); past-president (from 13 June) chairman Baronsmead VCT 2 plc; DiGiCo Europe Ltd; BG Consulting Group Ltd and non-executive director, London & Associated Properties plc and other companies			4/6
Gerald Russell*	past-president consultant			3/6
Mark Spofforth*	deputy-president (to 13 June); president and chairman (from 13 June) partner, Spofforths			6/6
Jan Weber*	elected by council finance director, DIAM International	5 October		2/2

* council member

Remuneration committee

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

The members of the remuneration committee during 2012 were:

	Position	Appointed	Retired	Attendance
Arthur Bailey*	vice-president (from 13 June) consultant, Begbies and Kingston Smith			3/4
Ian Davies*	chairman senior independent director, Harvey Nash plc			3/4
Frank Edwards*	consultant	13 June		2/2
Peter Jenkins* (chairman)	finance director, The Prince's Regeneration Trust			4/4
Sean O'Hare	partner, PwC Human Resources Services			2/4
Mark Spofforth*	deputy-president (to 13 June) partner, Spofforths		13 June	2/2

* council member

The chairman of the remuneration committee reports at least annually to the board.

Senior staff appointments committee

The senior staff appointments committee is responsible for all matters relating to the recruitment and appointment of the chief executive and executive directors. The committee did not meet in 2012.

Departmental boards

Five departmental boards steered the development of policy for ICAEW's key activities in 2012: commercial; learning and professional development; members; professional standards; and technical strategy. These boards also exercise a general oversight of the work programmes of the departments. Following an organisational review, ICAEW established a commercial board and a members board with effect from 1 January 2012 to replace the former member services board.

You can find the terms of reference for the key ICAEW committees on the ICAEW website at [Home > Who we are > Committees](#)

Employees

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

ICAEW is committed to the core values of acting responsibly, integrity, effective partnerships and the highest standards. It is our policy to treat all staff fairly and equally regardless of race, sex, sexual orientation, gender re-assignment, marital status or disability. Should existing staff suffer a disability, we will do all we can to accommodate this and to help the member of staff to continue their career in their existing role where possible, or in an alternative position in the organisation.

Periodically, ICAEW conducts staff surveys to give us the opportunity to get insight into changes in staff perception, attitudes, behaviours and engagement. The 2012 staff survey results showed that staff are broadly content with working life at ICAEW and remain positive about the future of ICAEW. There is strong support for what ICAEW is trying to achieve and a good understanding of how departmental activity contributes to this. The survey was very positive about our line management and understanding of our brand values.

ICAEW has a well-established performance management process and training and development policy. Staff can discuss their development needs at 'one-to-ones' with their manager or as part of the annual performance management process.

We hold regular strategy updates for all staff and have dedicated communications channels, including an intranet and weekly email updates. The 'Working at ICAEW Group', which has representatives from all departments, gives staff the opportunity to raise issues, share best practice and encourage cross-departmental working.

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 ICAEW and of the result for ICAEW for that year.

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

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

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

Directors' confirmation

As far as each of the directors is aware:

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

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

ICAEW FIVE-YEAR SUMMARY

	2012 £m	2011 ¹ £m	2010 £m	2009 £m	2008 £m
Income statement					
Operating income	82.7	82.4	76.4	73.7	73.6
ICAEW services	(76.0)	(72.4)	(67.1)	(66.0)	(67.6)
Funding of regulatory and other professional associations	(6.3)	(4.7)	(5.8)	(5.3)	(4.6)
Gift aid and library funding	(1.6)	(1.7)	(1.6)	(1.8)	(1.2)
Result before taxation	(1.2)	3.6	1.9	0.6	0.2
Taxation	-	-	(0.1)	0.1	-
Net result after taxation	(1.2)	3.6	1.8	0.7	0.2
Net assets					
Non-current assets	52.9	51.9	53.2	49.9	49.8
Current assets	13.8	18.3	19.8	19.1	18.2
Current liabilities	(37.9)	(34.1)	(33.6)	(30.4)	(29.1)
Non-current liabilities excluding Staff Pensions Fund liability	(3.7)	(4.8)	(4.7)	(3.0)	(1.5)
Non-current liabilities - Staff Pensions Fund liability	(4.9)	(6.0)	(5.4)	(14.2)	(8.6)
Total net assets	20.2	25.3	29.3	21.4	28.8
	2012	2011	2010	2009	2008
Member and student numbers					
Members	140,573	138,464	136,615	134,698	132,411
ACA students	20,037	19,073	17,653	16,517	16,165
	160,610	157,537	154,268	151,215	148,576

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses as set out on the statement of comprehensive income.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND
AND WALES FOR THE YEAR ENDED 31 DECEMBER 2012

We have audited the financial statements of The Institute of Chartered Accountants in England and Wales (ICAEW) for the year ended 31 December 2012 which comprise the group and ICAEW income statements, the group and ICAEW statements of comprehensive income, the group and ICAEW statements of changes to reserves, the group and ICAEW statements of financial position, the group and ICAEW statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of the council and auditor

As explained more fully in the corporate governance statement set out on page 10, the council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

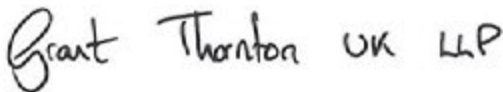
Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of ICAEW's affairs as at 31 December 2012 and of the group's and ICAEW's result for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.



Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants

Milton Keynes
19 March 2013

GROUP INCOME STATEMENT

for the year ended 31 December 2012

	Note	2012			2011		
		Income	Expenditure	Net	Income	Expenditure restated ¹	Net restated ¹
		£m	£m	£m	£m	£m	£m
Subscriptions and fees		39.6	-	39.6	37.7	-	37.7
Learning and professional development	1	9.7	(14.0)	(4.3)	12.5	(15.3)	(2.8)
Professional standards	2	14.2	(13.7)	0.5	14.0	(13.4)	0.6
Commercial and shared services	3	9.9	(13.1)	(3.2)	-	-	-
Member services	4	-	-	-	5.4	(12.5)	(7.1)
Members	5	1.0	(12.9)	(11.9)	0.1	(9.4)	(9.3)
Technical strategy	6	3.9	(9.2)	(5.3)	4.1	(9.5)	(5.4)
Central activities	7	0.9	(13.6)	(12.7)	0.5	(12.8)	(12.3)
Charitable trusts	8	0.2	(1.1)	(0.9)	0.2	(1.1)	(0.9)
		79.4	(77.6)	1.8	74.5	(74.0)	0.5
Accountancy and Actuarial Discipline Board	9	1.6	(3.4)	(1.8)	3.1	(1.9)	1.2
Other regulatory and professional associations	10	0.8	(2.9)	(2.1)	0.8	(2.8)	(2.0)
		2.4	(6.3)	(3.9)	3.9	(4.7)	(0.8)
Other income - licence and data access fees		-	-	-	1.9	-	1.9
Operating result	12	81.8	(83.9)	(2.1)	80.3	(78.7)	1.6
Investment income	13	1.3	-	1.3	2.5	-	2.5
Result before taxation		83.1	(83.9)	(0.8)	82.8	(78.7)	4.1
Taxation	14			(0.1)			(0.1)
Net result after taxation for the year				(0.9)			4.0

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses as set out on the statement of comprehensive income.

ICAEW's departmental structure was revised at the start of 2012; the results for the year reflect current responsibilities – prior year results have not been restated for these movements as this is not considered practicable.

ICAEW INCOME STATEMENT

for the year ended 31 December 2012

	Note	2012			2011		
		Income	Expenditure	Net	Income	Expenditure restated ¹	Net restated ¹
		£m	£m	£m	£m	£m	£m
Subscriptions and fees		39.6	-	39.6	37.7	-	37.7
Learning and professional development	1	9.7	(14.0)	(4.3)	12.5	(15.3)	(2.8)
Professional standards	2	14.2	(13.7)	0.5	14.0	(13.4)	0.6
Commercial and shared services	3	9.9	(13.1)	(3.2)	-	-	-
Member services	4	-	-	-	5.4	(12.5)	(7.1)
Members	5	1.0	(12.9)	(11.9)	0.1	(9.4)	(9.3)
Technical strategy	6	3.9	(9.2)	(5.3)	4.1	(9.5)	(5.4)
Central activities	7	0.9	(13.1)	(12.2)	0.5	(12.3)	(11.8)
		<u>79.2</u>	<u>(76.0)</u>	<u>3.2</u>	<u>74.3</u>	<u>(72.4)</u>	<u>1.9</u>
Accountancy and Actuarial Discipline Board	9	1.6	(3.4)	(1.8)	3.1	(1.9)	1.2
Other regulatory and professional associations	10	0.8	(2.9)	(2.1)	0.8	(2.8)	(2.0)
		<u>2.4</u>	<u>(6.3)</u>	<u>(3.9)</u>	<u>3.9</u>	<u>(4.7)</u>	<u>(0.8)</u>
Other income - licence and data access fees		-	-	-	1.9	-	1.9
Gift aid and library funding	11	-	(1.6)	(1.6)	-	(1.7)	(1.7)
Operating result	12	81.6	(83.9)	(2.3)	80.1	(78.8)	1.3
Investment income	13	1.1	-	1.1	2.3	-	2.3
Result before taxation		<u>82.7</u>	<u>(83.9)</u>	<u>(1.2)</u>	<u>82.4</u>	<u>(78.8)</u>	<u>3.6</u>
Taxation	14			-			-
Net result after taxation for the year				<u>(1.2)</u>			<u>3.6</u>

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses within the statement of comprehensive income.

