



# Building the accountancy profession of the future

Financial statements 2015

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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 2015

# Contents

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01	Financial review	04
02	Corporate governance statement	10
03	ICAEW five-year summary	18
04	Independent auditor's report	19
05	Group income statement	22
06	ICAEW income statement	23
07	Group and ICAEW statements of comprehensive income	24
08	Group and ICAEW statements of changes to reserves	25
09	Group and ICAEW statements of financial position	26
10	Group and ICAEW statements of cash flows	27
11	Notes to the financial statements	28

# 01 Financial review

ICAEW's financial statements for 2015 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 £101.6m, £10.1m higher than in 2014. Of this, £4.7m arose from Financial Reporting Council (FRC) fines; like for like operational income, excluding fines was £96.9m, up £6.4m on the same basis in 2014. Our operational surplus was £0.3m (2014: £nil) and the retained surplus after tax and FRC fines and cost recoveries for the year was £6.9m (2014: £2.4m).

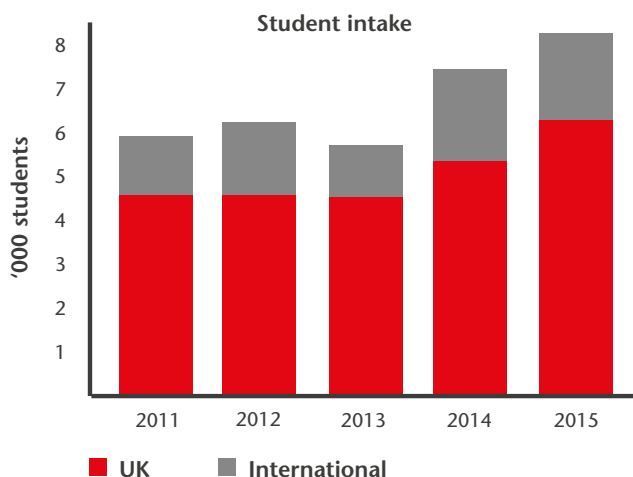
Membership income growth was £1.9m and was supplemented by growth in our student-related income and our commercial activities, enabling us to continue to invest in our strategy in the UK and internationally. Fines and cost recoveries of £6.6m were received from the FRC Conduct Committee (2014: £2.4m), contributing to a net FRC case cost surplus in the year of £3.3m (2014: charge £0.9m). This is the first such surplus to have arisen and despite these recoveries, the scheme remains a significant commitment for ICAEW. Since its inception, FRC Conduct Committee case costs provided have totalled £38.9m and ICAEW has made cash payments of £27.0m over the 12-year period. Fines and cost recoveries are £12.8m.

Net assets at 31 December 2015 were £43.2m, an increase of £10.9m over the 2014 net assets of £32.3m. Cash and cash equivalents ended the year at £10.3m, reflecting a net cash inflow of £5.4m in the year, after £1.8m contributions to reduce the pension scheme deficit and £4.3m cash contributions to FRC case costs. Total cash and investments stood at £47.0m at the end of the year, an increase of £6.7m on 2014.

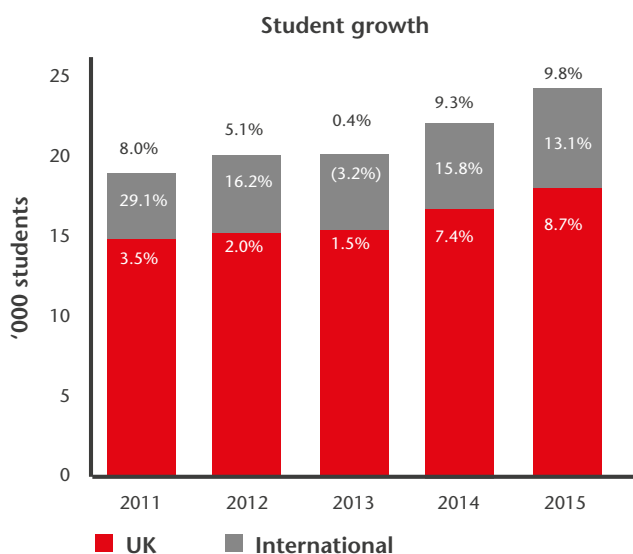
The consolidated outcome for the year, including the results of ICAEW's charitable trusts, was a surplus after tax of £7.2m (2014: £2.7m).

