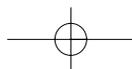


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**Annual review 2004**  
Securing our heritage for the future

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## Vision

That members are recognised as holders of the world's most highly respected professional business qualifications.

## Mission

To enhance the reputation and public standing of members through a continuing commitment to the very highest standards of education and training, technical excellence, professional conduct, representation and support.

## Strategic objectives

- to provide a suite of premium professional, business and accountancy qualifications and a scheme of continuing professional education which set the industry standard and embrace the needs of members, students and employers
- to align Institute activities with the needs of members throughout their careers, providing them with advice, services and support aimed at giving them a sustainable competitive advantage in their professional working lives
- to provide powerful thought leadership on behalf of the profession by undertaking technical research which furthers the development and practice of accountancy
- to develop and expand the faculties as a gold standard component of Institute activity
- to increase the international footprint of the Institute rapidly across key markets
- to maintain an effective professional conduct regime which works in the public interest to uphold the very highest standards of technical competence, work-based ethics and integrity amongst members
- to maintain and consolidate the management of the Institute by developing effective governance, employment and resource management structures and processes.

### Annual Review online – [www.icaew.co.uk/review](http://www.icaew.co.uk/review)

You can read the Annual Review, and the resolutions for the Institute's Annual and Special Meetings on the Institute's website where you can also download the full accounts which provide a more detailed description of the Institute's financial affairs.

Members may opt to receive a printed copy of the full accounts by writing to the communications department or by emailing their requests to [fullaccounts@icaew.co.uk](mailto:fullaccounts@icaew.co.uk).

## President's statement



**2004 was a good year for chartered accountants. Increased competition between businesses and firms for talented staff meant that those with our professional business qualifications were in demand. Employment prospects have rarely been better, particularly for our newly qualified members whose skills continue to be highly sought after.**

Our individual reputations as chartered accountants are closely tied to that of our Institute and the value we derive from being part of a large and widely respected community of finance professionals. Equally, the reputation of the Institute rests on our own reputation as finance professionals. It is a mutually reinforcing cycle that we must all strive to maintain.

We have worked to develop and promote the value and status of chartered accountants around the world. The opportunities and threats we now face are no longer just local, they are also global.

**“...the reputation of the Institute rests on our own reputation as finance professionals. It is a mutually reinforcing cycle that we must all strive to maintain.”**

The distinct shift we have experienced in Europe from systems of monitored self-regulation to independent oversight, standard-setting and high level monitoring of the profession is mirrored in other major market-places: Asia Pacific and the USA. Furthermore, the US Sarbanes-Oxley Act demonstrates clearly that decisions taken in one jurisdiction can – and do – have a huge impact on the rest of the world, whether directly through their extra-territorial reach, or indirectly through establishing a template for change elsewhere.

This environment affects all our work. Our thought leadership, which underpins our role as a key opinion former on professional and regulatory issues, addresses a multitude of stakeholders around the world. Our commitment to maintaining the quality and attractiveness of our qualification to students means preparing them for the global and flexible market place that awaits them. Our support for members means communicating and working with them in whichever country of the world they may work. Our public interest responsibilities mean speaking to the global community of regulatory, oversight, business and professional groupings.

To maintain and grow our position as the world's pre-eminent accounting body we must constantly review how we do business in order to deliver the best possible representation and support to members. Now, more

than ever, we need to focus on maintaining our gold standards, ensuring that our profession is capable of meeting the expectations of regulators and the public by openly demonstrating our commitment to quality, integrity and professionalism.

This review sets out what we have achieved over the last year and what we are doing as an institute to deliver on our strategic objectives. Our consolidation agenda is one way in which we could deliver on those objectives more swiftly without delivery being dependent on it.

In 2005, we celebrate 125 years of excellence, since the Institute was incorporated by Royal Charter from five founding bodies. To maintain that excellence and consolidate our position for the next 125 years will require us to adapt quickly to changing market needs and to take the long-term view. We have recognised this in our strategy: we see it as securing our heritage for the future.

**Paul Druckman**  
President

### Highlights

- New qualifications in IAS/IFRS and corporate finance
- Alliances with premier organisations in key markets
- Common content qualifications initially in EU
- Segmentation of existing and targeting of new member services



**2004 has been a defining year for the Institute. The key findings from our strategic review – a global benchmarking and analysis of our operations – provided a clear business case for changes in strategic direction and priorities.**

Independent research among members as well as industry, governments and regulators, suggested that while we are a widely respected organisation we need to take practical, commercially-oriented steps to maintain and strengthen our position as a world leading accounting body. Our review confirmed that our static growth rate, coupled with an ageing membership, required an immediate response if we are to safeguard the long-term future of our Institute and our profession.

Our focus during the year, therefore, has been to align our operational plans with four broad strategic objectives identified by the review which are intended to help us ensure our long-term success. These include:

- ensuring the Institute has life-long relevance to members' careers
- increasing our international presence across key markets
- embracing the full breadth of the modern profession
- maintaining our gold standards.

### Ensuring life-long relevance to members' careers

Our professional business qualification, the ACA, is *the* launch pad for a business career. Continuing professional development (CPD) helps members to maintain and develop their core professional skills and must be supported by an accessible, high quality learning infrastructure. We have therefore begun to develop life-long learning initiatives based on demand as well as dedicated career support services.

We know that employers are also increasingly looking for additional specialist competencies. In 2004, we launched the first of a suite of new professional business and accountancy qualifications with the introduction of dedicated qualifications in International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). These will be followed in 2005 by the launch of a Corporate Finance qualification available to members and non-members.

We will be consulting on possible future qualifications and will continue to use our specialist faculties to advise and help develop them in their respective areas as well as to support our CPD development programmes. We are also developing a detailed strategy on services and qualifications relevant to small and medium-sized practices.

### Increasing our international presence across key markets

The Institute has worked with national and international professional and regulatory bodies on behalf of the profession. We have also put significant resources into increasing our

international influence and standing through thought leadership in areas such as financial reporting and corporate governance. International regulatory trends make it vital that we continue to exert strong influence on policy-making.

Local and global competitive pressures for market presence and recognition, coupled with our static growth rate, mean that broadening access in key markets is vital if we are to increase our student and membership base. It will also ensure that members are able to exploit the widest possible career opportunities.

A major aspect of our strategy, therefore, is to build on the success of the new alliance we announced in October 2004 with the Hong Kong Institute (HKICPA) to provide mutual support and membership. We will create similar international agreements with other leading bodies which meet our standards.

We have been working with other chartered institutes around the world to build on the international portability of our chartered qualification and offer increased services to members across borders.

Additionally, a number of premier European institutes have worked with us to develop national qualifications which have a common content across borders (except for those elements of national law, custom and practice which need to be different). Developments in 2004 meant that we were able to launch the qualification for consultation in January 2005.

## “...we need to take practical, commercially-oriented steps to maintain and strengthen our position as the world’s leading accounting body.”

It will enable us to market our qualifications to multi-national organisations and, ultimately, develop truly internationally qualified finance professionals. Depending on individual market circumstances, we expect implementation to be achieved in 2006-8.

### Embracing the full breadth of the modern profession

While our membership already embraces all sectors of the economy, we need to increase our penetration, especially in the public sector which now accounts for some 40% of global economic spend and represents a significant growth market.

Increasing and easing access to training chartered accountants across the whole economy will significantly broaden our member base and raise public awareness of the quality of the ACA brand. We are already working on e-based learning and training packages to reduce costs and plan to introduce a more flexible approach to classroom time to enable any firm, business or public body to train new members in both existing and new markets.

We have also started to broaden and segment our practical support to members. For instance, our focus on younger, international and business members has resulted in better targeting of existing services and the development of dedicated new services. We have begun to undertake work on developing our practice strategy.

Our faculty model, as well as providing thought leadership, is an efficient and targeted way of delivering practical and

high-quality support to members in specific areas. Our strategic plans for 2005, therefore, include the potential development of new faculties, for example in the public sector, depending on need and demand.

### Maintaining our gold standards

We believe that excellence should be at the heart of all that we do. The Institute acts as standard-bearer for the quality and integrity of the profession. Through our role as educator, regulator and representative body we have built up a reputation over many years as a body whose members exemplify the highest standards of professional conduct. Through continued investment in people, qualifications, professional conduct and support systems, we are committed to maintaining and building upon these gold standards into the future. We regard the development and expansion of faculties as a key component of maintaining those standards.

### Consolidation of the profession

The UK accounting profession is leading the world but at the same time is fragmented. Our President and I wrote to all members during 2004 with the details of our strategy stressing that consolidation of the profession would achieve a number of our strategic goals and be a cost-effective way of fast-tracking implementation.

In September 2004, together with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Management Accountants (CIMA), we announced proposals to combine our organisations into one body. In February 2005,

the governing councils of all three institutes reaffirmed our commitment to consolidation. While both we and CIPFA voted to put a firm proposition to our members for a formal ballot, CIMA requested more time to consider the detailed proposals on offer. To facilitate this process, a memorandum of understanding is being agreed binding CIMA to a specific time-frame within which to make a decision.

We have published further details of the proposed integration with CIPFA in a dedicated edition of *accountancy* sent to all members and also available at [www.icaew.co.uk/strategyreview](http://www.icaew.co.uk/strategyreview).

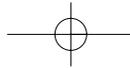
### Looking forward

In July 2004, our strategy was unanimously approved by council while recognising that full implementation of our priorities will place considerable pressure on existing resources. We will make substantial additional investment in maintaining and developing our gold standards.