ICAEW's departmental structure was revised at the start of 2012; the results for the year reflect current responsibilities – prior year results have not been restated for these movements as this is not considered practicable.

GROUP AND ICAEW STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	Group		ICAEW	
		2012	2011 restated ¹	2012	2011 restated ¹
		£m	£m	£m	£m
Net result after taxation recognised in the income statement in the year		(0.9)	4.0	(1.2)	3.6
Items that may be reclassified subsequently to profit or loss:					
Gains/(losses) on revaluation of available for sale investments	18	2.2	(2.5)	1.6	(1.9)
Items that will not be reclassified subsequently to profit or loss:					
(Losses)/gains on revaluation of property, plant and equipment	15	(0.6)	0.6	(0.6)	0.6
Actuarial losses recognised in the year	26	(4.8)	(7.2)	(4.6)	(6.9)
Deferred tax	20	(0.3)	0.6	(0.3)	0.6
Other comprehensive expense in the year		(3.5)	(8.5)	(3.9)	(7.6)
Total comprehensive expense in the year		(4.4)	(4.5)	(5.1)	(4.0)

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses within the statement of comprehensive income.

GROUP STATEMENT OF CHANGES TO RESERVES

for the year ended 31 December 2012

Group	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Self- financing reserves £m	Charitable trusts £m	Total £m
Reserves at 1 January 2011	5.3	2.6	17.5	4.1	10.8	40.3
Net result after taxation as restated ¹	-	-	3.2	0.6	0.2	4.0
Increase in valuation of property, plant and equipment	0.6	-	-	-	-	0.6
Net change in market value of long-term investments over cost	-	(1.9)	-	-	(0.6)	(2.5)
Actuarial losses recognised in year on defined benefit pension scheme as restated ¹	-	-	(6.7)	(0.2)	(0.3)	(7.2)
Deferred tax attributable to above	-	0.6	-	-	-	0.6
Total other comprehensive income/(expense) in the year	0.6	(1.3)	(6.7)	(0.2)	(0.9)	(8.5)
Total comprehensive income/(expense) in the year	0.6	(1.3)	(3.5)	0.4	(0.7)	(4.5)
Reserves at 1 January 2012	5.9	1.3	14.0	4.5	10.1	35.8
Net result after taxation	-	-	(1.6)	0.6	0.1	(0.9)
Decrease in valuation of property, plant and equipment	(0.6)	-	-	-	-	(0.6)
Net change in market value of long-term investments over cost	-	1.6	-	-	0.6	2.2
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(4.5)	(0.1)	(0.2)	(4.8)
Deferred tax attributable to above	0.1	(0.4)	-	-	-	(0.3)
Total other comprehensive (expense)/income in the year	(0.5)	1.2	(4.5)	(0.1)	0.4	(3.5)
Total comprehensive (expense)/income in the year	(0.5)	1.2	(6.1)	0.5	0.5	(4.4)
Reserves at 31 December 2012	5.4	2.5	7.9	5.0	10.6	31.4

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses.

ICAEW STATEMENT OF CHANGES TO RESERVES

for the year ended 31 December 2012

ICAEW	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Self- financing reserves £m	Total £m
Reserves at 1 January 2011	5.3	2.6	17.3	4.1	29.3
Net result after taxation as restated ¹	-	-	3.0	0.6	3.6
Increase in valuation of property, plant and equipment	0.6	-	-	-	0.6
Net change in market value of long-term investments over cost	-	(1.9)	-	-	(1.9)
Actuarial losses recognised in year on defined benefit pension scheme as restated ¹	-	-	(6.7)	(0.2)	(6.9)
Deferred tax attributable to above	-	0.6	-	-	0.6
Total other comprehensive income/(expense) in the year	0.6	(1.3)	(6.7)	(0.2)	(7.6)
Total comprehensive income/(expense) in the year	0.6	(1.3)	(3.7)	0.4	(4.0)
Reserves at 1 January 2012	5.9	1.3	13.6	4.5	25.3
Net result after taxation	-	-	(1.8)	0.6	(1.2)
Decrease in valuation of property, plant and equipment	(0.6)	-	-	-	(0.6)
Net change in market value of long-term investments over cost	-	1.6	-	-	1.6
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(4.5)	(0.1)	(4.6)
Deferred tax attributable to above	0.1	(0.4)	-	-	(0.3)
Total other comprehensive (expense)/income in the year	(0.5)	1.2	(4.5)	(0.1)	(3.9)
Total comprehensive (expense)/income in the year	(0.5)	1.2	(6.3)	0.5	(5.1)
Reserves at 31 December 2012	5.4	2.5	7.3	5.0	20.2

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a compensating reduction in actuarial losses.

GROUP AND ICAEW STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

	Note	2012 £m	2011 £m	Group 2010 £m	2012 £m	2011 £m	ICAEW 2010 £m
Assets							
Non-current assets							
Property, plant and equipment	15	18.8	19.2	19.0	18.8	19.2	19.0
Intangible assets	16	2.7	2.6	2.7	2.7	2.6	2.7
Investments in subsidiaries and associates	17	0.1	0.1	0.1	-	-	-
Financial assets:							
Restricted available for sale investments	18	-	-	5.0	-	-	5.0
Available for sale investments	18	42.4	40.4	37.0	31.2	29.9	25.8
Other receivables	19	-	-	0.5	-	-	0.5
Deferred tax asset	20	0.2	0.2	0.2	0.2	0.2	0.2
		64.2	62.5	64.5	52.9	51.9	53.2
Current assets							
Inventories	21	0.8	0.8	0.8	0.8	0.8	0.8
Trade and other receivables	22	10.0	12.6	8.7	9.6	12.4	8.7
Cash and cash equivalents	23	3.9	5.7	10.8	3.4	5.1	10.3
		14.7	19.1	20.3	13.8	18.3	19.8
Total assets		78.9	81.6	84.8	66.7	70.2	73.0
Liabilities							
Current liabilities							
Trade and other payables	24	(32.8)	(29.9)	(28.7)	(32.5)	(29.6)	(28.2)
Current tax liabilities		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Accountancy and Actuarial Discipline Board provision	25	(5.3)	(4.4)	(5.3)	(5.3)	(4.4)	(5.3)
		(38.2)	(34.4)	(34.1)	(37.9)	(34.1)	(33.6)
Non-current liabilities							
Pension liabilities	26	(5.6)	(6.6)	(5.7)	(4.9)	(6.0)	(5.4)
Accountancy and Actuarial Discipline Board provision	25	(2.8)	(4.2)	(3.5)	(2.8)	(4.2)	(3.5)
Deferred tax liability	20	(0.9)	(0.6)	(1.2)	(0.9)	(0.6)	(1.2)
		(9.3)	(11.4)	(10.4)	(8.6)	(10.8)	(10.1)
Total liabilities		(47.5)	(45.8)	(44.5)	(46.5)	(44.9)	(43.7)
Total net assets		31.4	35.8	40.3	20.2	25.3	29.3
Reserves							
Revaluation reserve		5.4	5.9	5.3	5.4	5.9	5.3
Investment revaluation reserve		2.5	1.3	2.6	2.5	1.3	2.6
Accumulated fund		7.9	14.0	17.5	7.3	13.6	17.3
Faculties		1.7	1.3	1.0	1.7	1.3	1.0
Chartered Accountants' Compensation Scheme		3.3	3.2	3.1	3.3	3.2	3.1
Charitable trust funds		10.6	10.1	10.8	-	-	-
		31.4	35.8	40.3	20.2	25.3	29.3