## Student and membership growth

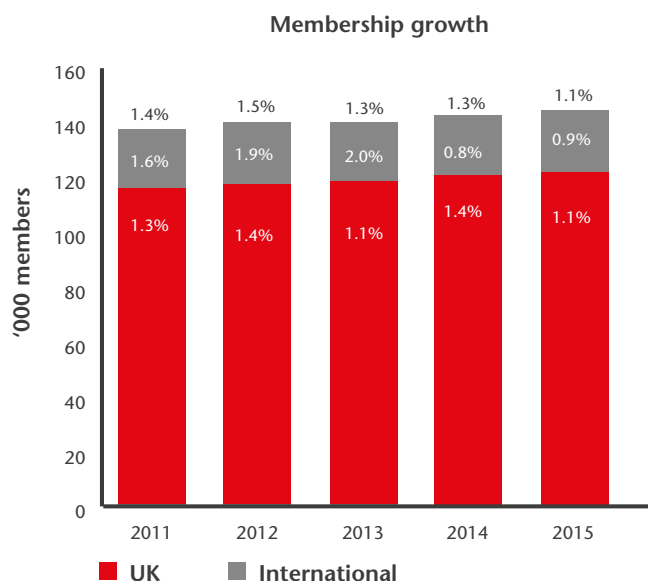
2015 saw another record ACA student intake of 8,256 – an increase of 930 on our previous record intake of 7,326 in 2014.



Total ACA student numbers at the end of 2015 stood at 24,149 (2014: 22,001). In addition 5,542 students signed up for our foundation level Certificate in Finance, Accounting and Business (CFAB) and University Scholarship Schemes, a further increase on last year's intake of 3,115.



In the year, membership grew to 145,746, 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 4% to £45.2m, reflecting the continued steady growth in membership and membership rates. Income from our qualifications increased by £0.9m, reflecting the record ACA and CFAB intakes in 2015 and 2014.

Our regulatory income rose by £0.9m, reflecting the impact of our new regulatory areas. Our commercial income increased to £11.0m, (up £0.3m on 2014) with improved publication sales offsetting reduced income from our catering and room hire business, as a result of our Chartered Accountants' Hall refurbishment project and a difficult year for our leadership programmes.

## Expenditure

Operating expenditure increased to £94.7m, including the impact of FRC Conduct Committee case costs, and net of cost recoveries, described below.

The increase in student numbers resulted in an increase in student-related direct costs, including exams. We have continued to invest in our qualification, with the launch of alternative modules in 2016 and computer-based exams under development.

2015 also saw a further increase in our investment in member services, particularly internationally. We also

saw an increase in depreciation and asset write offs as a direct consequence of our capital programme.

## FRC Conduct Committee case costs

During 2015 we charged costs of £7.1m to the income statement in relation to the FRC Conduct Committee case cost provision. This was offset by fines of £4.7m (2014: £1.0m) and cost recoveries of £1.9m (2014: £1.4m) imposed by FRC tribunals and returned to ICAEW, plus levy income of £3.8m. We expect to spend in the region of £5.0m in 2016.

The increased charge reflects the complexity of existing cases and their stage of development as well as initiation of new cases.

The fines and cost recoveries arose from six cases after lengthy processes and costs. The largest receipt was for the complaint against Deloitte and Touche in relation to alleged misconduct in their handling of the sale of MG Rover, resulting in fines of £3.2m and cost recoveries of £1.5m.

The FRC Conduct Committee 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 (2014: £nil). As a mutual membership organisation, much of our income is exempt from corporation tax.

## Pensions

The IAS 19 valuation at 31 December 2015 was a whole scheme surplus of £9.3m (2014: £2.8m). The pension asset is recognised as ICAEW considers that any surplus arising would be recoverable, assuming the gradual settlement of scheme liabilities over time.

ICAEW's defined benefits pension scheme was closed to further member benefit accrual in 2010. Employees in the scheme were invited to join ICAEW's defined contribution pension arrangements. The most recent triennial actuarial valuation showed a deficit of £24.9m at 31 March 2013. The trustee and ICAEW agreed deficit funding arrangements comprising annual payments of £1.8m from 1 January 2014 until the



deficit is eliminated. With our support, the trustee has developed an investment strategy intended to make the scheme entirely self-sufficient by around 2025.

A charge remains over Chartered Accountants' Hall and the fund has an interest in up to £10.0m of our investment portfolio.