We are committed to keeping subscription fee levels competitive when benchmarked against other professions. We have a planned deficit for 2005 of £1.39 million. We will need to look for increased resource from members through a subscription increase in order to return to a balanced financial outcome in 2006. Accordingly, we are seeking a rise of 9% in subscription rates for 2006.



**Eric Anstee**  
Chief Executive



### Highlights

- Principles-based CPD scheme and web-portal live in January 2005
- *Good Practice Ethical Guidance* for business members launched
- First time combination of regulatory monitoring with Practice Assurance visits
- *In practice* website launched



## Quality, integrity and professionalism

**The ACA is our world leading professional business qualification and represents the highest standards of quality, integrity and professionalism. We maintain those standards through life-long learning and professional development. Our professional conduct and quality assurance regimes are recognised as world-class and demonstrate our commitment to upholding standards that command public confidence.**

### The ACA qualification

Today's ACA is a very strong business-focused qualification, integrating learning and work experience and developing professional judgement and integrity. It meets the criteria emphasised in 2004 by the UK's Professional Oversight Body for Accountancy, part of the Financial Reporting Council (FRC). During the year, we have maintained the high quality of our student intake, 86% of whom had a first or upper second class honours degree. The rigour and quality of our assessment processes is used as a model by other professional bodies around the world. It highlights the achievement of our students: 80% of those eligible to become members in 2004, fully qualified within the timescale of their training contract.

#### High fliers UK graduate careers survey

16,000 final year students at 30 leading universities surveyed.

57% said they would choose ICAEW above other accountancy qualifications. MBA 2nd most popular qualification at 21%.

Accountancy 2nd most popular career after investment banking.

### Continuing professional development

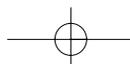
Our new principles-based scheme for CPD came into effect in January 2005. It relies on members to exercise professional judgement within an ethical framework to decide what they need to do to ensure that their competencies and skills remain

relevant to their roles. Members supported this new approach in June 2004 with over 75% of those voting being in favour. A new CPD web-portal, live at the start of 2005, sign-posts a range of resources, both Institute and non-Institute, including ethics case studies and a selection of technical and professional guidance at [www.icaew.co.uk/cpd](http://www.icaew.co.uk/cpd).

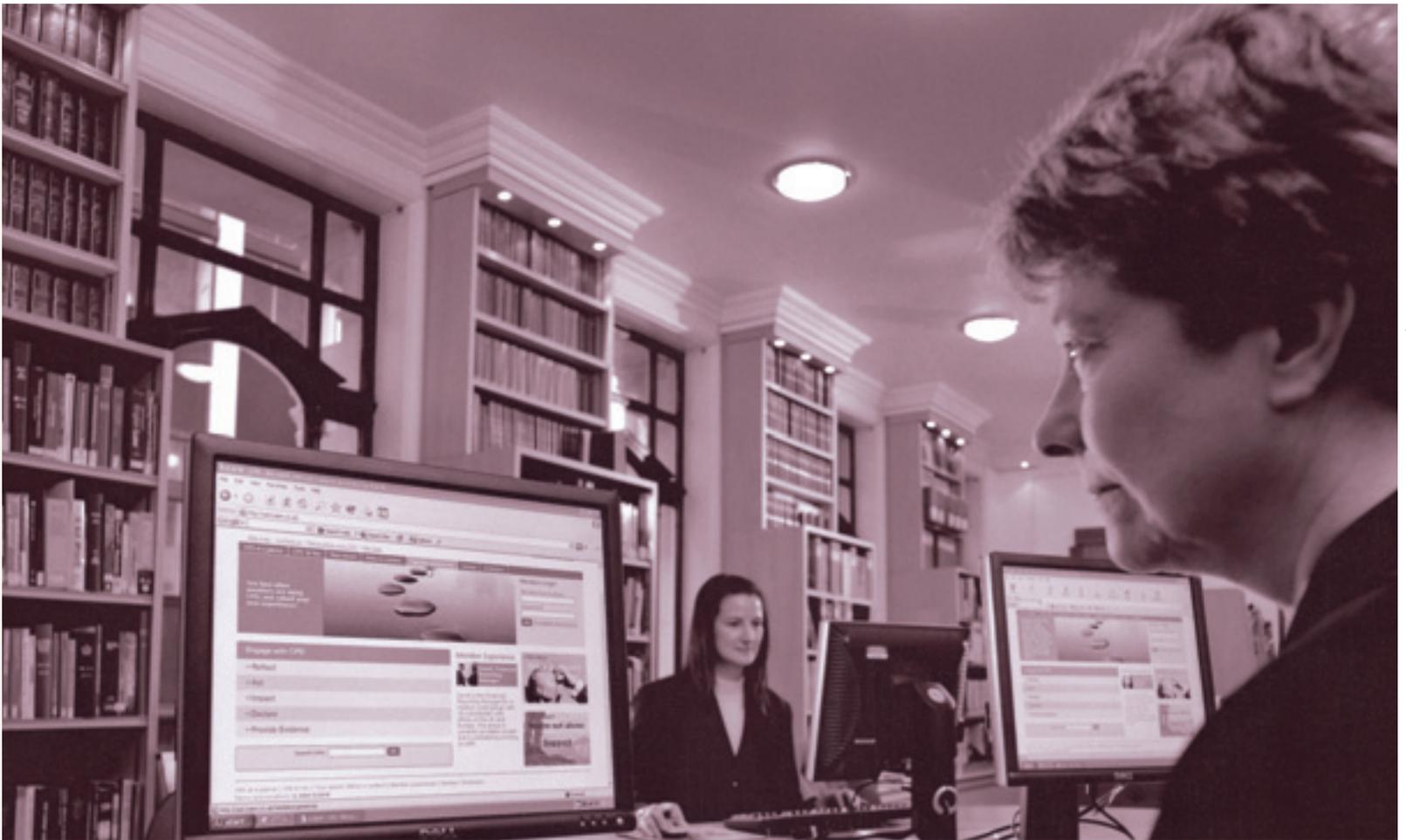
We aim to help members fulfil these obligations throughout their whole careers. We have begun developing life-long learning initiatives to support changing career needs. Our faculties in the specialised areas of audit and assurance, corporate finance, IT, tax and finance and management, help to develop targeted and topical learning programmes and specialised qualifications relevant to changing market needs. These programmes will complement the suite of new qualifications we announced during 2004.

Our IAS/IFRS qualification programme was launched in June, available to all preparers and users of financial information, with a certificate of competence immediately available and a higher-level diploma to follow in mid 2005.

We will launch our new Corporate Finance qualification formally in April 2005. Developed in conjunction with the Canadian Institute of Chartered Accountants and the UK Securities and Investment Institute, it is the first of



“...we will continue to demonstrate how our expertise, built over many years, offers a model for review and inspection which is effective but not over-burdensome to business.”



its kind in the world. The three-stage qualification will be available to all corporate finance practitioners in late 2005.

**Ethics at the heart of professionalism**

Strong, principled and work-based ethics is the keystone of our professionalism. During 2004, we reviewed the ethical content of our

qualification to ensure that it remained at the heart of training. We also conducted a survey of member attitudes towards professional conflicts of interest and ethical dilemmas.

The survey results fed through to our *Good Practice Ethical Guidance* for business members which integrates with the ethics case studies on our new CPD web-portal. The practical advice

we offered also remained invaluable: our confidential ethics helpline received 8,500 calls during the year.

Our principles-based approach to ethics has been adopted internationally by the International Federation of Accountants (IFAC) and is influencing other professional bodies around the world.



### Quality assurance

Our overarching quality assurance programme is designed to safeguard our reputation because it provides clear commitment to continuing high standards that protect the public interest. We have ensured that our systems of regulation, monitoring, investigation and discipline are transparent and open to public scrutiny. In 2003, a post-Enron government review led to changes in our scheme of monitored self-regulation. In 2004, we therefore worked closely with the reconstituted FRC to ensure that the scheme would work effectively and efficiently.

The FRC's new Audit Inspection Unit (AIU) has taken over the monitoring of audits of economically significant entities, including listed companies. The Institute is responsible for monitoring all other audits including those undertaken by the large audit firms. Our existing quality assurance directorate aims to visit some 900 audit firms in 2005.

However, for the first time, these visits will combine ongoing regulatory monitoring work with the new review work required under our Practice Assurance scheme.

Meetings with international regulators and decision-makers in Washington and Brussels confirmed that policy-makers in the EU and US regard the UK's system of audit regulation as a benchmark for the wider profession.

### Practice assurance

In June 2004, 77% of members who voted were in favour of Practice Assurance, a quality improvement tool for all chartered accountants who hold a practising certificate. The scheme centres on principles-based standards which firms and individual practitioners are encouraged to demonstrate they have met.

Feedback from pilot visits during 2004 has been positive. In the autumn, full details of the standards were sent to all firms in the scheme worldwide and we launched a dedicated website [www.icaew.co.uk/inpractice](http://www.icaew.co.uk/inpractice).

We have begun the process of increasing our quality assurance team. In addition to the 900 combined regulatory and Practice Assurance visits noted above, this team will ultimately deliver a further 1,600 Practice Assurance specific visits per annum to non-regulated firms.