Approved on behalf of the council 19 March 2013



Mark Spofforth
President



Michael Izza
Chief Executive

GROUP AND ICAEW STATEMENTS OF CASH FLOWS

for the year ended 31 December 2012

		2012	Group 2011 restated ¹	2012	ICAEW 2011 restated ¹
	Note	£m	£m	£m	£m
Cash flows from operating activities ²					
Result before taxation		(0.8)	4.1	(1.2)	3.6
Adjustments for:					
Depreciation and amortisation		3.1	2.9	3.1	2.9
Investment income	13	(1.3)	(2.5)	(1.1)	(2.3)
Non-cash movement in provisions		3.6	2.9	3.8	3.0
Cash flows from operating activities before movements in working capital		4.6	7.4	4.6	7.2
Movements in working capital					
Decrease/(increase) in trade and other receivables		2.5	(3.8)	2.8	(3.9)
Increase in trade and other payables		3.4	1.3	3.3	1.7
Cash generated from operating activities after movements in working capital		10.5	4.9	10.7	5.0
Cash flows on provisions					
Tax paid		(0.1)	-	-	-
Cash outflow on pension liabilities		(6.0)	(6.4)	(6.0)	(6.4)
Cash outflow on Accountancy and Actuarial Discipline Board		(4.0)	(2.9)	(4.0)	(2.9)
Net cash generated from/(used by) operating activities		0.4	(4.4)	0.7	(4.3)
Cash flows from investing activities					
Purchase of property, plant and equipment		(2.5)	(2.0)	(2.5)	(1.9)
Purchase of intangible assets		(1.3)	(0.8)	(1.3)	(0.8)
Deferred consideration received		-	0.5	-	0.5
Purchase of available for sale investments		(19.0)	(23.8)	(11.9)	(15.1)
Disposal of available for sale investments		19.3	23.3	12.3	14.5
Investment income received		1.3	2.1	1.0	1.9
Net cash outflow from investing activities		(2.2)	(0.7)	(2.4)	(0.9)
Net decrease in cash and cash equivalents in the year		(1.8)	(5.1)	(1.7)	(5.2)
Net cash and cash equivalents at 1 January		5.7	10.8	5.1	10.3
Net cash and cash equivalents at 31 December	23	3.9	5.7	3.4	5.1

¹ The prior year result has been restated to reflect the early adoption of IAS 19 (revised) with effect from 1 January 2011. This has the effect of reducing the net result after taxation for the year by £0.5m, with a corresponding change in non-cash provision movements.

² Fines and cost recoveries from disciplinary cases including the AADB are included within operational cash flows and included in the result before taxation above. Amounts levied on firms as contributions towards AADB costs are similarly included in operational income. Payments to AADB from amounts previously provided are included separately in the cash movement on provisions above.

ACCOUNTING POLICIES

I Basis of preparation

ICAEW is a body incorporated by Royal Charter. The financial statements have been prepared in accordance with IFRSs as adopted for use in the EU, and under the historical cost convention as modified by the revaluation of properties and available for sale investments. Consolidated financial statements have been prepared which comprise ICAEW and all its subsidiary undertakings.

Subsidiaries are all entities over which the group has the power to control the financial and operating policies. All subsidiaries have a reporting date of 31 December. All transactions and balances between group entities are eliminated on consolidation.

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

ICAEW has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2012, and has adopted early IAS 19 (revised) and Amendments to IAS 1 in these financial statements. With the exception of the early adoption of IAS 19 (revised), the first-time application of these standards has not resulted in any prior period adjustments of cash flows, net income or statement of financial position line items.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue, but not yet effective:

Standard or interpretation (red = not yet EU adopted)	Effective from years commencing:
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 27 (revised), Separate Financial Statements	1 January 2013
IAS 28 (revised), Investments in Associates and Joint Ventures	1 January 2013
Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7	1 January 2013
Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014
Mandatory effective date and transition disclosures – Amendments to IFRS 9 and IFRS 7	1 January 2015
Government Loans – Amendments to IFRS 1	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2013
Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014

II Critical accounting judgements and key sources of estimation

To be able to prepare financial statements according to generally accepted accounting principles, the board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on AADB provisions and pensions (notes 25-26) as well as operational matters such as proposed changes in our method of recovering VAT. These estimates are based on historical experience and various other assumptions that the board believes are reasonable under the circumstances. The results of these form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Further details in relation to specific areas are included in the accounting policies below, or in the notes to the financial statements.

III Income

Income from fees and subscriptions is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable. Fees and subscriptions received in advance are included within trade and other payables. Income as presented in the income statements is revenue as defined under IAS 18 Revenue.

Income associated with professional conduct (disciplinary fines) is recognised on receipt. Income in association with AADB is recognised when receivable ie, when the judicial judgement has been made and there is considered no likelihood of reversal through appeal. Other income, including licence fees, exam fees and income from consulting services is recognised in the period in which the services are provided.

IV Professional Conduct and Accountancy and Actuarial Discipline Board

Provision is made for the estimated future external costs of disciplinary cases relating to events which occurred before the year end. Case costs are forecast on the basis of the available information on actual or prospective cases. However, the accuracy of the forecast will depend on assumptions made about the progress of cases and is subject to a significant degree of uncertainty. No account is taken of any potential fines or cost recoveries due to ICAEW before a judicial judgement has been made.

V Property, plant and equipment, and depreciation

Freehold properties

Freehold properties are revalued annually at open market value and are included in the statements of financial position at their revalued amounts. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.

Certain major items of fixed plant and equipment are identified separately and are depreciated over their individual estimated useful economic lives.

Depreciation is not charged on freehold land. Depreciation is charged on the revalued amount of freehold buildings at 2% per annum.

Leasehold improvements

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

Historic collections

ICAEW'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, the estimated residual value is equal to the carrying amount and no depreciation is provided. Surpluses on revaluation, including surpluses arising from donations of items to the collections, are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.

Other plant and equipment

Other plant and equipment is capitalised at cost. Depreciation is charged on a straight line basis over the estimated useful economic lives of the assets ranging from two to ten years.

The impairment of property, plant and equipment is considered annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and provisions are made where necessary.

VI Intangible assets

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

VII Investments

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

At each year-end date, an assessment is made as to whether there is objective evidence that an available for sale equity instrument is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. Judgement is used in determining what a significant or prolonged decline is. Impairment charges are recognised in the income statement.

VIII Cash and cash equivalents

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

IX Inventories

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

X Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables after initial recognition, which approximates fair value. Using information available at the year-end date, provision against trade receivables is made when there is objective evidence that ICAEW will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

XI Leases

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

XII Grants

Revenue grants receivable are recognised in the relevant period to match with the related costs which they are intended to compensate.

XIII Pensions

Defined benefit scheme

Retirement benefits are accounted for under IAS 19 Employee Benefits (revised). This standard was adopted early during 2012 and the details of the changes are listed in note 26. Scheme assets are measured at fair value. Scheme liabilities are measured by qualified actuaries on an actuarial basis using the projected unit credit method, and are discounted at appropriate high-quality corporate bond rates that have terms to maturity which approximate to the terms of the related liability. Past service cost is recognised as an expense on a straight line basis over the average period until benefits become vested. Expected return on scheme assets and interest on scheme liabilities are recognised in the income statement. Actuarial gains and losses are recognised in full in the statement of comprehensive income as they arise.

The scheme closed to future accrual on 30 June 2010. The quantification of the pension deficit is based on actuarial assumptions made by the board, in conjunction with the scheme's actuary, relating to discount rate, expected return on the plan's assets, inflation and future price increases. These assumptions, the details of which for the current financial year are included in note 26, are reviewed in the context of the economic climate.

- The discount rate is determined with reference to the market rate of over 15 year AA rated bonds at the year-end date, allowing for the anticipated maturity of the scheme's projected benefit cash flow profile.
- The discount rate is used for calculating the expected returns on both the assets and the liabilities of the scheme.
- The assumption for long-term inflation is based on market expectation of long-term future inflation at the year end, as measured by the difference between yields on fixed interest and index-linked government bonds.
- The assumptions relating to the mortality of current and future pensioners are based on the 92 series mortality tables, with allowance for future mortality improvements in line with the 'long cohort' projections. This is consistent with the assumption used in the most recent actuarial valuation.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of these actuarial assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The

calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement.

Defined contribution schemes

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

XIV Taxation

Current tax

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

Deferred tax

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

XV Financial risk management

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

Currency risk

The majority of ICAEW's transactions are carried out in sterling. In addition, ICAEW holds accounts in US dollars and euros. To the extent possible, ICAEW uses the income received from services provided in these currencies to hedge any exposures on payments made. In other cases forward purchases are used where possible to hedge against currency movements on known foreign exchange requirements.

Credit risk

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

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

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

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

Liquidity and interest rate risk

ICAEW policy is to maintain a strong statement of financial position with cash or cash equivalent balances and therefore it does not have significant exposure to liquidity risk. ICAEW manages its liquidity risk by monitoring its net cash and cash equivalent flows. Liquidity needs are monitored on a day-to-day and monthly basis for short-term needs. Excess funds are invested as appropriate, depending on the forecast working capital cash flow needs, on short-term interest-bearing accounts or certificates of deposit. As a result of its holding of certificates of deposit with financial institutions, ICAEW does have exposure to interest rate fluctuations. These investments are invested by our agents in high-quality, liquid deposits, with a range of counterparties in such a way as to avoid an excessive concentration of our investment with any specific counterparty, and are monitored on a regular basis.