The scheme valuation has again been subject to the volatility in the financial markets. A desktop valuation of the technical funding position at 31 December 2015 estimated the scheme deficit at £11.0m, a reduction of £6.8m on the estimated valuation at December 2014 of £17.8m and a reduction of £13.9m from the March 2013 valuation. In the year, as part of its de-risking strategy, the trustee purchased a further buy-in annuity to match a subset of pensioner liabilities with ICAEW support. The next triennial valuation is due as at 31 March 2016.

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

## Financial position

Net assets at 31 December 2015 were £43.2m – an increase of £10.9m on the 2014 position.

During 2015, the market value of our long-term investments rose to £36.7m from £35.4m in 2014.

Trade and other payables were £37.8m (2014: £34.3m). Trade and other receivables were £10.4m (2014: £9.1m).

We have provided £11.9m (2014: £9.1m) of costs relating to the FRC Conduct Committee at 31 December 2015, 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 judgement. We do not take account of any potential future income from fines or cost recoveries from FRC Conduct Committee cases.

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

## Cash flow

Cash balances at 31 December 2015 were £10.3m. Net cash inflow was £5.4m compared to £0.6m in 2014. Our cash profile fluctuates on an annual cycle, this year peaking at £45.2m in February and bottoming out at £8.1m in November.

Funding of the FRC Conduct Committee case costs saw a cash outflow of £4.3m (2014: £5.1m).

ICAEW paid £1.8m (2014: £1.9m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure increased to £6.7m (2014: £2.6m) reflecting the start of our programme to refurbish Chartered Accountants' Hall. We expect to incur £7.6m of capital expenditure in 2016, reflecting the continued investment in Chartered Accountants' Hall and our business systems.

## Reserves policies

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

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

We are managing our capital investment programme, our pension commitments and our financial position in order to maintain these reserve needs and mitigate any impact on members and member services.

## Charitable trusts

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

During the year we made donations under gift aid to our charitable trusts amounting to £1.5m (2014: £1.5m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.2m (2014: £0.2m).

## Political donations

During the year, as part of its policy engagement, ICAEW supported a number of activities with political and politically affiliated organisations. This included a small number of events for political parties and a number of business and party conference events including hosting roundtables; costs, including donations in kind, associated with these activities totalled £57,000.

## 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 and this is what the profession does. We bring people together to share their views, are involved in research, and produce guidance for the wider business community 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 natural capital policy in government forums and financial institutions.

## Going concern and long-term viability

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

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

Income visibility is relatively strong as a result of the long-term nature of membership and the time taken for students to qualify and enter membership. Cash and investment reserves are held to provide protection against unexpected significant changes in the operating environment.

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

ICAEW's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in our annual review 2015. Principal risks which may affect future development are set out below. The financial position of ICAEW, its cash flows and liquidity position are described in the financial review above. In addition the accounting policies include ICAEW's objectives, policies and processes for managing its reserves, its financial risk management objectives, details of its hedging activities and its exposure to liquidity risk.

Council believes that ICAEW has adequate financial resources and is well placed to manage its business risks successfully having regard to the current economic outlook and market conditions and possible short-term funding needs, such as FRC Conduct Committee case costs. As a result, the going concern basis is considered appropriate. Council also has a reasonable expectation that ICAEW has adequate

resources to be able to continue in operation and meet its liabilities as they fall due for the three years to 31 December 2018.

## Internal control

Council is responsible for ICAEW's system of internal control and for reviewing its effectiveness. The audit committee, on behalf of 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 provide only 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, audit committee, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by ICAEW. This process has been in place for the whole of 2015 and has continued up to the date on which this document was approved.

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

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

Annually in March, 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 formally reviews risk twice a year.