### Looking forward

During 2005, we will build further on the number of specialised and globally relevant qualifications and CPD programmes we have already initiated. The CPD monitoring process begins in 2006 and will provide valuable insight into member needs around the world. New online learning and assessment platforms will enable members in both the UK and abroad to access relevant programmes more easily. Our qualification assessment and

review processes, having already gained international recognition, represent a potential area for growth.

Increased regulation across the professions is a significant trend. Therefore we will continue to demonstrate how our expertise, built over many years, offers a model for review and inspection which is effective but not over-burdensome to business.

Future plans include building on our developing consultancy in the quality assurance directorate through which we provide advice on regulation, inspection and review systems to other professions and public entities. We also plan to develop our new mediation service which was launched in 2004.

### Highlights

- Project 'M' – putting the M back in SMEs
- Emphasis for regulators to 'think small first'
- New websites for young professionals, international and business members
- Focus on needs of the practice of tomorrow



**Our membership encompasses the business, practice and public sectors making us an authoritative voice on both professional and industry issues. Nearly 45% of our 126,500 members are employed in, run or own British and overseas businesses. The large majority of the 13,500 practices registered with us provide business advice and support to the SME sector. We develop Institute policy by drawing on the expertise of members to lead the profession's agenda and provide practical support to members in order to provide them with a competitive edge in the market-place.**

### Representing members across all sectors

Our quarterly *Business Confidence Monitor*, which provides a snapshot of the health of the economy, is now recognised as an authoritative index for decision takers such as the Bank of England.

In 2004, we promoted member opinion across all specialisations. Our input to the East of England regional economic strategy, for example, included practical member-drawn recommendations on transport infrastructure to help regional development. Our response to the Strategic Rail Authority's consultation on its Community Rail Development Strategy was similarly grounded in a practical approach, backed by a major transport conference held in the Midlands.

"Your response [on the Community Rail Development Strategy] was one of the most valuable because it was based on detailed research...a useful insight into the perception of the business community towards rail in general and specifically local and rural rail services."

David Quarmby, Chairman,  
Strategic Rail Authority

### Champions of enterprise

As the first port of call for business advice, we promoted members as champions of enterprise. For example, we began a major research project to define the middle market by cultural characteristics – putting the 'M' back in SMEs – to encourage government to target business support services at those businesses most likely to succeed.

Our seventh annual *Enterprise Survey* revealed that the cost of implementing new legislation in the UK had risen by £1 billion to £7 billion annually. With 69% of the burden falling on micro businesses and just 3% falling on large businesses, it provided added evidence to our calls for government to 'think small first'.

We also took issue with regulators on specific issues of public interest where regulation threatened to impact negatively on the very sectors it was designed to protect.

When new ethical standards on auditor independence were launched by the Auditing Practices Board (APB), we argued that failing to adopt a 'think small first' policy would place additional burdens on SMEs by limiting the ability of their accountancy firms to act as one-stop shops for audit and advice, costing business some £120 million annually in additional fees.

Similarly, in summer 2004, we convinced government to look again at extending the money laundering reporting exemptions available to lawyers, to other relevant professional advisers, including accountants and tax advisers. We argued that retaining client confidence in the confidentiality of our advice was vital to the economy because of the enormous reliance of businesses, especially SMEs, on the profession.



**2004 Business profile  
of chartered accountants**

- 52 FTSE 100 FDs
- 13 FTSE 100 CEOs or chairmen
- 80%+ of FTSE 350 companies have an ACA or FCA on the board as FD or CEO

**Total members 126,500**

- 45% in business
- 40% in practice
- 10% outside Europe

**Supporting members**

Our network of regional offices and district societies throughout the UK continued to provide value-added practical help – courses, networking, brand promotion – at local level. The regions have also worked to develop an outreach programme to connect with members in their workplace and raise the profile of the Institute.

Major organisations involved in this programme include Capital One, American Express and Rolls Royce. Our faculties, in particular, demonstrated that grouping specialised expertise not only provides more targeted support for members but also a stronger voice in those areas.

Within the EU, our Brussels office responded to a wide range of member enquiries on EU legislation as well as helping members with European business and commercial networking opportunities. Our office-holders met members of the CCAB groups throughout Europe to provide face-to-face updates on Institute and UK developments, messages which were also disseminated through our international support network,

including our city groups in Sydney and Kuala Lumpur.

Helping to lift the burden of regulation on members themselves also formed an important aspect of our work over the year. For example, our work with the Financial Services Authority (FSA) on the regulation of general insurance activities resulted in firms being able to offer clients assistance with Inland Revenue enquiries without the need to be regulated for insurance mediation. Similarly, our work on the European Commission's revised 8th Company Law Directive pulled together expertise right across the Institute as we pressed the Commission for liability reform to be included in the Directive alongside our ongoing campaign for auditor and director liability reform in the UK.



“...we will review the qualification framework and delivery model in the UK to make it easier for members to train ACAs, particularly at the smaller end of the market.”

#### Survey headlines in 2004

87% UK fund managers confident in UK audited accounts

Tax regime no incentive for saving

Red tape costs UK business £1 billion a year extra

Aggressive earnings management – an ever present threat

Shock wave for markets if companies don't explain implications of IAS

UK business could withstand a £5 minimum wage

#### Aligning with the specific needs of members

Our advice and information helplines already provide direct assistance to members in the areas of technical support, ethics enquiries and information requests and answer over 55,000 calls in a year. During 2004, we reassessed the practical support services we offer to ensure they aligned with member needs.

As a result, we launched a targeted new website for young professionals [www.icaew.co.uk/youngprofessionals](http://www.icaew.co.uk/youngprofessionals) which included new services such as careers advice for young professionals with a dedicated helpline. Within nine months of the launch, 21,500 individual younger members viewed the site. We also launched dedicated services for international members at [www.icaew.co.uk/international](http://www.icaew.co.uk/international). Business members, particularly those in the SME sector, told us that they needed timely professional and

regulatory updates and 80% said they would prefer to receive this support electronically. In response, we launched a new web-portal for business members in early 2005 [www.icaew.co.uk/business](http://www.icaew.co.uk/business) in addition to the monthly email alert that is now read by two-thirds of our business members.

Work undertaken by the practice society as well as the general practitioners panel focused on the practice of tomorrow. Our aim is to help develop added-value services that will be necessary to the survival of small and medium-sized practices. In addition, we also began development work on more flexible and cost-friendly ACA training packages for practices, based partly on e-learning and e-assessment, to help address issues such as succession and quality staffing and to enhance our presence in the high street.

#### Looking forward

We will continue to direct our existing products and services and develop new ones according to member need and demand. We will also look at how the faculty model can be used to provide support and expertise to a broader cross-section of members' areas of specialisation.

Encouraging training of new chartered accountants throughout every sector of the economy, not just practice, is important if we are to develop our representation across the whole economy. As well as looking at e-based

training platforms, we will review the qualification framework and delivery model in the UK to make it easier for members to train ACAs, particularly at the smaller end of the market. Integration with CIPFA would, for the first time, enable us to offer a strong leadership position across all sectors bringing added weight to our voice and influence on a broader range of national and international platforms. We would also have the possibility of training a number of new students because of the additional training infrastructure within the public sector.

#### World-class business library & information service for accountants

##### Best of 2004

- \* 1 million hits to [www.icaew.co.uk/library](http://www.icaew.co.uk/library)
- \* 20,000 enquiries answered
- \* 2,000 new titles, 4,000 new articles to search

##### Most popular web searches

- \* IAS/IFRS
- \* base rates
- \* double taxation treaties
- \* Sarbanes-Oxley

##### Most popular enquiries

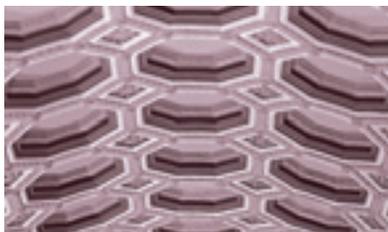
- \* valuing unquoted companies
- \* dividends and capital histories

##### Most borrowed book

*Preparing company accounts: practical guidelines for small and medium-sized companies*, RJ Mayes, Wolters Kluwer

### Highlights

- Demonstrating the quality of UK/EU financial reporting to international regulators
- Taking the lead on UK adoption of ISAs
- Major research on differences between EU/US corporate governance
- Promoting the benefits of IAS/IFRS



**With 126,500 members in over 140 countries, 16,000 outside the UK, the Institute is the largest professional accountancy body in Europe with a far-reaching network of relationships across industry and government. We provide leadership on the future of our profession globally working with the profession's umbrella bodies, IFAC and the European Federation of Accountants (FEE). We have been building greater international presence through partnerships with professional bodies in other countries and a suite of globally relevant qualifications.**

### International influence EU/US relations

A key issue in 2004 was the impact of the Sarbanes-Oxley Act. We worked hard to reinforce understanding among US policy makers that solutions to market issues based primarily on securities law will not translate successfully to markets based on company law. A chief issue centred on our strong belief in the benefits of encouraging more meaningful disclosure through 'comply or explain' mechanisms rather than by prescriptive rules.

Key staff therefore met policy-makers on Capitol Hill including the House Committee on Financial Services and the Senate Banking Committee as well as Securities and Exchange Commission (SEC) commissioners, the Public Company Accounting Oversight Board and the US accounting standard-setter, the Financial Accounting Standards Board. To support our arguments, our new corporate governance committee, which was set up during the year, is undertaking major work to explain the root causes of differences between US and UK/EU corporate governance.