Going concern

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

XVI Reserves

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

Reserves comprise the following:

Revaluation reserve

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

Investment revaluation reserve

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

Accumulated fund and other reserves

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1 Learning and professional development

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Qualifications	9.7	(8.9)	0.8	12.5	(9.4)	3.1
Business development	-	(4.3)	(4.3)	-	(5.0)	(5.0)
Executive, policy and strategy	-	(0.8)	(0.8)	-	(0.9)	(0.9)
	9.7	(14.0)	(4.3)	12.5	(15.3)	(2.8)

As part of the restructure in 2012, certain qualifications and other learning products are now managed by and reported within our commercial department.

2 Professional standards

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Disciplinary	0.7	(3.0)	(2.3)	0.5	(2.9)	(2.4)
Authorisation of investment business	1.8	(1.6)	0.2	1.6	(1.5)	0.1
Practice regulation and assurance	11.1	(8.5)	2.6	11.0	(8.2)	2.8
Capacity building	0.6	(0.6)	-	0.9	(0.8)	0.1
	14.2	(13.7)	0.5	14.0	(13.4)	0.6

3 Commercial and shared services

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Commercial	8.9	(8.1)	0.8	-	-	-
Shared services	1.0	(5.0)	(4.0)	-	-	-
	9.9	(13.1)	(3.2)	-	-	-

Our commercial department was formed in 2012 principally from our member services department. A number of other functions were transferred into this department to drive the focus on our commercial activities.

4 Member services

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Commercial	-	-	-	4.0	(5.2)	(1.2)
Member services	-	-	-	1.4	(6.0)	(4.6)
Administration	-	-	-	-	(1.3)	(1.3)
	-	-	-	5.4	(12.5)	(7.1)

The former member services department ceased at the end of 2011 and its activities were taken up by the new commercial and shared services and members departments.

5 Members

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Members – special interest groups	0.6	(0.7)	(0.1)	-	-	-
Member services	0.1	(3.1)	(3.0)	-	-	-
UK regions	-	(4.7)	(4.7)	-	(4.6)	(4.6)
International regions	0.3	(4.4)	(4.1)	0.1	(4.8)	(4.7)
	1.0	(12.9)	(11.9)	0.1	(9.4)	(9.3)

From the start of 2012 this department includes certain functions previously performed by the member services department.

6 Technical strategy

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
ICAEW-funded faculty activities	-	(2.8)	(2.8)	-	(2.7)	(2.7)
Technical departments	0.2	(2.1)	(1.9)	0.1	(3.1)	(3.0)
Audit and Assurance Faculty	0.9	(0.6)	0.3	0.9	(0.6)	0.3
Corporate Finance Faculty	0.5	(0.5)	-	0.5	(0.5)	-
Finance and Management Faculty	0.6	(0.4)	0.2	0.7	(0.5)	0.2
Financial Reporting Faculty	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Financial Services Faculty	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Information Technology Faculty	0.3	(0.4)	(0.1)	0.5	(0.4)	0.1
Tax Faculty	0.8	(0.6)	0.2	0.8	(0.6)	0.2
Administration	-	(1.0)	(1.0)	-	(0.3)	(0.3)
	3.9	(9.2)	(5.3)	4.1	(9.5)	(5.4)

7 Central activities

	Group			Group		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure restated £m	2011 Net restated £m
Infrastructure	-	(10.0)	(10.0)	0.4	(9.9)	(9.5)
Marketing and communications	0.9	(9.8)	(8.9)	0.1	(9.8)	(9.7)
Finance and administration	-	(7.9)	(7.9)	-	(6.5)	(6.5)
	0.9	(27.7)	(26.8)	0.5	(26.2)	(25.7)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.2m (2011: £1.1m))	-	14.1	14.1	-	13.4	13.4
	0.9	(13.6)	(12.7)	0.5	(12.8)	(12.3)

	ICAEW			ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure restated £m	2011 Net restated £m
Infrastructure	-	(10.0)	(10.0)	0.4	(9.9)	(9.5)
Marketing and communications	0.9	(9.8)	(8.9)	0.1	(9.8)	(9.7)
Finance and administration	-	(7.9)	(7.9)	-	(6.5)	(6.5)
	0.9	(27.7)	(26.8)	0.5	(26.2)	(25.7)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.2m (2011: £1.1m))	-	14.6	14.6	-	13.9	13.9
	0.9	(13.1)	(12.2)	0.5	(12.3)	(11.8)

Under IAS 19 (revised) the expected net return on both pension scheme assets and liabilities is calculated on the basis of the agreed discount rate. The 2011 figures have been restated to increase the income and expenditure charge in 2011, reported within finance and administration above, by £0.5m, with a corresponding reduction in actuarial losses within the statement of comprehensive income.

8 Charitable trusts

	Group			Group		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
External research grants	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Library income and expenditure	-	(1.0)	(1.0)	-	(1.0)	(1.0)
Other income and expenditure	0.2	-	0.2	0.2	-	0.2
	0.2	(1.1)	(0.9)	0.2	(1.1)	(0.9)

9 Accountancy and Actuarial Discipline Board

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Fines	-	-	-	1.6	-	1.6
Other income	1.6	-	1.6	1.5	-	1.5
Cost recoveries	-	0.1	0.1	-	0.8	0.8
Costs	-	(3.5)	(3.5)	-	(2.7)	(2.7)
	1.6	(3.4)	(1.8)	3.1	(1.9)	1.2

Total ICAEW cash receipts from fines and cost recoveries were £0.1m (2011: £2.4m). Other income relates to a direct levy on regulated firms.

10 Other regulatory bodies and professional associations

	Group and ICAEW			Group and ICAEW		
	2012 Income £m	2012 Expenditure £m	2012 Net £m	2011 Income £m	2011 Expenditure £m	2011 Net £m
Financial Reporting Council	0.8	(1.8)	(1.0)	0.8	(1.8)	(1.0)
Consultative Committee of Accountancy Bodies	-	(0.5)	(0.5)	-	(0.4)	(0.4)
International Federation of Accountants	-	(0.6)	(0.6)	-	(0.6)	(0.6)
	0.8	(2.9)	(2.1)	0.8	(2.8)	(2.0)

Income relates to a direct levy on regulated firms.

11 Gift aid and library funding

ICAEW made payments of £1.6m (2011: £1.7m) in the year under gift aid to the Chartered Accountants' Trust for Education and Research (CATER), which funds the ICAEW library and education in the field of accountancy and related subjects.

12 Operating result

The group and ICAEW operating result is stated after charging:

	Group		ICAEW	
	2012 £m	restated 2011 £m	2012 £m	restated 2011 £m
Staff costs	38.3	36.7	37.5	35.9
Depreciation on owned property, plant and equipment	2.0	1.9	2.0	1.9
Amortisation of intangible assets	1.1	1.1	1.1	1.1
Cost of inventories recognised as an expense	0.8	0.8	0.8	0.8
Amounts payable under operating leases:				
Plant and machinery	0.1	0.2	0.1	0.2
Other	0.8	0.8	0.6	0.6
Fees payable to ICAEW's auditor for the audit of the financial statements	0.1	0.1	0.1	0.1

The group and ICAEW operating results include reimbursement of members' expenses on ICAEW activities and payments on a normal commercial basis to members and member firms for services, particularly in connection with lecturing and writing. In 2012 these payments in aggregate amounted to £1.8m (2011: £1.7m). Of this, £64,000 (2011: £51,000) was paid for services to member firms which have a partner or employee who is a member of the council. The amounts paid to individual council members for services was £8,000 (2011: £10,000) in total.

12 Operating result (continued)

Fees payable to ICAEW's auditor for consultancy work were £18,000 (2011: £22,000). Fees were also payable to the auditor for the audit of the Staff Pensions Fund of £6,200 (2011: £6,000). Fees payable to associates of ICAEW's auditor for the local audits of the international subsidiaries were £27,000 (2011: £25,000).

2011 staff costs have been restated to reflect the inclusion of the administration costs on the Staff Pensions Fund following adoption of IAS 19 (revised) as discussed in note 26; these were previously included within other costs.

13 Net investment income

	Group		ICAEW	
	2012 £m	2011 £m	2012 £m	2011 £m
Bank interest receivable	-	0.1	-	0.1
Interest receivable from investment deposits	0.4	0.3	0.2	0.1
Other financial income	-	0.9	-	0.9
Returns on multi-asset portfolio	0.8	0.8	0.8	0.8
Realised gains from equities	0.1	0.4	0.1	0.4
	1.3	2.5	1.1	2.3

Other financial income related to indexation on the licence fees and deferred consideration from Wolters Kluwer.