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



## Principal risks

Risk	Gross risk	Current risk management activity	Net current risk	Planned risk management activity
<b>Our relevance to firms and demand for future skills</b>  The risk that a key firm (or combination of firms) move away from business models that are resourced by a core set of ACA-trained accountants, or that they develop an externally-recognised qualification.  The scope of this risk could include: regulatory changes, competitors' actions or market changes.	High	Our activity to mitigate this risk includes: active stakeholder management; intelligence and insight with firms, regulators, competitors and the market. We are working with firms to develop training solutions that ensure we are the professional body of choice across their international networks.	High	Further development of qualifications and designations to meet market demand.
<b>The changing nature of the global competitive environment</b>  The risk that external changes result in professional bodies losing relevance or ICAEW falling behind in the marketplace and being unable to execute strategy in the public interest.  The scope of this risk could include: legislative and regulatory changes (including legal services); our products and partnerships; competitors' mergers and innovations.	High	Our activity to mitigate this risk includes: actively influencing the debate about the future of the finance industry, developing wider regulatory offerings and offering further services for firms and members.  Our activity to mitigate this risk includes: developing the IRB, close engagement with the FRC, BIS, Ministry of Justice and dialogue with the Legal Services Board; developing robust arguments in support of the role of ICAEW as a regulator in the public interest; developing alliances in support of the ICAEW position.  Maintaining close relationships with partner and competitor bodies.	Medium	Complete IRB set up in 2016.  Further services to spread risk.
<b>The loss of public trust</b>  The risk that a global financial crash, debt crisis or financial scandal causes the public to lose trust in the profession and finance institutions, reducing our ability to support members, undermining our disciplinary and regulatory roles and hampering our ability to act in the public interest.  The scope of this risk includes: high profile disciplinary cases; technical and public interest issues.	High	While the promotion of ethics in our members and good corporate behaviour generally is undoubtedly a positive, at a macro level there is little we can realistically do to substantially mitigate the likelihood of the next big financial crisis or corporate scandal. Therefore our actions are focused on mitigating impact on ICAEW, chartered accountants and the profession.	High	Our activity to mitigate this risk includes: ongoing and direct engagement with organisations such as the PRA, FRC and firms, and monitoring media, complaints and regulatory activities.
<b>Data management</b>  The risk of data mismanagement events such as the handling of client/student data, or breakdown of ACA assessment process or procedure, or use of data relating to elections.  The resulting damage could be to our reputation, operations or both. The likelihood and potential impact of this risk grows as we expand internationally.  The scope of this risk could include: fraud or human error, technical failure relating to data systems or a breakdown in the assessment processes and procedures.	High	Our activity to mitigate this risk includes: Payment Card Industry (PCI) compliance; intensive test programmes and spot checks for systems and processes and a voice recognition system to reduce human intervention.	High	The business systems project will reduce the reliance on spreadsheets and offline data handling.
<b>Data security</b>  The risk that there is a failure or breach of physical or cyber security systems (eg, as a result of a cyber-attack), resulting in damage to reputation and disruption to operations. The likelihood and impact of this risk grows as we expand internationally.  The scope of this risk could include: failure or breach of system security leading to unauthorised access to ICAEW.	High	Our activity to mitigate this risk includes: audits to ensure staff have the appropriate application security access; system penetration tests undertaken by a specialist organisation; PCI compliance testing; and active monitoring of exam pass rates.  Information security assessment is now mandatory in the process for new supplier and contract approval.	Medium	We will use the business systems transformation project as an opportunity to review and improve implementation of the security policy for internal applications. This will include a formal register of information assets.  The information security policy which is currently based on ISO27001:2005 will be updated to be consistent with the latest ISO27001:2013 standard.

**Principal risks** are owned by executive directors and delivery of mitigating actions is built into our strategy and operational plan. They are reviewed by the board at every board meeting. The board's assessment of the impact of risk management is shown in the annual review.

We confirm that there have been no significant failings or weaknesses in our internal controls in 2015.

# 02 Corporate governance statement

## Our approach to governance

ICAEW is a chartered body and operates under the terms of its Royal Charter, bye-laws and regulations. We are committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code as revised by the Financial Reporting Council (FRC) in September 2014.

ICAEW confirms that it complies with the UK Corporate Governance Code on a 'comply or explain' basis. We operate within regulatory oversight of the FRC, as a Recognised Supervisory Body, a Recognised Qualifying Body, a Designated Professional Body, and as a Licensor of Insolvency Practitioners. We are also regulated for reserved legal activities by the Legal Services Board.

## Our structure

Our governance structure is designed to safeguard our future, enhance its prosperity and ensure its integrity. Council delegates to the board and committees through a series of delegated authorities and assurance mechanisms, while ensuring that the views of the profession are heard. Council continues to review regularly the roles, responsibilities and effectiveness of council, the board and committees to ensure that they remain fit for purpose. During 2015, a review of the relationship between council and the board was carried out with actions taken forward into 2016.