### Leading professional developments

During the year, the number of our members working on behalf of the profession at international level increased. We are proud that both the new president of IFAC and the chairman of the International Auditing and Assurance Standards Board are our members, together

with other key individuals leading international work in vital areas such as ethics, audit and internal control. Implementation and enforcement of international standards were widely debated. The clarity, understandability and applicability of standards to small entities were key issues we helped push to the fore.

### International standards on auditing

We supported the APB's proposal to adopt International Standards on Auditing (ISAs) in the UK as of December 2004. Our Audit and Assurance Faculty held a series of roadshows attended by more than 2,000 members. By bringing together the diverse parties concerned throughout the year including firms of all sizes, sole practitioners, representative bodies, training organisations and software suppliers, we were able to achieve consensus on the issues. The UK is now leading the world in ISA implementation. Details can be found at our dedicated website [www.audit2005.com](http://www.audit2005.com).

We are working to see similarly successful adoption of ISAs within Europe more widely and have encouraged the European Commission to consider their adoption quickly without the type of endorsement mechanism considered necessary for IAS/IFRS.

### International accounting standards

The broad consensus on ISAs in the UK was in stark contrast to the controversies generated during the year on IAS/IFRS

“...we plan swiftly to increase our international footprint across key markets with further international alliances and additions to the existing suite of qualifications.”



within the EU, in particular on IAS 39 – Financial Instruments. In June, our chief executive explained our views on the arguments presented by the banking community to a conference of central bankers from around the world.

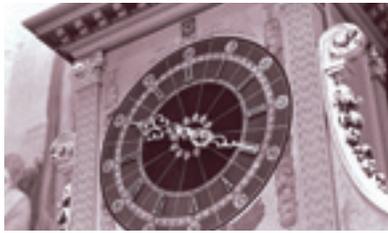
We were disappointed by the Commission's decision to allow carve-outs on IAS 39 which we believe creates uncertainty for EU companies

and undermines IAS/IFRS convergence world-wide. We continue to bring together industry and the profession on IAS/IFRS and update members and companies through our briefings and dedicated website [www.iasknowledge.com](http://www.iasknowledge.com).

#### **International presence Strategic objectives**

Our international activities during the year have been supported by two key strategic decisions intended to:

- capitalise on the high quality and reputation of the ACA and offer a suite of premium professional business and accountancy qualifications with international relevance and portability
- build strategic alliances with premier professional bodies in key markets and strengthen existing networks.



### Internationally relevant qualifications

The first tranche of our suite of internationally relevant qualifications was announced in 2004 in IAS/IFRS and corporate finance, both highly topical and internationally relevant areas. These qualifications can be taken by non-accountants as well as our own members, a new departure for the Institute.

We have therefore strengthened our international marketability and relevance into new sectors beyond finance as well as offering members greater opportunity for specialisation and career development.

In support of this activity, we have begun developing online assessment and learning systems that will become necessary to support the international accessibility of these new qualifications.

### International alliances

In October, we formally launched an international alliance with the HKICPA, Hong Kong's only statutory licensing body for accountants, to provide mutual support and membership. We were immediately able jointly to market our new IAS/IFRS qualifications since Hong Kong is adopting IAS/IFRS from January 2005 and the need for training is urgent.

At the same time, we also launched a new partnership with Sunway College, one of Malaysia's most prestigious providers of financial education,

to provide ACA tuition. By December, twenty students were in training. Our members in Malaysia were extremely active in promoting our brand. As a result, more accountancy practices and a number of Malaysia's foremost businesses have begun to train ACAs.

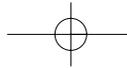
Our long-standing global network of chartered institutes in major markets worked together in 2004 to look jointly at building on the international portability of chartered qualifications and the provision of cross-border services to our respective members. Through our common content qualifications project with leading European institutes in France, Germany, Ireland, Italy, the Netherlands and Scotland, we hope to be able to create the first set of European qualified professional accountants within the next five years.

### Looking forward

In 2005, we plan to increase our international footprint swiftly across key markets with further international alliances and additions to the existing suite of qualifications. A key part of this will be to use our faculties, both existing and new, to become centres of service delivery and expertise for potential partners as has already been the case in Hong Kong. The Corporate Finance qualification will become fully available as well as the diploma in IAS/IFRS to complement the certificate and we will be working on the support infrastructure to enable successful marketing of these internationally.

Our relationship-building programme and work with professional representative bodies on technical and professional issues will become more important as we continue to win international recognition for our role in professional standard-setting and regulation. Integration with CIPFA would enhance that role and bring us to the fore in the public sector. CIPFA is already the leading public sector body worldwide and its expertise is valuable to many markets, particularly developing economies.

Allied to these activities, and as part of our 125 year anniversary celebrations, conferences in London, Brussels, New York and Hong Kong will bring together decision makers, business and the profession to foster better understanding of the profession's key role in capital market developments.



### Highlights

- *Information for better markets* campaign to improve corporate reporting
- New reports on digital reporting and sustainability
- Audit Quality Forum and new assurance panel formally established
- Catalyst for future change through broad engagement with stakeholders.



## Thought leadership and practical insight

**Our reputation and influence are built on technical excellence, thought leadership and clear insight into professional and technical issues. We are recognised as pioneers of high quality global standards based on principles and professional judgement which command public confidence. We support both members and business more widely by providing objective and authoritative guidance and by promoting practical solutions to business issues.**

### Improving business reporting

During 2004, we built on our *information for better markets* campaign which aims to build confidence in business reporting and promote healthy markets by improving the quality of information available to investors. Feedback from around the world clearly shows that the evidence-based approach we have been advocating is highly valued.

In September and October respectively, we published new reports on *Digital Reporting: a Progress Report* and *Sustainability: the Role of Accountants*, two areas of increasing importance to the capital markets.

*Digital Reporting* provided an analysis of the extent to which technology can be an instrument of change in the way financial reports are prepared and used. This underlined our response to the US SEC's consultation on the possible introduction of the filing of financial reports using XBRL.

Our sustainability report set out an objective analysis of the main mechanisms at the disposal of governments and businesses to align the market-based behaviour of individuals and organisations with the broader concerns of sustainable development. The report addresses how chartered accountants could support those mechanisms and shows that the profession will be essential in building the credibility of sustainability information.

"Establishing credibility for non-financial reports is crucial... the president of the Institute of Chartered Accountants in England and Wales said recently that he thinks the profession should now take a lead. It is an area sorely in need of leadership."  
*Economist* magazine, 6 November 2004

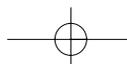
The practical translation and long-term effects of our campaign became clear during the year. Our *Guidance to UK Directors on Prospective Financial Information*, the only such principles-based guidance in the world, has been fed into the work being undertaken in 2005 by the Committee of European Securities Regulators and national auditing standard-setters, including the APB, to complement the EU Prospectus Directive.

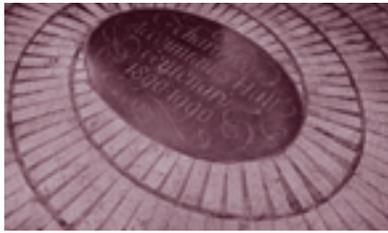
### Operating and financial review

Our drive for improvements in public reporting also focused on the UK Operating and Financial Review (OFR). While we strongly support the concept of a mandatory, high-quality OFR, we had serious concerns about the draft regulations published by the DTI in May. We argued that the rules, coupled with an onerous verification regime, would result in bland and highly caveated reviews with little forward-looking information of benefit to investors. The government subsequently agreed to a short delay in implementation and changes, including clarification of the role of the auditors.

### Corporate governance

We have played an historic role in the development of UK corporate governance from the principles of the Cadbury report to the Turnbull guidance





on internal control. It was in the light of significant corporate governance developments in the EU and elsewhere that we re-established a formal corporate governance committee in 2004. We provided project management support to the FRC in its review of the Turnbull guidance, due for completion towards the end of 2005.

#### Pensions

We also looked at both the immediate practical and future issues surrounding one of the key areas of public policy concern for government – pensions. In December, we published the only available authoritative UK guidance on the implications for distributable

profits of pension accounting under FRS 17 and IAS 19, a significant issue for companies. In November, we published the results of our pensions survey based on the views of 1,000 business members, which suggested that the government's Pension Protection Fund would encourage more employers to close defined benefit schemes in future. We will be looking at how to promote thought leadership on savings and pensions as a major public interest issue.

Throughout the year, members remained one of our main sources of technical expertise across every specialism and were a significant force in helping to gain support and understanding from industry on key initiatives.

#### Practical insight

Throughout 2004, we continued to deliver practical insight into business and professional issues. Two examples were:

- the Finance and Management Faculty's special report *From Outsourcing to Off-shoring* which looked at the practical issues of performance and compliance as well as the impact on the future of the profession
- the IT Faculty's survey on the merits of many financial and business software packages which provided objective and money-saving advice to members.

## “A key goal in 2005, will be to provide objective input to government regulatory impact assessments on the true costs and effects of planned legislation on business and the profession.”

There were numerous developments on tax, so much so that we made 57 representations to government. Our response to the 2004 Finance Bill, at 68 pages, was our longest contribution to date and highlighted the extent to which the Bill failed to meet the ten principles of tax legislation pioneered by our Tax Faculty.

Our reputation and objective, evidence-based standpoint enabled us to bring together experts from many fields to debate and resolve topical issues throughout the year. For instance, our Audit Quality Forum brought together investors, the profession, policy makers, and the wider business community to discuss how to build confidence in the independent audit. Our policy of proactive stakeholder engagement fostered other positive relationships. It enabled us, for instance, to work with the FSA on developing its new reporting framework for life insurers and influence the reporting responsibilities of auditors and reporting actuaries.