14 Taxation

	Group		ICAEW	
	2012 £m	2011 £m	2012 £m	2011 £m
Current tax – current period				
Tax charge on operating result	(0.1)	(0.1)	-	-

ICAEW is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER. The charitable trusts fall outside the scope of corporation tax and accordingly there is no liability for their activities. The subsidiary companies pay local tax based on their country of operation and this has been included in the current tax calculations. The ICAEW net corporation tax charge for the year was £nil (2011: £45,000).

Factors affecting the tax charge for the year:

	Group		ICAEW	
	2012 £m	2011 restated £m	2012 £m	2011 restated £m
Net result before taxation	(0.8)	4.1	(1.2)	3.6
Add back: result on transactions with members	0.4	(1.9)	1.2	(1.7)
Net result before taxation on transactions with non-members	(0.4)	2.2	-	1.9
Net result above at the standard rate of corporation tax in the UK of 24.5%/26.5%	(0.1)	(0.6)	-	(0.5)
Effects of:				
Items not chargeable/deductible for tax purposes	0.4	0.6	0.4	0.6
Unutilised tax losses	(0.4)	(0.1)	(0.4)	(0.1)
	(0.1)	(0.1)	-	-

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

15 Property, plant and equipment

The freehold property, Chartered Accountants' Hall, London, was revalued by CB Richard Ellis Ltd, independent chartered surveyors, at 31 December 2012 at open market value, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors.

The historical cost of ICAEW's silver collection and antiques represents only the cost of items bought by ICAEW. The valuations of these collections also include substantial donations and bequests. ICAEW's historic collections were revalued at open market value at 31 December 2012 by William Walter Antiques Limited (the Benney silver collection and other silver), John Drury Rare Books (rare books) and Ritchie Associates (period furniture, pictures and sculptures).

The revaluations during the year ended 31 December 2012 resulted in a valuation reduction of £0.6m (2011: increase of £0.6m).

Depreciation is provided on the plant and equipment elements within the freehold property. At 31 December 2012 there were no contracts for capital expenditure not provided for in these financial statements (2011: £nil).

There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 26).

	Group and ICAEW				
	Freehold property	Short leasehold property	Silver collection and antiques	Furniture, computer hardware and equipment	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 January 2010	8.5	2.4	3.8	9.2	23.9
Additions	0.9	-	-	1.3	2.2
Disposals at cost or valuation	-	-	-	(2.0)	(2.0)
Surplus on revaluation	0.6	-	0.5	-	1.1
At 1 January 2011	10.0	2.4	4.3	8.5	25.2
Additions	0.1	-	-	1.4	1.5
Disposals at cost or valuation	-	-	-	(0.4)	(0.4)
Surplus on revaluation	0.5	-	-	-	0.5
At 1 January 2012	10.6	2.4	4.3	9.5	26.8
Additions	1.1	0.4	-	0.8	2.3
Disposals at cost or valuation	-	-	-	(0.9)	(0.9)
Deficit on revaluation	(0.6)	-	(0.1)	-	(0.7)
At 31 December 2012	11.1	2.8	4.2	9.4	27.5
Accumulated depreciation					
At 1 January 2010	0.8	0.3	-	5.6	6.7
Depreciation for the year	0.4	0.2	-	1.0	1.6
Depreciation on disposals	-	-	-	(2.0)	(2.0)
Adjustment on revaluation	(0.1)	-	-	-	(0.1)
At 1 January 2011	1.1	0.5	-	4.6	6.2
Depreciation for the year	0.5	0.2	-	1.2	1.9
Depreciation on disposals	-	-	-	(0.4)	(0.4)
Adjustment on revaluation	(0.1)	-	-	-	(0.1)
At 1 January 2012	1.5	0.7	-	5.4	7.6
Depreciation for the year	0.6	0.2	-	1.2	2.0
Depreciation on disposals	-	-	-	(0.8)	(0.8)
Adjustment on revaluation	(0.1)	-	-	-	(0.1)
At 31 December 2012	2.0	0.9	-	5.8	8.7
Carrying amount					
At 31 December 2010	8.9	1.9	4.3	3.9	19.0
At 31 December 2011	9.1	1.7	4.3	4.1	19.2
At 31 December 2012	9.1	1.9	4.2	3.6	18.8

15 Property, plant and equipment (continued)

	Group and ICAEW				
	Freehold property	Short leasehold property	Silver collection and antiques	Furniture, computer hardware and equipment	Total
	£m	£m	£m	£m	£m
On an historical cost basis the comparable amounts of property, plant and equipment are:					
Cost	13.4	2.8	0.2	9.4	25.8
Accumulated depreciation	6.1	0.9	-	5.9	12.9
Net historical cost at 31 December 2012	7.3	1.9	0.2	3.5	12.9
Net historical cost at 31 December 2011	6.8	1.7	0.2	4.0	12.7
Net historical cost at 31 December 2010	7.3	1.9	0.2	3.9	13.3

16 Intangible assets

	Group and ICAEW		
	2012	2011	2010
	£m	£m	£m
Cost			
At 1 January	8.2	7.2	7.7
Additions at cost	1.2	1.0	1.2
Disposals at cost	-	-	(1.7)
At 31 December	9.4	8.2	7.2
Accumulated amortisation			
At 1 January	5.6	4.5	5.3
Amortisation for the year	1.1	1.1	0.9
Amortisation on disposals	-	-	(1.7)
At 31 December	6.7	5.6	4.5
Carrying amount at 31 December	2.7	2.6	2.7

Amortisation charges are allocated to departments on the basis of use of ICAEW's systems.

17 Investments in subsidiaries and associates

The following entities, all registered in England, have been treated as subsidiaries on the basis that ICAEW, through its nominating committee, controls the appointment of trustee directors:

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

There is an agreement between the above trusts and ICAEW to provide administrative services to the trusts. The total value of the transactions amounted to £0.5m (2011: £0.6m). At the year end, the trusts owed ICAEW £0.1m (2011: £nil).

17 Investments in subsidiaries and associates (continued)

The following entities, all registered in England, have been treated as subsidiaries on the basis that ICAEW holds all the shares in each entity.

	Shareholding %	2012 cost £m	2011 cost £m	2010 cost £m	Activity
ICAEW Malaysia Limited	100	-	-	-	Representative office for ICAEW in Malaysia
ICAEW China Limited	100	-	-	-	Representative office for ICAEW in China
ICAEW Middle East Limited	100	-	-	-	Representative office for ICAEW in the Middle East
ICAEW SEA Limited	100	-	-	-	Representative office for ICAEW in South East Asia
ICAEW Europe Limited	100	-	-	-	Representative office for ICAEW in Europe
ICAEW CIS Limited	100	-	-	-	Dormant company
ICAEW Ltd	100	-	-	-	Holding company for the above companies
Dormant companies	100	-	-	-	Dormant

The above companies provide marketing services for ICAEW. The value of these services during 2012 was £3.4m (2011: £3.1m). At the year end £0.1m (2011: £0.4m) was owed to ICAEW.

The following related companies, all with their principal place of business in the UK, have been treated as associates. In each case, and notwithstanding the majority ownership of CCAB Limited and the Chartered Accountants' Compensation Scheme Limited, ICAEW has significant influence to participate in, but not govern, the financial and operating policies of the companies.

	Shareholding (ordinary shares) %	2012 cost £m	2011 cost £m	2010 cost £m	Activity
The Joint Insolvency Examination Board (a company limited by guarantee)	-	-	-	-	Conducts examinations in insolvency practice to meet the education requirements of the Insolvency Act 1986. ICAEW is one of seven subscribers, each of whom has guaranteed £1 in the event of the company being wound up.
Fraud Advisory Panel (a company limited by guarantee)	-	-	-	-	Registered charity which carries out research into, and education in, all aspects of fraud prevention, detection, prosecution and deterrence. ICAEW has the right to appoint up to one third of the directors of the company.
CCAB Limited	60.5%	-	-	-	CCAB Limited undertakes activities of mutual interest to five major accountancy bodies in the British Isles. ICAEW is the majority shareholder. It does not have the majority of voting shares on the board and therefore does not control the company.
Chartered Accountants' Compensation Scheme Limited	80.0%	-	-	-	Evaluates and administers claims for compensation arising from the obligations of ICAEW, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland as recognised professional bodies under the Financial Services Act 1986 and as designated professional bodies under the Financial Services and Markets Act 2000. The company is not treated as a subsidiary as a result of the rights of the other shareholders to nominate directors such that no party has a majority of the board.