## AGM and member meetings

The Charter and bye-laws reserve certain matters to members. 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 boards and committees and to the chief executive, within an overall framework of financial approval limits.

In 2015, council met five times. The majority of council members are directly elected by ICAEW members, with the remainder co-opted or ex officio. Council

elects its 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 2015, in the annual review. As at 31 December 2015, it comprised 91 members.

## Council, board and committee induction

All newly-elected and appointed council and board members attend an initial induction session, usually arranged around the AGM. The induction session gives new members the chance to find out more about the structure of ICAEW, the development of its strategy, and any key issues which are currently before council. The session is chaired by the president, and new members have the opportunity to ask questions of the office-holders, the chief executive and senior staff. Each standing committee is also asked to organise, as early as possible in the council year, a training session for its members on key areas falling within the remit of the committee. Council has adopted a values statement for members of council, our boards and committees that provides a framework of duties in recognition of their collective responsibilities to further the strategic aims of the organisation.

## Council member interests

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. Each member of council declares any interests which might lead to conflict and updates the declaration at least annually. Members of council, the board and all our committees are also invited to identify and declare any potential conflicts of interest at each meeting.

## The board

Our board is responsible for monitoring the development and implementation of our strategy, including review of risk. The chief executive reports monthly to the board on principal risks and on key activities; quarterly to the board on implementation of the operational plan; and, formally twice a year on the management of risk. The executive directors report to each board meeting on performance against departmental plans. The finance director reports to each meeting on financial performance. The board

reports on its activities to each council meeting. In 2014, the board carried out an independent external evaluation of its performance, with actions taken in 2015 around board priorities and structure.

The board comprises principally council members ex officio, and senior executives. Council elects three of its members directly to the board for a two-year term. The elected members fulfil the role of 'senior independent director'. The board also welcomed Michael Stewart and Jill May, two independent, non-chartered accountants to the board on 29 June 2015. Members of the board bring a wide range of stakeholder views as a result of their involvement with departmental boards or the general membership.

### The office-holders

	To 3 June	From 3 June
<b>President</b>	Arthur Bailey	Andrew Ratcliffe
<b>Deputy-President</b>	Andrew Ratcliffe	Hilary Lindsay
<b>Vice-President</b>	Hilary Lindsay	Nick Parker

The office-holders 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 council and the wider accountancy profession and ensure that these are taken into account in the development of ICAEW strategy and policies.

They counsel and advise the chief executive. The president chairs the annual and special meetings of members and the ICAEW board. All office-holders (and council members) are non-executives.

The president serves a one-year term with council electing a vice-president annually to succeed the deputy-president and, in turn, president. The nature of the organisation will mean that the office-holders will sometimes have a connection with member firms and groups. Any potential conflict is identified and declared as outlined above.

### The chief executive

The chief executive, Michael Izza, operates within the framework of delegations approved by council.

Reporting to the president, he is responsible for the overall management of ICAEW, for the development and implementation of strategy, and for ensuring that ICAEW operates economically, efficiently and effectively. He also has a representational role, building effective relationships with members and with governments, regulators, other public bodies and the media.

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

### Diversity

We give a voice to all members and are committed to equality and diversity with the aim to represent the profession 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.

## ICAEW board

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 2015 were:

	Position	Appointed	Retired	Attendance
<b>Paul Aplin*</b>	elected by council partner, A C Mole & Sons	26 June		3/4
<b>Andrew Baigent*</b>	chair, learning and professional development board director, group financial management, Department of Health		3 June	4/4
<b>Arthur Bailey*</b>	president (to 3 June), past president (from 3 June) consultant, Begbies Traynor group and non-executive director consultant to Kingston Smith		3 June	4/4
<b>Ian Davies*</b>	elected by council deputy chair, BMT Group Limited senior independent director, Harvey Nash plc			8/8
<b>Howard Gross*</b>	chair, members board chief executive, Gross Klein			8/8
<b>Sharron Gunn</b>	executive director, commercial			8/8
<b>Robert Hodgkinson</b>	executive director, technical strategy			8/8
<b>Michael Izza</b>	chief executive			8/8
<b>Hilary Lindsay*</b>	vice-president (to 3 June), deputy-president (from 3 June) researcher, The Open University			7/8
<b>Jill May</b>	panel member, non-executive director, Competition and Markets Authority	29 June		3/4
<b>David Matthews*</b>	chair, technical strategy board head of quality and risk management, KPMG LLP			7/8
<b>Nick Parker*</b>	vice-president (from 3 June) tax partner, RSM Tax & Advisory Services LLP			7/8
<b>Mark Protherough</b>	executive director, learning and professional development			6/8
<b>Andrew Ratcliffe*</b>	deputy-president (to 3 June), president and chair (from 3 June)			8/8
<b>Samantha Russell*</b>	chair, learning and professional development board partner, Mazars	3 June		4/4
<b>Liz Rylatt</b>	executive director, finance, operations and members			8/8
<b>Vernon Soare</b>	executive director, professional standards			8/8
<b>Michael Stewart</b>	chief executive officer, Endelman Europe & CIS	29 June		1/4
<b>Fiona Wilkinson*</b>	chair, professional standards board			8/8