We also created an assurance panel, consisting of practitioners across various sizes of firms, to explore the implications of IFAC's international *Framework for Assurance Engagements* published in 2004 and to develop practical guidance in this area.

A significant proportion of the practical insight and guidance we provided was in the form of publicly available technical releases on important topical

areas such as money laundering. Details of our thought leadership and related publications are available at [www.icaew.co.uk/technicalpolicy](http://www.icaew.co.uk/technicalpolicy).

### Looking forward

In 2005, the *information for better markets* campaign will look at other key areas such as measurement in financial reporting and how integrity can be encouraged throughout the whole business reporting process. We will publish an overview of the role of information in serving markets and public policy goals, and an update on progress since our *New Reporting Models for Business* report of 2003.

A key goal in 2005, will be to provide objective input to government regulatory impact assessments on the true costs and effects of planned legislation on business and the profession. Other initiatives will include new projects on corporate responsibility and on public sector issues. Through the Institute's charitable trusts, we will continue to invest significant sums – in the region of £250,000 annually – on independent external research to support our *information for better markets* campaign. We will also launch a new endowment fund for research as part of our 125th anniversary programme.

We will focus more on the thought leadership function of the faculties as well as the practical help they offer in their specialist areas. We fully expect thought leadership to build on the

success of faculties in bringing wider recognition of members' expertise with added scope for the faculty model to be extended to further specialist areas depending on the level of demand. Integration with CIPFA would enable us to build thought leadership within the public sector where we do not currently set the benchmark. Of particular note would be the ability to develop and set accounting and related standards for local government.

### Annual events 2004

*Institute Annual Dinner* principal guest Frits Bolkestein, Commissioner, Internal Market.

*Institute Annual Conference* keynote speaker the Rt Hon Jacqui Smith MP, Minister for Industry and the Regions.

*Wyman Symposium* on 'Tax: a remaining obstacle for the EU internal market', European Commission, Inland Revenue and PwC.

*Corporate Finance Awards and Dinner* guest speaker the Rt Hon Oliver Letwin Shadow Chancellor.

*Hardman Lecture* by Gus O'Donnell, Permanent Secretary, HM Treasury, on financing Britain's future.

*Finance Directors' Conference* 'Meeting expectations', keynote speakers Sir Howard Davies, Sir Derek Higgs, Sir Clive Thompson.

*PD Leake Lecture* with London School of Economics, Prof Michael Power: 'The risk management of everything'.

*Charities Online Accounts Awards* with the Charities Aid Foundation.

*Sole Practitioners' Day* 'Staying ahead of the game'.

*Policy Breakfast Series* Stephen Timms, Financial Secretary to the Treasury, on the pre-budget report.



“...fee increases approved by the members for 2004 have enabled us to continue developing the key priorities for the Institute through the strategy review while continuing to drive operating efficiencies and cost savings throughout the organisation.”

## Financial and operating statement

**The Institute's gross income for 2004 increased by 11% to £52.27 million (2003: £47.11 million). The retained surplus for the year was £0.13 million (2003: £0.54 million). The Institute's balance sheet remains strong with net assets at the end of the year of £37.06 million (2003: £36.95 million) and net cash flow for the year was broadly neutral.**

### Subscriptions and other income

Subscriptions and fees increased by 9% to £26.01 million reflecting a 0.8% increase in membership numbers and the approved increase in rates for 2004. Membership numbers continued to increase and at the end of the year stood at 126,597 (2003: 125,643). 90% of members were registered in Europe (2003: 88%) and 10% in the rest of the world (2003: 12%). Contracted student numbers increased by 303 to stand at 8,968 at the end of the year.

Income from subscription based services and commercial activities rose by £1.06 million to £5.89 million. Income from self financing activities (student education and training, practice regulation and faculties) increased by £2.28 million to £18.36 million.

Licence fee income arising from our strategic alliance with Wolters Kluwer amounted to £1.85 million (2003: £1.85 million).

### Operating activities

The fee increases approved by the members for 2004 have enabled us to continue developing the key priorities for the Institute through the strategy review while continuing to drive operating efficiencies and cost savings throughout the organisation. Major new investment in the year included the Institute's strategy review (£0.33 million); development of new qualifications in IAS/IFRS (£0.63 million) and Corporate Finance (£0.08 million); and completion of the development of Practice Assurance (£0.52 million) and CPD schemes (£0.49 million). Costs of developing consolidation proposals and communicating these and the outcome of the strategy review to members amounted to £0.46 million.

Costs of the Joint Disciplinary Scheme (JDS) have fallen in 2004 to £1.37 million (2003: £2.60 million) but have in part been replaced by the initial costs of funding investigations by the Accountancy Investigation and Discipline Board (AIDB) of £0.86 million (of which £0.53 million was recovered through practice regulation). JDS fines and cost recoveries in the year were £0.30 million (2003: £1.16 million).

Full-time equivalent headcount has increased overall during the year from 488 to 509 including library and Fraud Advisory Panel staff who have employment contracts with the

Institute. From the start of 2004, 46 former Joint Monitoring Unit (JMU) staff became direct Institute employees as the JMU's activities were transferred back in-house. From the start of January 2005, four Joint Insolvency Monitoring Unit staff also became Institute employees as its activities were transferred to the Institute's professional standards directorates.

### Investment income and taxation

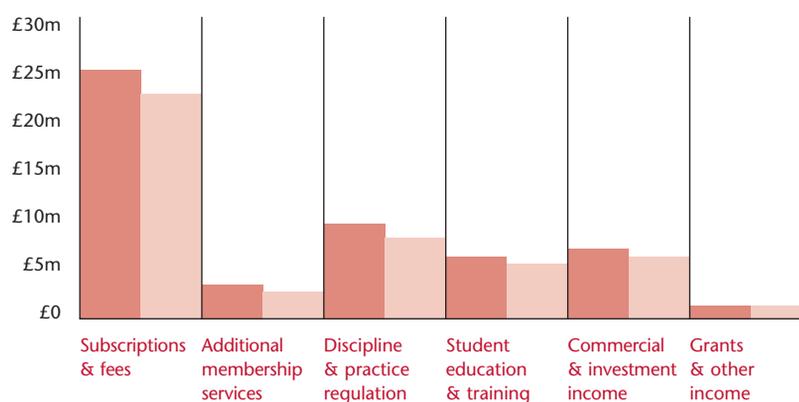
Rising interest rates have enabled us to improve our investment income during 2004. Non-equity investment returns for the year were 4.8% (2003: 3.8%). The majority of our funds continued to be held in cash and near cash instruments in line with the Institute's low risk investment strategy. Our equity portfolio yielded gross dividends of 2.7% (2003: 2.7%).

The Institute's 2004 tax charge on its non-mutual activities (investment and licence fee income and trading with non-members) has been reduced by payments under gift aid to the Chartered Accountants' Trust for Education and Research and the General Charitable Trust.

### Balance sheet and cash flows

Net assets at 31 December 2004 were £37.06 million (2003: £36.95 million). The valuation of Chartered Accountants' Hall has risen by £0.11 million to £8.35 million following two successive years of decreases. The valuation of Gloucester House has fallen by £0.67 million to £2.20 million reflecting property trends in Milton Keynes. The Institute's historic collections of rare books, silver and antiques have risen in value by £0.11

Operating income 2004 ■ and 2003 ■



million to £3.49 million. Fixed asset investments have increased by £1.21 million reflecting gains on the Institute's equity and fixed interest portfolios.

Within current assets, the year-on-year increase in both debtors and creditors reflects the timing of fees and subscriptions billings, particularly in regulatory areas, together with additional charges made on registered audit firms to fund the external costs of the AIDB and the AIU both of which operate under the auspices of the FRC. Current cash and short-term investment levels have remained broadly consistent year-on-year, increasing by £0.44 million to £4.77 million. Net cash flow for the year was broadly neutral.

Following the triennial review of the Institute's defined benefit staff pension scheme, pension provisions increased by £0.89 million to £3.03 million. Provisions for funding JDS case costs fell by £1.37 million reflecting the progressive completion and run-off of the scheme's case load. A new provision of £0.79 million has been established to meet the anticipated case costs of the AIDB.

The Institute uses forward contracts selectively to cover known foreign currency exposures when natural hedges are not available. The Institute does not trade in financial instruments or derivatives.

#### Pensions

A full actuarial valuation of the Institute's defined benefit pension scheme took place during 2004 and, as expected, showed a substantial

deficit in respect of past service costs. Following consultation with the scheme's trustees and employee members, a number of further changes have been agreed to restrict our liabilities in respect of future service costs.

The Institute has agreed to fund the scheme deficit of £17.50 million by means of a lump sum contribution of £5 million in 2005 together with increased employer contributions over twelve years.

The retirement age for employee members of the scheme has been increased from 62 to 65 (with transitional arrangements for any members who retire in the next seven years). Employee members have also been given the choice of reducing their pension accrual rate in respect of future service while retaining their current contribution rates or continuing with their current rate of benefit accrual by increasing their contribution rates. This will be effective from April 2005. The pension deficit at 31 December 2004 under Financial Reporting Standard 17 – Retirement Benefits (FRS 17) was £25.83 million (2003: £26.62 million).