The companies all operate on a not-for-profit basis. There is a full list of subsidiaries and associates at icaew.com

17 Investments in subsidiaries and associates (continued)

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board	Fraud Advisory Panel	CCAB Limited	Chartered Accountants' Compensation Scheme Limited	Total 2012 £m	Total 2011 £m	Total 2010 £m
Assets	0.3	0.2	1.0	0.1	1.6	1.6	1.9
Liabilities	(0.1)	(0.1)	(1.0)	(0.1)	(1.3)	(1.4)	(1.6)
Net assets	0.2	0.1	-	-	0.3	0.2	0.3
Revenue	0.2	0.2	4.7	0.1	5.2	5.7	6.1
Net result	-	-	-	-	-	-	-
Balances due from associates as at 31 December	-	-	-	0.1	0.1	0.1	0.1
Balances due to associates as at 31 December	-	-	(0.1)	-	(0.1)	(0.5)	(1.2)
Group share of net assets as at 31 December	-	0.1	-	-	0.1	0.1	0.1

18 Financial assets: available for sale investments

	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total
	2012 £m	2012 £m	2012 £m	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Fair value									
At 1 January	8.0	32.4	40.4	8.2	33.8	42.0	8.2	30.1	38.3
Additions	16.8	2.2	19.0	14.5	9.3	23.8	13.6	9.0	22.6
Disposals	(16.9)	(2.4)	(19.3)	(14.7)	(8.6)	(23.3)	(13.6)	(8.3)	(21.9)
Reclassification adjustment – gains on disposal	-	0.1	0.1	-	0.4	0.4	-	0.3	0.3
Change in market value of investments:									
Recognised as other comprehensive income/(expense)	-	2.2	2.2	-	(2.5)	(2.5)	-	2.7	2.7
At 31 December	7.9	34.5	42.4	8.0	32.4	40.4	8.2	33.8	42.0
Held as									
Restricted	-	-	-	-	-	-	5.0	-	5.0
Unrestricted	7.9	34.5	42.4	8.0	32.4	40.4	3.2	33.8	37.0
	7.9	34.5	42.4	8.0	32.4	40.4	8.2	33.8	42.0
On an historical cost basis the comparable amounts of investments are:									
At 31 December	8.0	30.7	38.7	8.1	30.8	38.9	8.2	29.6	37.8

18 Financial assets: available for sale investments (continued)

ICAEW

	Interest-bearing investments 2012 £m	Equities and unit trusts 2012 £m	Total 2012 £m	Interest-bearing investments 2011 £m	Equities and unit trusts 2011 £m	Total 2011 £m	Interest-bearing investments 2010 £m	Equities and unit trusts 2010 £m	Total 2010 £m
Fair value									
At 1 January	5.0	24.9	29.9	5.0	25.8	30.8	5.0	23.2	28.2
Additions	9.9	2.0	11.9	6.0	9.1	15.1	3.3	8.9	12.2
Disposals	(9.9)	(2.4)	(12.3)	(6.0)	(8.5)	(14.5)	(3.3)	(8.3)	(11.6)
Reclassification adjustment – gains on disposal	-	0.1	0.1	-	0.4	0.4	-	0.2	0.2
Change in market value of investments: Recognised as other comprehensive income/(expense)	-	1.6	1.6	-	(1.9)	(1.9)	-	1.8	1.8
At 31 December	5.0	26.2	31.2	5.0	24.9	29.9	5.0	25.8	30.8
Held as									
Restricted	-	-	-	-	-	-	5.0	-	5.0
Unrestricted	5.0	26.2	31.2	5.0	24.9	29.9	-	25.8	25.8
	5.0	26.2	31.2	5.0	24.9	29.9	5.0	25.8	30.8
On an historical cost basis the comparable amounts of investments are:									
At 31 December	5.0	22.9	27.9	5.0	23.1	28.1	5.0	22.2	27.2

Within group investments are charitable funds of £11.3m (2011: £10.6m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £6.6m (2011: £6.1m).

All the investments are publicly traded in the UK or on other major capital markets and the substantial majority are denominated in sterling. Fair values have been determined by reference to their quoted bid prices at the reporting date. The methods and valuation techniques used to measure fair value are unchanged compared to the previous year.

Following the finalisation of the 2010 actuarial valuation and revised covenant agreements agreed in July 2011, all funds are now unrestricted with none ring-fenced for the Staff Pensions Fund.

19 Non-current financial assets: other receivables

	Group and ICAEW		
	2012 £m	2011 £m	2010 £m
Deferred consideration receivable	-	-	0.5
Deferred consideration following the sale of the business of ABG Professional Information in 2002 was receivable as follows:			
	2012 £m	2011 £m	2010 £m
Within one year (included within current assets)	-	0.5	1.0
Within two to five years	-	-	0.5
	-	0.5	1.5

Non-current financial assets: other receivables are categorised as loans and receivables as required by IAS 39.

20 Deferred tax

	Group and ICAEW		
	2012 £m	2011 £m	2010 £m
The provision for deferred tax comprises:			
Revaluation of available for sale investments	(0.7)	(0.3)	(0.9)
Revaluation of properties and historic collections	(0.2)	(0.3)	(0.3)
Deferred tax liability	(0.9)	(0.6)	(1.2)
Defined benefit pension scheme deficit	0.2	0.2	0.2
Deferred tax asset	0.2	0.2	0.2
Net deferred tax liability	(0.7)	(0.4)	(1.0)

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

	Revaluation of available for sale investments £m	Revaluation of properties and historic collections £m	Defined benefit pension scheme deficit £m	Net £m
(Liability)/asset at 1 January 2010	(0.4)	(0.2)	0.6	-
Movement in year: Recognised as other comprehensive income	(0.5)	(0.1)	(0.4)	(1.0)
(Liability)/asset at 1 January 2011	(0.9)	(0.3)	0.2	(1.0)
Movement in year: Recognised as other comprehensive income	0.6	-	-	0.6
(Liability)/asset at 1 January 2012	(0.3)	(0.3)	0.2	(0.4)
Movement in year: Recognised as other comprehensive income	(0.4)	0.1	-	(0.3)
(Liability)/asset at 31 December 2012	(0.7)	(0.2)	0.2	(0.7)

21 Inventories

	Group and ICAEW		
	2012 £m	2011 £m	2010 £m
Learning materials	0.8	0.8	0.8

There was no provision against learning materials at the year end (2011: £nil, 2010: £nil).

22 Trade and other receivables – current

	Group			ICAEW		
	2012 £m	2011 £m	2010 £m	2012 £m	2011 £m	2010 £m
Trade receivables and other receivables	5.8	6.8	5.0	5.1	6.1	4.7
Amounts owed by subsidiaries	-	-	-	0.3	0.5	0.3
Amounts owed by associates	0.1	0.1	0.1	0.1	0.1	0.1
Deferred consideration receivable	-	0.5	1.0	-	0.5	1.0
Prepayments	2.2	2.3	1.8	2.2	2.3	1.8
Accrued income	2.3	3.3	1.4	2.3	3.3	1.4
	10.4	13.0	9.3	10.0	12.8	9.3
Less: provision for impairment of trade and other receivables	(0.4)	(0.4)	(0.6)	(0.4)	(0.4)	(0.6)
	10.0	12.6	8.7	9.6	12.4	8.7

Trade receivables and other receivables are categorised as loans and receivables as required by IAS 39. The principal component of trade and other receivables is amounts due from ICAEW's members and member firms, and in the case of disciplinary fines and costs, certain former members, and are short term. The carrying value of trade receivables is considered a reasonable approximation of fair value. It is considered that all the above financial assets which are not impaired or past due are of good credit quality.

All receivables have been reviewed for indicators of impairment. Certain trade receivables, principally in relation to disciplinary fines and costs from members, member firms and former members, were found to be impaired, and a provision of £0.4m (2011: £0.4m, 2010: £0.6m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

22 Trade and other receivables – current (continued)

	Group			ICAEW		
	2012 £m	2011 £m	2010 £m	2012 £m	2011 £m	2010 £m
Balance at 1 January	0.4	0.6	0.7	0.4	0.6	0.7
Amounts written off (uncollectable)	(0.1)	(0.2)	-	(0.1)	(0.2)	-
Impairment losses	0.2	0.1	0.1	0.2	0.1	0.1
Impairment losses reversed	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
	0.4	0.4	0.6	0.4	0.4	0.6

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

	Group			ICAEW		
	2012 £m	2011 £m	2010 £m	2012 £m	2011 £m	2010 £m
More than one month but not more than three months	0.4	0.3	0.5	0.4	0.3	0.5
More than three months	0.9	0.7	0.3	0.9	0.7	0.3
	1.3	1.0	0.8	1.3	1.0	0.8

23 Cash and cash equivalents

Cash and cash equivalents are categorised as loans and receivables as required by IAS 39. Cash and cash equivalents consist of current balances with banks and money market deposits. They do not include interest-bearing investments held for the long term.

Forward contracts are used to cover known foreign currency exposures. No forward contracts were in place at the year end (2011: £nil, 2010: £nil).

The effect of a 0.25% change in the average market interest rate on current cash and equivalents, and cash balances within the available for sale portfolio, held at the reporting date that are sensitive to changes in interest rates, would be £25,000 (2011: £28,000, 2010: £37,000). All other variables are held constant.