\* council member

Liz Rylatt resigned with effect from 5 February 2016. Will Brooks (elected by council) was appointed from 1 January 2016.

## Audit committee

The audit committee is responsible, on behalf of 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 2015. 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 2015 were:

	Position	Appointed	Retired	Attendance
<b>Richard Bint</b>	non-executive director			4/4
<b>Stuart Bridges</b>	group finance director, ICAP plc			2/4
<b>Kathryn Britten*</b>	chair (from 3 June) partner, KPMG	3 June		3/3
<b>David Canning-Jones</b>	partner, EY			4/4
<b>David Chitty</b>	international accounting & audit director, Crowe Horwath International		3 June	0/1
<b>Mary Hardy</b>	independent director		3 June	1/1
<b>Nick Parker*</b>	chair (to 3 June) tax partner, RSM Tax & Advisory Services LLP			3/4
<b>George Quigley*</b>	partner, KPMG			4/4
<b>Andrew Ratcliffe*</b>	deputy-president (to 3 June), president (from 3 June)		3 June	1/1
<b>Clare Worley</b>	director, internal audit, Barclays PLC			4/4

\* council member

The chair of the audit committee reports annually to 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 our 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;

- agreed the work plan of internal audit and reviewed the resulting output from that plan;
- considered an annual report on our whistleblowing arrangements and complied with the Whistleblowing Commission's Code of Practice; and
- tendered the external audit.

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.



Significant areas of review by the audit committee in the year included 'deep dives' into principal risks and mission critical projects such as the Chartered Accountants' Hall refurbishment programme, data management and data security as well as examining reputation management. The committee also carried out a review of our internal audit function.

## 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 last took place during 2012. The committee agrees with the audit firm staff rotation policies in relation to our audit. Current policy is to tender the external audit at least every 10 years.

During the year the audit committee undertook a tender exercise for the external audit for the 2016 financial year. A proposal, supported by council, will be put to the members at the 2016 annual meeting for approval.

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

To assess the effectiveness of the auditors the committee reviewed:

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

## Financial reporting

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, recognising

that not all of its 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 FRC costs and pension provisions;
- 'deep dives' into risk areas as described above;
- receipt of regular strategy reports (written and oral) from the chief executive and operational reports from the executive director, finance, operations and members;
- requesting members of management to attend audit committee meetings to provide updates on strategic and key operational 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 and the consequences for financial reporting.

## Review of financial statements

The committee's review is based on the processes outlined above to assess the financial reporting environment.

Through discussion with management and the external auditor, the audit committee determined that the key judgements with risk of misstatement of our financial statements related to provisions for FRC disciplinary case costs and management override of controls.

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

The committee has reviewed the basis for monitoring and forecasting FRC case costs, assessed the sources of information available to management (including historic data and forecasts from the FRC) and considered the review processes performed by management and the external auditor. This recognised the confidential nature of such information but the committee was able to obtain the necessary understanding and satisfaction. With regard to management override of controls the committee considered the overall control environment as well as receiving reports from the external auditor and management on the use of journals and key assumptions and estimates.

The committee also reviewed key judgements made in the previous financial year relating to pension scheme assumptions and confirmed that those judgements remain valid for the 2015 financial year also.

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

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

## Nominating committee

The nominating committee is responsible for making recommendations to the council for co-options, for the appointment of committee chairs 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 nominating committee met five times in 2015.