#### International financial reporting standards

The Institute will adopt IAS/IFRS from 2005. The Institute's budgets for 2005–7 have been prepared on an international standards basis. Our practical case study of how we are preparing for implementation, first published this time last year, has been updated to include a complete set of the 2004 results

on an international basis (see [www.icaew.co.uk/technicalpolicy](http://www.icaew.co.uk/technicalpolicy)).

The main difference between the 2004 audited annual accounts prepared under UK accounting standards and those in the case study prepared under international standards is in the implementation of IAS 19 – Employee Benefits, resulting in a reduction in net assets of £25.83 million. This change would in any event have occurred in 2005 under UK accounting standards with the implementation of FRS 17. Other notable, but not material, differences are in the basis of revaluation of the Institute's freehold land and buildings and in the treatment of deferred taxation on both the revalued land and buildings and the Institute's historic collections.

#### Information technology

Implementation of our new membership system has continued apace with phases on student registration and examinations completed during 2004. Substantial investment has also been made in upgrading and replacing hardware.

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

## Environmental & social responsibility statement

The Institute is committed to ensuring that it is well managed with effective governance, employment and resource management structures and processes and investment in its people. We recognise that our activities impact on the environment both through our routine internal operations and through our influence and effects on the wider community. Environmental and social responsibility priorities are becoming more integrated into our internal decision making processes.



### Environmental statement

In 2004, we have concentrated on four areas of environmental management:

- 1 Setting targets to make the most efficient use of energy, minimise waste and prevent pollution. In 2004, where practicable, we installed energy efficient plant and machinery to replace equipment dating back to the 1970s.

Plant running was reduced to optimal levels. The running time of chiller plant and boilers, for instance, was reduced from 18 to 12 hours a day. Combined with more efficient overall management of gas and electricity, we lowered our energy consumption by an average of 8% (compared with 2003) against a background of increased staffing and growing demand. We continue to monitor and look for new opportunities to make further reductions.

We comply with government regulations on the disposal of waste such as oils, solvents and filters. We recycle our waste wherever possible. All old IT equipment is donated to Computer Aid International and paper and toner cartridges are sent to dedicated recycling centres. Research is underway on the best methods of recycling glass and plastic products.

We regard all these actions as part of our commitment to reducing the pollution effects of our operations.

- 2 Promoting a purchasing policy aiming to give preference to products and services causing least harm to the environment. For example, for office use we only utilise 100% recycled paper from post-consumer waste as approved by the National Association of Paper Merchants.
- 3 Increasing awareness of environmental responsibilities among staff. We are developing an environmental policy and communications plan. We educate staff whose work has direct environmental impact such as facilities and plant operations managers. Training is undertaken at the Centre for Sustainable and Environmental Management at Middlesex University.
- 4 Reviewing and evaluating performance annually against current industry best practice. We will revise our practices in the light of new government guidelines expected over the next five years.

### Social responsibility statement

The Institute's Royal Charter includes the primary requirement to develop, maintain and support high standards of practice and professional conduct which command public confidence. The public interest – our social responsibility – is therefore fundamental to our remit.

**“We undertake specific activities in areas where our expertise can add most value to society: promoting greater financial awareness and the value of sound financial practices to underpin the sustainability of organisations.”**

In addition, we undertake specific activities in areas where our expertise can add most value to society: promoting greater financial awareness and the value of sound financial practices to underpin the sustainability of organisations.

We aim to encourage enterprise and financial literacy in the young. 2004 was the second year in which we sponsored the Young Enterprise Business Adviser Award for work with Young Enterprise. We have also developed plans in conjunction with government agencies for volunteer members to help build financial literacy in schools, commencing in autumn 2005. Institute staff too, volunteer their time and encourage reading literacy as well as maths to support financial literacy in schools. For example, for the past four years staff have coached children at Lauriston School in Hackney, one of the most deprived boroughs in the UK.

We continue to be the primary sponsor of the Fraud Advisory Panel which we founded in 1998. The Panel is an independent watchdog set up to highlight to the wider business community the breadth of economic, social and human damage that fraud causes.

Our *everybody counts* scheme, launched in 1999, links charities and community initiatives to chartered accountants who volunteer their time and financial expertise as trustees, treasurers and advisers. Our four *everybody counts* awards with

*Accountancy Age* magazine provide £2,000 to the charities of winning advisers. In addition, we promote high standards in the quality and accessibility of online financial information in the voluntary sector through our Charities' Online Accounts Awards with the Charities Aid Foundation.

In December 2004, we appointed a corporate responsibility manager who will further develop our policy in this area as well as lead our technical thought leadership and practical solutions on sustainability under our *information for better markets* campaign.

#### **Charitable work**

Institute staff and volunteers throughout the UK raise funds during the year for good causes as well as volunteering their expertise to charities and other organisations. In 2004, over 400 staff were involved in raising money for charities including Children in Need, the Poppy Foundation and the Christmas appeal for the young homeless in London.

#### **Working with the profession in developing economies**

We are the second largest contributing body to IFAC and a keen supporter of its work to improve professional standards and support accountants throughout the world, particularly in developing nations. We support the profession in Africa through our affiliate membership of the African Federation of Eastern Central and Southern Africa.

We have welcomed two secondees of the Chinese Institute of Certified Public Accountants (CICPA) for six months in 2004-5. The secondments are funded by the Asian Development Bank to support a programme of CICPA staff secondments to other professional accountancy institutes in order to gain knowledge of how these organisations operate.



**Paul Druckman**  
President  
15 March 2005

## Summary revenue account for the year ended 31 December 2004

| Note   | Income<br>£'000                                    | Expenditure<br>£'000 | 2004<br>Net<br>£'000 | 2003<br>Net<br>£'000 |
|--|--|----------------------|----------------------|----------------------|
| <b>Subscriptions and other income</b>                          |  |                      |                      |                      |
| Subscriptions and fees   | 26,014   | –                    | 26,014               | 23,932               |
| Licence and data access fees                                   | 1,850  | –                    | 1,850                | 1,850                |
|  | <b>27,864</b>                                      | <b>–</b>             | <b>27,864</b>        | <b>25,782</b>        |
| <b>Subscription based services</b>                             |  |                      |                      |                      |
| Members' education and training                                | 598  | (3,856)              | (3,258)              | (2,078)              |
| Professional standards   | 793  | (3,562)              | (2,769)              | (2,355)              |
| Member services  | 2,434  | (8,488)              | (6,054)              | (5,897)              |
| Technical strategy   | 508  | (3,814)              | (3,306)              | (3,135)              |
| Central activities   | 1,560  | (10,234)             | (8,674)              | (8,037)              |
|  | <b>5,893</b>                                       | <b>(29,954)</b>      | <b>(24,061)</b>      | <b>(21,502)</b>      |
| <b>Self financing activities</b>                               |  |                      |                      |                      |
| Student education and training                                 | 6,355  | (5,406)              | 949                  | (367)                |
| Practice regulation  | 9,200  | (9,949)              | (749)                | (189)                |
| Faculties  | 2,804  | (2,881)              | (77)                 | 461                  |
|  | <b>18,359</b>                                      | <b>(18,236)</b>      | <b>123</b>           | <b>(95)</b>          |
| <b>Participation in external bodies</b>                        |  |                      |                      |                      |
|  | 151  | (2,878)              | (2,727)              | (3,054)              |
| <b>Gift aid and library funding</b>                            |  |                      |                      |                      |
|  | –  | (1,910)              | (1,910)              | (2,073)              |
| <b>Totals of income and expenditure</b>                        |  |                      |                      |                      |
|  | <b>52,267</b>                                      | <b>(52,978)</b>      |                      |                      |
| (2003 Totals of income and expenditure)                        | 47,106   | (48,048)             |                      |                      |
| <b>Operating deficit</b>                                       |  |                      | <b>(711)</b>         | <b>(942)</b>         |
| Sale of ABC Professional Information – discontinued operations |  |                      | –                    | 269                  |
| Net realised and unrealised gains on listed investments        |  |                      | 11                   | 110                  |
| Investment income  |  |                      | 1,298                | 930                  |
| <b>Surplus before taxation</b>                                 |  |                      | <b>598</b>           | <b>367</b>           |
| Taxation   |  |                      | (346)                | 77                   |
| <b>Net surplus after taxation</b>                              |  |                      | <b>252</b>           | <b>444</b>           |
| (Surplus)/deficit attributable to self financing activities    |  |                      | (123)                | 95                   |
| <b>3</b>   | <b>Net surplus transferred to accumulated fund</b> |                      |                      | <b>539</b>           |

## Summary balance sheet at 31 December 2004

| Note  | 2004<br>£'000   | 2003<br>£'000 |
|---|-----------------|---------------|
| <b>1 Fixed assets</b>                                 | <b>39,344</b>   | 37,705        |
| <b>2 Current assets</b>                               | <b>22,611</b>   | 20,208        |
| <b>Creditors:</b> amounts falling due within one year | <b>(16,604)</b> | (13,180)      |
| <b>Net current assets</b>                             | <b>6,007</b>    | 7,028         |
| <b>Total assets less current liabilities</b>          | <b>45,351</b>   | 44,733        |
| <b>Provisions for liabilities and charges</b>         | <b>(8,291)</b>  | (7,781)       |
|   | <b>37,060</b>   | 36,952        |
| <b>Reserves</b>                                       |                 |               |
| <b>3</b> Revaluation reserve                          | <b>8,313</b>    | 8,496         |
| <b>3</b> Investment revaluation reserve               | <b>439</b>      | 403           |
| <b>3</b> Accumulated fund                             | <b>20,820</b>   | 20,688        |
|   | <b>29,572</b>   | 29,587        |
| Reserves retained by self financing activities        | <b>7,488</b>    | 7,365         |
|   | <b>37,060</b>   | 36,952        |