24 Trade and other payables

	Group			ICAEW		
	2012 £m	2011 £m	2010 £m	2012 £m	2011 £m	2010 £m
Subscriptions and admission fees in advance	12.6	11.2	10.5	12.6	11.2	10.5
Amounts owed to associates	0.1	0.5	1.2	0.2	0.5	1.2
Other income in advance	6.7	5.9	5.7	6.7	5.9	5.7
Trade payables	3.3	3.6	3.5	3.3	3.6	3.5
Other payables	1.3	1.6	1.1	0.9	1.3	0.6
Income tax and social security payables	1.1	1.1	1.0	1.1	1.1	1.0
Accruals	7.7	6.0	5.7	7.7	6.0	5.7
	32.8	29.9	28.7	32.5	29.6	28.2

Trade payables and other payables are categorised as current financial liabilities measured at amortised cost as required by IAS 39. All the above trade payables and other payables are short term and are payable within one month. Subscriptions, admission fees and other income in advance relate to income received during 2012 but relating to 2013 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

25 Accountancy and Actuarial Discipline Board provision

	Group and ICAEW		
	2012 £m	2011 £m	2010 £m
Balance at 1 January	8.6	8.8	5.3
Charge to income statement	3.5	2.7	5.1
Amounts paid	(4.0)	(2.9)	(1.6)
Balance at 31 December	8.1	8.6	8.8
Provision expected to be used within one year	5.3	4.4	5.3
Provision expected to be used after more than one year	2.8	4.2	3.5
	8.1	8.6	8.8

25 Accountancy and Actuarial Discipline Board provision (continued)

The AADB is part of the Financial Reporting Council and is responsible for operating and administering an independent disciplinary scheme (the Accountancy Scheme) covering members of ICAEW and the following participating institutes: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland. The AADB also operates and administers a separate independent disciplinary scheme (the Actuarial Scheme) covering members of the Institute and Faculty of Actuaries. From 18 October 2012, and in accordance with the FRC reform programme, the functions of the AADB are now exercised by the FRC and its Conduct Committee and Executive Counsel; the role and responsibilities of the scheme are unchanged.

The amount provided is based on the estimated present obligation to ICAEW of investigations by the AADB for cases arising from past events up to 31 December 2012. The provision is expected to be used over the next five years. ICAEW reviews the adequacy of the AADB provision through a review of past case cost estimates and discussions of current cases with relevant individuals. However, the accuracy of both the provision and the forecast of the period over which it will be used will depend on assumptions made about the progress of individual cases and is subject to a significant degree of uncertainty.

26 Pension liabilities

DEFINED BENEFIT SCHEME

Until 30 June 2010, ICAEW operated a defined benefit staff pension scheme (the scheme) which provided participating members of staff with retirement benefits based on their final pensionable salary. Following consultation during 2009, the scheme was closed to future accrual of member benefits on 30 June 2010. The assets of the scheme continue to be held by a separate trustee-administered fund.

The most recent completed valuation of the scheme was carried out by Hymans Robertson LLP as at 31 March 2010 on the projected unit credit method taking into account the closure of the scheme to future accrual from 30 June 2010. At that valuation date, the market value of the assets of the scheme was £113.0m, which represented 90% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

As part of the agreement for the closure of the scheme to future accrual, ICAEW has undertaken to make monthly payments of £0.5m (£6.0m a year) for three years from 1 July 2010 towards funding the estimated deficit on past service costs, reducing to £3.5m a year thereafter until the deficit is eliminated, together with additional payments for enhanced early retirements on a pay-as-you-go basis. Total payments by ICAEW to the scheme during 2012 for past service costs amounted to £6.0m (2011: £6.4m, 2010: £5.8m).

In conjunction with the 2010 valuation of the scheme, the trustee reviewed the strength of ICAEW's financial covenant. The resulting agreement set a number of trigger points in relation to the key financial ratios. An amber trigger event requires ICAEW and the trustee to meet to determine whether the recovery period should be shortened. A red trigger event requires an additional contribution of £5.0m or £10.0m, depending on the result of the trigger, by ICAEW to the scheme and the recovery period to be shortened. ICAEW agreed to a charge being made over Chartered Accountants' Hall and the trustee having an interest noted in up to £10.0m of the investment portfolio of ICAEW. Contributions to the scheme in 2013 are estimated at £4.8m, plus any additional payments for enhanced early retirements on a pay-as-you-go basis and contributions in kind in relation to the administration costs of the scheme. The next triennial review will be as at 31 March 2013.

Desktop actuarial valuation

The actuary has provided a desktop update on the scheme's financial position as at 31 December 2012. This review estimated that the deficit, based on assumptions consistent with the 2010 triennial valuation, was £24.9m (2010: £40.1m). At the year end there were no red financial covenant triggers (2011: one red trigger which was deemed a temporary event).

The following table summarises the key assumptions used in preparing the desktop actuarial valuation:

	2012	2011	2010
Pre-retirement discount rate	4.03%	4.20%	5.42%
Inflation	2.94%	3.10%	3.62%
Life expectancy	Long cohort	Long cohort	Medium cohort

The main reason for the difference between this desktop actuarial valuation and the IAS19 valuation relates to the post-retirement discount rates applied.

The sensitivities of the liabilities in the above desktop actuarial valuation to changes in these assumptions are summarised below:

	Change in assumption	Effect on value of liabilities	
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 10.0%	16.2
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 3.4%	5.6
Longevity	Increase by 1 year	Increase by 2.7%	4.4

IAS 19 valuation

The scheme's actuary provides a separate report for IAS 19 Employee Benefits purposes at each year end. The assumptions made at 31 December 2012 by the board on the advice of the scheme's actuary were:

	2012	2011	2010
Discount rate	4.20%	4.70%	5.40%
Rate of inflation	2.70%	2.85%	3.35%

26 Pension liabilities (continued)

ICAEW has adopted IAS 19 (revised) for the year ended 31 December 2012. Net interest is therefore determined by applying the discount rate to both the liability and asset calculations. The prior year figures have been restated, with the change in the expected return on assets offset by a corresponding change in actuarial gains and losses. There is no change to the deficit on the fund. In addition, scheme administration costs, which are paid directly by ICAEW, are now included in the defined benefit obligation, offset by a corresponding non-cash increase in contributions by the employer.

IAS 19 (revised) states that the discount rate used should have regard to returns on high quality corporate bonds of a term consistent with the term of the post-employment benefit obligations. The iBoxx over 15 year AA bond index is typically used for this purpose, but the average term of the constituents of this index are somewhat shorter than appropriate for the ICAEW scheme. Accordingly an appropriate discount rate has been derived, in consultation with independent actuaries, with regard to the yields available on the government bonds (where longer maturity yields are available) plus a suitable increment to reflect the typical credit spreads between AA rated corporate bonds and similarly dated government bonds.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 22.7 years (men) and 24.7 years (women); and for current non-pensioners of 24.7 years (men) and 26.5 years (women). These assumptions are in line with the actuarial valuation as at 31 March 2010.

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

	Number of members	Liability split	Duration
Deferred members	384	56%	21.90
Pensioners	310	44%	12.50
Total/average	694	100%	17.75

The scheme actuary has confirmed that the assumptions adopted are within their acceptable range for the purposes of the IAS 19 valuation, and have calculated the sensitivity of the liabilities as at 31 December 2012 to certain key assumptions as follows:

	Change in assumption	Effect on value of liabilities	
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 8.0%	11.7
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 4.0%	6.4
Longevity	Increase by 1 year	Increase by 3.0%	3.8

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

	Group			ICAEW		
	2012 £m	2011 £m	2010 £m	2012 £m	2011 £m	2010 £m
Present value of funded obligations	(143.6)	(134.1)	(125.0)	(143.6)	(134.1)	(125.0)
Fair value of plan assets	138.0	127.5	119.3	138.0	127.5	119.3
Whole scheme deficit	(5.6)	(6.6)	(5.7)	(5.6)	(6.6)	(5.7)
Less: relating to other employers/group companies	-	-	-	0.7	0.6	0.3
Scheme deficit	(5.6)	(6.6)	(5.7)	(4.9)	(6.0)	(5.4)

Reconciliation of defined benefit obligation – whole scheme

	2012 £m	2011 restated £m	2010 restated £m
Opening defined benefit obligation	134.1	125.0	120.4
Current service cost	-	-	0.9
Past service cost	-	-	0.9
Administration cost	0.4	0.4	0.6
Interest on obligation	6.2	6.5	6.7
Contributions by plan participants	-	-	0.3
Actuarial losses arising from changes in financial assumptions	7.7	7.2	2.3
Benefits and expenses paid	(4.8)	(5.0)	(7.1)
Closing defined benefit obligation	143.6	134.1	125.0

The administration costs of the scheme are paid directly by ICAEW.