The members of the nominating committee during 2015 were:

	Position	Appointed	Retired	Attendance
<b>Arthur Bailey*</b>	president and chair (to 3 June), past president (from 3 June) consultant, Begbies Traynor group and non-executive director consultant to Kingston Smith			5/5
<b>Ian Davies*</b>	elected by council deputy chair, BMT Group Limited senior independent director, Harvey Nash plc			5/5
<b>Graeme Gordon*</b>	elected by council executive director/CEO, Praxity-Global Alliance Limited	1 Nov		1/1
<b>Michael Izza</b>	chief executive			4/5
<b>Peter Jenkins*</b>	elected by council finance director, The Prince's Regeneration Trust		1 Nov	1/4
<b>Martyn Jones*</b>	past president chair, advisory board to the department of economics and finance, Brunel University London			4/5
<b>Hilary Lindsay*</b>	vice-president (to 3 June), deputy-president (from 3 June) researcher, The Open University			5/5
<b>Sheilagh Moffat*</b>	elected by council partner, Moffat Gilbert			5/5
<b>Nick Parker*</b>	vice-president (from 3 June) tax partner, RSM Tax & Advisory Services LLP	3 June		2/3
<b>Andrew Ratcliffe*</b>	deputy president (to 3 June), president and chair (from 3 June)			4/5
<b>Mark Spofforth*</b>	past president partner, Spofforths		3 June	1/2

\* 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 2015 were:

Position		Appointed	Retired	Attendance
<b>Ian Davies*</b>	chair deputy chair, BMT Group Limited senior independent director, Harvey Nash plc			4/4
<b>Nicki Demby</b>	partner, executive compensation consulting, Deloitte			3/4
<b>Frank Edwards*</b>	consultant			4/4
<b>Richard Harwood*</b>	principal, Harwoods			3/4
<b>Hilary Lindsay*</b>	vice-president (to 3 June), deputy-president (from 3 June) researcher, The Open University			3/4

\* council member

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

## Senior staff appointments committee

This committee is responsible for all matters relating to the recruitment and appointment of the chief executive and executive directors.

## Departmental boards

Five departmental boards steered the development of policy for ICAEW's key activities in 2015: 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.

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.

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

## Financial responsibilities of 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;
- prepared the financial statements on a going concern basis; and
- considered and confirmed that the financial statements and annual review together are fair, balanced and understandable.

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.

# 03 ICAEW five-year summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>Income statement</b>					
Operating income	101.6	91.5	87.6	82.7	82.4
ICAEW services	(85.0)	(80.5)	(75.3)	(76.0)	(72.4)
Funding of regulatory and other professional associations	(8.2)	(7.1)	(8.3)	(6.3)	(4.7)
Gift aid and library funding	(1.5)	(1.5)	(1.8)	(1.6)	(1.7)
<b>Net result after taxation</b>	<b>6.9</b>	<b>2.4</b>	<b>2.2</b>	<b>(1.2)</b>	<b>3.6</b>

<b>Net assets</b>					
Non-current assets excluding Staff Pensions Fund	64.4	59.9	55.7	52.9	51.9
Current assets	21.4	14.7	13.9	13.8	18.3
Current liabilities	(42.9)	(39.4)	(39.6)	(37.9)	(34.1)
Non-current liabilities excluding Staff Pensions Fund	(9.0)	(6.0)	(4.7)	(3.7)	(4.8)
Non-current assets/(liabilities) - Staff Pensions Fund asset/(liability)	9.3	3.1	2.1	(4.9)	(6.0)
<b>Total net assets</b>	<b>43.2</b>	<b>32.3</b>	<b>27.4</b>	<b>20.2</b>	<b>25.3</b>

	2015	2014	2013	2012	2011
<b>Member and student numbers</b>					
Members	145,746	144,167	142,334	140,573	138,464
ACA students	24,149	22,001	20,121	20,037	19,073
	<b>169,895</b>	<b>166,168</b>	<b>162,455</b>	<b>160,610</b>	<b>157,537</b>



# 04 Independent auditor's report to the members of The Institute of Chartered Accountants in England and Wales for the year ended 31 December 2015

## Our opinion on the financial statements is unmodified

### 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 2015 and of the group's and ICAEW's result for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Who we are reporting to

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

### What we have audited

ICAEW's financial statements comprise the group and ICAEW income statements, the group and ICAEW statements of comprehensive income, the group and ICAEW statements of changes to reserves, the group and ICAEW statements of financial position, the group and ICAEW statements of cash flows and the related notes.