Approved on behalf of the council



**Paul Druckman**  
President  
15 March 2005



**Eric Anstee**  
Chief Executive

## Summary cash flow statement for the year ended 31 December 2004

|   | 2004<br>£'000  | 2003<br>£'000 |
|---|----------------|---------------|
| <b>Cash flow from operating activities</b>                              | <b>(932)</b>   | (6,811)       |
| Income received on investments  | <b>1,458</b>   | 1,501         |
| Taxation  | <b>(121)</b>   | (5,480)       |
| Purchase of tangible fixed assets                                       | <b>(2,301)</b> | (1,745)       |
| Sale of tangible fixed assets   | <b>-</b>       | 4             |
| Net purchases of long-term investments                                  | <b>(134)</b>   | (17)          |
| Deferred consideration received   | <b>1,000</b>   | 1,000         |
| Return of funds from Chartered Accountants' Trustees Limited            | <b>1,405</b>   | -             |
| <b>Cash flow before net (sales)/purchases of short-term investments</b> | <b>375</b>     | (11,548)      |
| Net (sales)/purchases of short-term investments                         | <b>(137)</b>   | 11,433        |
| <b>Net increase/(decrease) in cash in the year</b>                      | <b>238</b>     | (115)         |

## Notes to the summary financial statements for the year ended 31 December 2004

### 1 Fixed assets

|   | 2004<br>£'000 | 2003<br>£'000 |
|---|---------------|---------------|
| <b>Net book amounts</b>                               |               |               |
| Freehold property                                     | 10,550        | 10,921        |
| Short leasehold property                              | 53            | 71            |
| Silver collection and antiques                        | 3,486         | 3,375         |
| Furniture, computers and equipment                    | 3,619         | 2,910         |
| Investments in subsidiary and associated undertakings | 3             | 3             |
| Other investments                                     | 21,633        | 20,425        |
|   | <b>39,344</b> | <b>37,705</b> |

### 2 Current assets

Current assets at 31 December 2004 include deferred consideration of £7.5 million (2003: £8.5 million) following the sale of the business of ABG Professional Information, of which £6.5 million (2003: £7.5 million) is receivable after more than one year.

### 3 Reserves

|   | Revaluation<br>reserve<br>2004<br>£'000 | Investment<br>revaluation<br>reserve<br>2004<br>£'000 | Accumulated<br>fund<br>2004<br>£'000 | Total<br>2004<br>£'000 |
|---|---|---|--------------------------------------|------------------------|
| Revenue account surplus                                       | -                                       | -   | 129                                  | 129                    |
| Net change in market value of long-term investments over cost | -                                       | 315   | -                                    | 315                    |
| Deferred tax attributable to above                            | -                                       | (14)  | -                                    | (14)                   |
| Reclassification of gains realised in the year                | -                                       | (265)   | 265                                  | -                      |
| Reclassification of freehold depreciation                     | 262                                     | -   | (262)                                | -                      |
| Decrease in valuation of tangible fixed assets                | (445)                                   | -   | -                                    | (445)                  |
|   | <b>(183)</b>                            | <b>36</b>   | <b>132</b>                           | <b>(15)</b>            |
| Reserves at 1 January   | 8,496                                   | 403   | 20,688                               | 29,587                 |
| Reserves at 31 December                                       | <b>8,313</b>                            | <b>439</b>  | <b>20,820</b>                        | <b>29,572</b>          |

The accumulated fund at 31 December 2004 includes the net surplus of £16,395,000 (2003: £16,395,000) arising from the sale of ABG Professional Information in January 2002, which council has determined as not currently being available for general purposes.

## Summary corporate governance statement

The council has adopted the provisions of Section 1 of the *Combined Code* prepared by the Committee on Corporate Governance, to the extent appropriate.

During the year, council has monitored and assessed key risks in compliance with the guidance *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance).

The full corporate governance statement is set out in the accounts for the year ended 31 December 2004.

## Independent auditors' statement to the members of the Institute of Chartered Accountants in England & Wales

We have examined the summarised financial statements, which comprise the summary revenue account, balance sheet, cash flow statement and notes to the summary financial statements. This report is made solely to the Institute's members, as a body. Our audit work has been undertaken so that we might state to the Institute's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Institute and the Institute's members as a body, for our audit work, for this report or for the opinions we have formed.

### Respective responsibilities of the council and auditors

The council is responsible for preparing the annual review and summary financial statements. Our responsibility is to report to you our opinion on the consistency of the summarised financial statements within the annual review with the full annual report and accounts. We also read the other information contained within the annual review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summarised financial statements.

### Basis of audit opinion

We have conducted our work in accordance with *Bulletin 1999/6: The Auditors' Statement on the Summary Financial Statement* issued by the Auditing Practices Board for use in the United Kingdom.

### Opinion

In our opinion the summarised financial statements are consistent with the full annual accounts of the Institute of Chartered Accountants in England & Wales for the year ended 31 December 2004.



**RSM Robson Rhodes LLP**  
Chartered accountants  
and registered auditors  
London  
15 March 2005

# List of council members as at 31 December 2004

**President**  
**Paul Druckman** (9/9)  
Chairman, Clear Group and director, Access Accounts

**Deputy-president**  
**Ian Morris** (8/9)  
Partner, Morris & Co. and Turner Peachey

**Vice-president**  
**Graham Durgan** (8/9)  
Chairman, Emile Woolf International

**Barry Alexander** (4/9)  
Elected, London  
Director, Fisher Corporate plc

**Debbie Anthony** (9/9)  
Co-opted, chairman, education and training board and Member, Deloitte.LLP

**Andrew Baigent** (7/9)  
Elected, London  
Director, National Audit Office

**Arthur Bailey** (7/9)  
Elected, Staffs Salop & Wolverhampton  
Consultant

**Carl Bayley** (5/9)  
Co-opted, member in Scotland  
Partner, Bayley Consulting

**Paul Beeson** (7/9)  
Elected, Sheffield  
Partner, Shorts

**Tony Bennewith** (6/9)  
Elected, South Eastern  
Sole practitioner, A J Bennewith and Co.

**Peter Blackie** (9/9)  
Co-opted, European Commission  
Adviser on EU affairs

**Brian Boswell** (9/9)  
Elected, Birmingham & West Midlands  
Chief executive, Meridian Resources

**Evie Bowyer** (3/9)  
Elected, London  
Director, EVB Training Consultancy Ltd

**David Brigham** (5/9)  
Elected, HumberSide  
Group financial controller, East Riding Holdings Company

**Rob Bryant** (9/9)  
Elected, London  
Sole practitioner

**Tim Bush** (5/5)  
Co-opted, member in City financial institution  
Associate director, UK Focus Fund, Hermes/Hermes Focus Asset Management

**Gavin Casey** (5/9)  
Co-opted, senior member in business  
Chairman, Tragus Holdings Limited

**Richard Chapman** (9/9)  
Elected, Staffs Salop & Wolverhampton  
Managing director, Paterson Photographic Ltd and various engineering companies

**Ian Cherry** (8/9)  
Elected, North West  
Director, A I Cherry Ltd

**David Chitty** (8/9)  
Elected, Croydon  
Partner, Chantrey Vellacott DFK

**John Clements** (8/9)  
Elected, East Anglian  
Non-executive director

**John Collier** (6/9)  
Elected, London  
Director, Glenn Irvine International Executive Search

**Tony Cooper** (8/9)  
Elected, Sheffield  
Group finance director and company secretary, Henry Boot plc

**Dennis Cox** (6/9)  
Elected, London  
Managing director, Risk Reward Ltd

**Nick Cudmore** (8/9)  
Elected, HumberSide & District  
Partner, Oxley Coxon

**Aubrey Davies** (5/9)  
Elected, Liverpool  
Partner, Aston Hughes & Co

**Richard Dyson** (8/9)  
Elected, Manchester  
Member, Ernst & Young LLP

**Maurice Ede** (8/9)  
Elected, South Eastern  
Director, Network 4 M Limited

**David Furst** (8/9)  
Co-opted, senior partner of a 'Group A' firm  
Chairman, Horwath Clark Whitehill

**Graeme Gordon** (4/5)  
Elected, Thames Valley  
Group finance director, Macro 4 plc

**Bill Graham** (7/9)  
Elected, Northern  
Non-executive director

**Bruce Gray** (8/9)  
Elected, Croydon  
Sole practitioner

**Michael Greenwood** (9/9)  
Elected, North West  
Business manager

**Howard Gross** (8/9)  
Elected, London  
Chief executive, Cross Klein

**Martin Hagen** (7/9)  
Elected, West of England  
Office senior partner, Deloitte & Touche LLP, Bristol

**Barrie Harding** (9/9)  
Elected, South Essex  
Sole practitioner

**Richard Harwood** (7/9)  
Elected, Birmingham & West Midlands  
Principal, Harwoods

**Michael Hawley** (9/9)  
Elected, Nottingham Derby & Lincoln  
Principal lecturer in accounting, Nottingham Trent University