26 Pension liabilities (continued)

Reconciliation of fair value of plan assets – whole scheme

	2012 £m	2011 restated £m	2010 restated £m
Opening fair value of plan assets	127.5	119.3	105.6
Net interest income on plan assets	6.0	6.4	6.0
Contributions by plan participants	-	-	0.3
Contributions by the employer	6.4	6.8	7.6
Actuarial gains arising from return on assets, excluding amounts included in net interest	2.9	-	6.9
Benefits and expenses paid	(4.8)	(5.0)	(7.1)
Closing fair value of plan assets	138.0	127.5	119.3
Actual return on assets	8.9	6.4	12.9

Contributions by the employer include deficit funding payments, together with contributions in kind in relation to administration costs paid directly.

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

	2012	2011	2010
Equities	44%	44%	58%
Debt securities - Government bonds	32%	44%	33%
Debt securities - Corporate bonds	9%	8%	6%
Cash and cash equivalents	15%	4%	3%
	100%	100%	100%

The scheme trustee intends to shift the weight of the portfolio towards bonds over a period of time, with the aim of creating a bond portfolio where the value of the assets moves in a similar way to the liabilities when there is a change in inflation or interest rates. The trustee therefore commissioned the scheme's actuary to carry out a financial review to support discussions around what may happen to assets and liabilities in the future. The financial review aimed to assist in:

- setting long-term objectives for the scheme;
- understanding the risks associated with the current investment strategy;
- understanding the likelihood of the current contributions, combined with the current investment strategy, being sufficient to achieve the long-term objectives of the scheme; and
- setting ICAEW's expectations in terms of financial support for the scheme.

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

- the long-term objective was for the scheme to be self-sufficient, based on the scheme's current funding position and the agreed recovery plan, in 10-15 years; and
- the interim target was to be fully funded on the technical provisions basis in around five years.

The modelling that was carried out as part of the financial review helped the trustee identify funding and investment strategies that would provide a good chance of meeting their long-term target while taking an acceptable level of risk that ICAEW could underwrite. Following discussions, it was agreed that the scheme's central benchmark allocation should be revised to 45% equities/55% bonds with a more restricted control range of +/- 6%. Given the agreed contribution payments and the strength of ICAEW's covenant, this asset allocation was identified as the right one although it will regularly be reviewed in light of emerging changes to the scheme, the wider economy and general market conditions.

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

In order to enhance management of the assets, during 2012 the trustee transferred a proportion of the bond assets to a specialist bond manager. This resulted in higher cash and cash equivalent funds at the end of the year, to enable the new managers to invest in appropriate products at the appropriate time.

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

	Quoted	Unquoted	Total
Equities	61.1	-	61.1
Debt securities	56.9	-	56.9
Cash and cash equivalents	-	20.0	20.0
	118.0	20.0	138.0

26 Pension liabilities (continued)

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

	2012	2011	Group	2012	2011	ICAEW
	£m	restated £m	2010 restated £m	£m	restated £m	2010 restated £m
Current service cost	-	-	(0.9)	-	-	(0.9)
Past service cost	-	-	(0.9)	-	-	(0.9)
Administration cost	(0.4)	(0.4)	(0.6)	(0.4)	(0.4)	(0.6)
Net interest income on plan assets	6.0	6.4	6.0	6.0	6.4	6.0
Interest on obligation	(6.2)	(6.6)	(6.7)	(6.2)	(6.6)	(6.7)
	(0.6)	(0.6)	(3.1)	(0.6)	(0.6)	(3.1)
Less: relating to other employers/group companies	-	-	-	-	-	0.1
	(0.6)	(0.6)	(3.1)	(0.6)	(0.6)	(3.0)

Amounts recognised as other comprehensive income:

	2012	2011	Group	2012	2011	ICAEW
	£m	restated £m	2010 restated £m	£m	restated £m	2010 restated £m
Actuarial gain on plan assets	2.9	-	6.9	2.9	-	6.9
Actuarial loss on obligation	(7.7)	(7.2)	(2.3)	(7.7)	(7.2)	(2.3)
Actuarial (loss)/gain – whole scheme	(4.8)	(7.2)	4.6	(4.8)	(7.2)	4.6
Less: relating to other employers/group companies within the scheme	-	-	-	0.2	0.3	(0.2)
	(4.8)	(7.2)	4.6	(4.6)	(6.9)	4.4

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £7.9m (2011: £3.1m loss restated).

Amounts for the current and previous periods are as follows:

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
Defined benefit obligation	(143.6)	(134.1)	(125.0)	(120.4)	(99.9)
Plan assets	138.0	127.5	119.3	105.6	90.8
Whole scheme deficit	(5.6)	(6.6)	(5.7)	(14.8)	(9.1)
Actuarial gain/(loss) on plan assets (2010 onwards restated from adoption of IAS 19 (revised))	2.9	-	6.3	7.9	(16.7)
Actuarial loss on obligation	(7.7)	(7.2)	(2.3)	(16.2)	20.9
Experience losses on obligation	-	-	(0.7)	-	-

DEFINED CONTRIBUTION SCHEME

ICAEW also operates a defined contribution scheme for employees. This provides benefits based upon contributions made and investment returns achieved. The assets of the scheme are held in a separate trustee fund. ICAEW contributes 9% of pensionable earnings for participating employees. Employees contribute a minimum of 4%. Transitional arrangements over three years, including enhanced ICAEW contributions, are in place for participating employees transferring from the defined benefit scheme.

The amount charged to the income statement during the year for these schemes was £2.3m (2011: £2.3m). There were no contributions payable to the scheme at the year-end date (2011: £nil).

27 Reserves

Included within reserves is £3.3m relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations ICAEW is required to maintain a compensation scheme, funded by levies on firms authorised for investment business. This compensation scheme exists to deal with claims received about work carried out by authorised firms under both the Recognised Professional Body (RPB pre 2001) and Designated Professional Body (DPB post 2001) regimes. ICAEW maintains a reserve to meet anticipated future claims. A levy was made in 2011 on licensed firms under the DPB regime. ICAEW has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

28 Leasing commitments – operating leases

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

	Group		Group	
	Land and buildings 2012 £m	Plant and machinery 2012 £m	Land and buildings 2011 £m	Plant and machinery 2011 £m
Minimum lease payments due:				
Within one year	0.1	-	0.1	-
In two to five years inclusive	0.4	0.3	0.4	0.3
After five years	6.0	-	6.6	-
	6.5	0.3	7.1	0.3

	ICAEW		ICAEW	
	Land and buildings 2012 £m	Plant and machinery 2012 £m	Land and buildings 2011 £m	Plant and machinery 2011 £m
Minimum lease payments due:				
In two to five years inclusive	0.1	0.3	-	0.3
After five years	6.0	-	6.6	-
	6.1	0.3	6.6	0.3

29 Staff costs

Average number of staff employed during the year

	Group		ICAEW	
	2012	2011	2012	2011
Total employees	705	713	684	693
Full-time equivalents	672	675	652	657

Employment costs

	Group restated		ICAEW restated	
	2012 £m	2011 £m	2012 £m	2011 £m
Wages and salaries	32.0	31.1	31.4	30.5
Employer's social security costs	3.3	3.2	3.3	3.1
Employer's pension costs	3.0	2.4	2.8	2.3
	38.3	36.7	37.5	35.9

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2011: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW. The 2011 figures have been restated to reflect the inclusion of administration costs of the staff pension scheme within staff costs following adoption of IAS 19 (revised) as set out in note 26 above.

30 Key management compensation – executive directors

	Group and ICAEW			Group and ICAEW		
	Salary 2012 £'000	Deferred variable pay 2012 £'000	Total 2012 £'000	Salary 2011 £'000	Deferred variable pay 2011 £'000	Total 2011 £'000
Robin Fieth	194	28	222	190	40	230
Sharron Gunn	191	34	225	-	-	-
Robert Hodgkinson	249	45	294	243	54	297
Michael Izza	396	105	501	372	105	477
Mark Protherough	194	29	223	190	40	230
Vernon Soare	194	44	238	190	44	234
	1,418	285	1,703	1,185	283	1,468

The executive directors are remunerated on a total-package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards ICAEW benefits such as pension scheme membership, health insurance or a car. Deferred variable pay is payable to executive directors on the basis of performance and is agreed by the remuneration committee. Sharron Gunn was appointed as executive director commercial from 1 January 2012. In addition to the above salaries, employer's national insurance contributions totalled £229,000 (2011: £166,000).

31 Contingent liabilities and guarantees

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

During the year ended 31 December 2001 ABG Professional Information assigned the residue of a property lease to a third party. ICAEW signed an authorised guarantee agreement in respect of rents due under the remainder of the lease. The current annual rental is £0.1m and the lease is due to expire in September 2013.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 140,000 chartered accountants around the world. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

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ICAEW

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