**Ian Hayes** (6/9)  
Elected, London  
VAT partner, Buzzacott

**Marion Hodgkiss** (7/9)  
Elected, Liverpool  
The Financial Training Co. Ltd.

**John Holdstock** (6/9)  
Elected, Beds Bucks & Herts  
Director, Yardbase Ltd.

**Peter Holgate** (4/9)  
Elected, London  
Partner, Kingston Smith

**Philip Hollins** (8/9)  
Elected, London  
Partner, UHY Hacker Young

**Alistair Hollows** (9/9)  
Elected, Manchester  
Director, IFA Mentor Ltd

**Paul Hubbard** (9/9)  
Co-opted, member in EU  
Audit director, KPMG LLP

**Nigel Hughes** (7/9)  
Elected, Beds Bucks & Herts  
Managing director, Totteridge Associates Ltd

**Chris Humphrey** (3/5)  
Co-opted, academic  
Professor of accounting and head of the Manchester School of Accounting & Finance

**David Hunt** (7/9)  
Elected, Nottingham Derby & Lincoln  
Management training consultant/presenter, after-dinner/conference/course speaker

**Simon Hurst** (9/9)  
*Ex officio*, chairman, Faculty of Information Technology  
Proprietor, The Knowledge Base

**David Illingworth** (9/9)  
*Ex officio*, past-president  
Non-executive director, Nuclear Decommissioning Authority

**Peter Jenkins** (7/9)  
Elected, London  
Chief executive, Numerica Group plc

**Surinder Kaul** (8/9)  
Elected, London  
Sole practitioner, Wular Kaul & Co

**Adrian Keene** (7/9)  
Elected, Leics & Northants  
Managing director, Mutual Clothing & Supply Co. Ltd

**Eric Kench** (7/7) See Note 1  
*Ex officio*, chairman, Practice Society  
Principal, EA Kench & Co

**Jeremy Knight** (6/9) See Note 3  
Elected, South Eastern  
Sole practitioner

**Mark Lee** (9/9)  
*Ex officio*, chairman, Tax Faculty  
Managing director, London Office, Shaw & Co, Chartered Tax Advisers

**Neil Lerner** (4/9)  
Co-opted, chairman of ethics committee  
UK head of risk management, KPMG LLP

**Robin Liddell** (7/9)  
Elected, Northern  
Director, RS Liddell Consulting Ltd.

**Hilary Lindsay** (9/9)  
Elected, Leics & Northants  
Business school lecturer and e-learning consultant

**Alan Lindsey** (5/9)  
Elected, London  
Sole practitioner, Alan Lindsey and Co.

**Tony Lomas** (4/9)  
Co-opted, chairman, insolvency practitioners committee  
Deputy leader, business recovery services division, PricewaterhouseCoopers LLP

**David McBride** (7/9)  
Elected, London  
Deputy director general, Institute of Quality Assurance

**Cameron Maxwell** (9/9)  
Elected, South Essex  
Executive director, InvestinMedia plc

**Robert Millea** (9/9)  
Elected, East Anglian  
Clerk, South East Essex College

**Geoffrey Mitchell OBE** (6/9) See Note 2  
Co-opted, chairman, technical strategy board  
Director, finance projects, Barclays plc

**Peter Mitchell** (5/9)  
Elected, Beds Bucks & Herts  
Senior partner, Peter Mitchell & Co; chairman, Society of Professional Accountants

**Sheilagh Moffat** (9/9)  
Elected, Birmingham & West Midlands  
Partner, Moffat Gilbert

**Alun Morgan** (7/9)  
Elected, South Wales  
Director, PCP Limited

**Tony Morwood-Leyland** (8/9)  
Elected, London  
Senior operational accountant, audit service, HM Customs & Excise

**Sam Narula** (1/9)  
Elected, South Eastern  
Sole practitioner

**Geoff Norman** (5/9)  
Co-opted, senior partner in 'Big 4' firm  
UK area professional practice partner, Ernst & Young LLP

**Nick Parker** (6/9)  
Elected, Southern  
Regional director of tax, Tenon

**Clive Parritt** (7/9)  
Elected, London  
Chairman, Baronsmead VCT2 plc and non-executive director

**Michael Pavia** (5/5)  
Co-opted, senior member in business and consultant

**Philip Pawson** (8/9)  
Elected, West Yorkshire  
Barrister, lecturer and consultant

**Chris Pearce** (5/9)  
*Ex officio*, chairman, Faculty of Finance and Management  
Trustee: GlaxoSmithKline Pension Fund; Rentokil Initial Pension Fund; Booker Prize Foundation

**Geoffrey Piper** (5/9)  
Elected, Liverpool  
Chief executive, The North West Business Leadership Team

**Andrew Ratcliffe** (6/9)  
*Ex officio*, chairman, Audit and Assurance Faculty  
Member & chairman, global board, PricewaterhouseCoopers LLP

**Nigel Richens** (3/9)  
Elected, Manchester  
Member, PricewaterhouseCoopers LLP

**Gerald Robinson** (8/9)  
Elected, South Wales  
Sole practitioner

**Peter Rosewell** (7/9)  
Elected, West of England  
Consultant

**Michael Sherry** (6/9)  
Elected, London  
Tax counsel, 3 Temple Gardens Tax Chambers

**Mark Spofforth** (9/9)  
Elected, South Eastern  
Partner, Spofforths

**Harry Stern** (7/9)  
Elected, London  
Consultant, FSPG

**Nicos Syrimis** (5/5)  
Co-opted, member in EU  
Chairman, KPMG Cyprus

**Victoria Tait** (5/5)  
Co-opted, younger member member  
Accounts senior, Dodd & Co

**Michael Trigg** (6/9)  
Elected, South Western  
Lecturer, Exeter Business School

**Paul Wagstaff** (7/9)  
Elected, Thames Valley  
Senior partner, Wagstaffs

**David Walker** (9/9)  
Elected, West Yorkshire  
Director, Botting and Co Ltd

**Chris Ward** (4/5)  
*Ex officio*, chairman, Corporate Finance Faculty  
Member, Deloitte.LLP

**Jatinder Wasu** (7/9)  
Elected, London  
Principal, Sterling Hay

**Robert Webb** (8/9)  
Elected, West Yorkshire  
Director and consultant, Menston

**Jan Weber** (8/9)  
Co-opted, chairman, business focus directing group  
Finance director, DLBJ Asset Management International

**Eric Wiles** (9/9)  
Elected, Birmingham & West Midlands  
Business development manager, HSBC Rail (UK) Ltd

**Fiona Wilkinson** (9/9)  
Elected, South Western  
Principal, Wilkinsons

**Peter Wyman** (5/9)  
*Ex officio*, past-president  
Member, PricewaterhouseCoopers LLP

Notes  
1 Appointed wef 7 April 2004  
2 Resigned wef 31 December 2004  
3 Resigned wef 2 February 2005

**The following were also members of council during the year 2004:**

*Resigned with effect from 4 February 2004*

**Prof. Stella Fearnley** (1/1)  
Elected, Southern  
Professor of accounting, University of Portsmouth

**John Malthouse** (0/1)  
*Ex officio*, chairman, Practice Society committee  
Principal, Malthouse & Co.

*Retired with effect from 8 June 2004*

**Michael Groom** (3/4)  
*Ex officio*, past-president,  
Non-executive director

**Geoff Barnes** (1/4)  
Co-opted, senior partner of 'Group A' firm international organisation  
Chief executive officer and president, Baker Tilly International

**Howard Leigh** (3/4)  
*Ex officio*, chairman, Corporate Finance Faculty  
Director, Cavendish Corporate Finance Ltd

**Prof. Peter Moizer** (3/4)  
Co-opted, academic  
Professor of accounting, Leeds University

*Resigned with effect from 8 June 2004*

**Victoria Fryer** (3/4)  
Co-opted, younger member  
Partner, Naylor Wintersgill

**Duncan Learnmouth** (0/4)  
Co-opted, member in business  
Head of investor relations, GlaxoSmithKline plc

**Senior management team 2004**

**Eric Anstee**  
Chief executive

**Michael Izza**  
Chief operating officer

**Prof. Brian Chiplin** (retired wef 30 November 2004)  
Executive director, education and training

**Sally Hinkley CBE**  
Executive director, professional standards

NB: The attendance record at meetings of council in 2004 is shown alongside each member (actual/possible).

twenty **05**  
125 YEARS

In 2005 the Institute celebrates its 125th anniversary. To mark this year we have a programme of activities combining initiatives on the themes of public service, international debate, leadership development and thought leadership research.

#### Public service

We are working with key government agencies to encourage financial literacy in youngsters to improve schoolchildren's skills and confidence in personal finance management. From September 2005, ICAEW students and younger members will work together with teachers throughout the UK to provide basic financial training and support in classrooms.

#### International conferences

- **Brussels** 4-5 April 2005, Global capital markets: challenges for business, governments and professions
- **London** 28 June 2005, *Accountancy2005*, Chartered Accountants' Hall
- **New York** – late Autumn 2005
- **Hong Kong** – date to be confirmed.

#### Leadership development

Our **125 Leadership Challenge**, a unique team competition to test and develop leadership and motivational skills in young chartered accountants. Six winning teams from UK regional finals travel to South Africa for a three-day grand final to give practical assistance to a remote community. We aim to raise £50,000 for the charity Whizz-Kidz.

#### Thought leadership research

Continuing our *information for better markets* campaign to improve the quality of business reporting. New reports for debate will look at:

- information for markets and society
- measurement in financial reporting
- developments in new reporting models
- reporting with integrity.