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

## Overview of our audit approach

- Overall ICAEW group materiality: £2m, which represents 2% of the group's turnover.
- We performed full scope and targeted audit procedures at ICAEW and ICAEW Foundation respectively and analytical review procedures in respect of the other subsidiaries.
- The key audit risk was identified as the FRC Conduct Committee provision.

### Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that are, in our judgement, likely to be most important to users' understanding of the audit.

### FRC Conduct Committee provision

**The risk:** Included in the group and ICAEW statements of financial position, the FRC Conduct Committee total provision of £11.9m represents the estimated present obligation of ICAEW in respect of the investigations by the FRC Conduct Committee for disciplinary cases arising from past events up to 31 December 2015. The process to measure the provision is highly judgemental, and is based on information provided by the FRC and a review by ICAEW of potential cost estimates on a case-by-case basis. We therefore identified the FRC Conduct Committee provision as a significant risk requiring special audit consideration.

**Our response:** Our audit work included, but was not restricted to, an evaluation of the detail of the FRC's estimate of costs, a comparison of prior estimates to actual outcomes and a review of correspondence with the FRC regarding ongoing cases. We compared the provision to our expectations based on historical evidence and challenged management assumptions. ICAEW's accounting policy and disclosures regarding the FRC Conduct Committee provision are included in note 26 to the financial statements. The audit committee identified provision for FRC costs as a key judgement in its report on page 14, where the

committee also described the action that it has taken to address this matter.

## **Our application of materiality and an overview of the scope of our audit**

### **Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be £2m, which is 2% of revenue. This is an increase of £0.2m on the materiality applied in the prior year due to the increase in revenue. This benchmark is considered the most appropriate because ICAEW is not a commercial organisation and therefore revenue is a more appropriate measure than a profit-based measure. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements. For the financial information of the subsidiary undertakings, we set our materiality based on a proportion of group materiality appropriate to the relative size of the entities.

We determined the threshold at which we will communicate misstatements to the audit committee to be £100,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### **Overview of the scope of our audit**

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of the group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our scope included an audit of the financial statements of the group and ICAEW and for the purposes of the group audit we carried out targeted audit work on ICAEW's subsidiary, the ICAEW Foundation, whose investments are material to the group financial statements. Our work on these entities covered almost 100% of group revenues and 98% of total assets. We performed analytical review on the financial statements of the other subsidiaries which were not considered to be individually significant to the group or included risks which were not considered to be material to the group financial statements. We carried out a risk assessment to identify financial statement risks, including communication with the audit committee. We undertook an interim visit in November 2015 to evaluate the internal controls over those risk areas we identified as being relevant to our audit. During our subsequent final audit visit we undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the council's statement that they consider the annual report is fair, balanced and understandable; and
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

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

## **Responsibilities for the financial statements and the audit**

### *What an audit of financial statements involves:*

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at

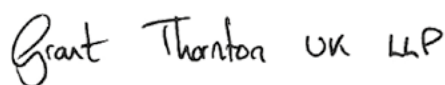
[www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

### *What the council is responsible for:*

As explained more fully in the financial responsibilities of the council set out on page 16, the council is responsible for the preparation of the financial statements which give a true and fair view.

### *What we are responsible for:*

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 Ethical Standards for Auditors.



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Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Milton Keynes  
12 April 2016

# 05 Group income statement for the year ended 31 December 2015

		2015			2014		
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		45.2	-	45.2	43.3	-	43.3
Learning and professional development	1	11.3	(17.4)	(6.1)	10.4	(15.6)	(5.2)
Professional standards	2	16.4	(15.1)	1.3	15.5	(14.7)	0.8
Commercial and shared services	3	11.0	(13.7)	(2.7)	10.7	(13.6)	(2.9)
Members	4	1.0	(15.3)	(14.3)	1.1	(14.0)	(12.9)
Technical strategy	5	4.7	(9.4)	(4.7)	4.3	(9.1)	(4.8)
Central activities	6	0.7	(14.6)	(13.9)	0.7	(14.0)	(13.3)
Charitable trusts	7	0.2	(1.0)	(0.8)	0.2	(1.0)	(0.8)
		<b>90.5</b>	<b>(86.5)</b>	<b>4.0</b>	<b>86.2</b>	<b>(82.0)</b>	<b>4.2</b>
FRC Conduct Committee	8	8.5	(5.2)	3.3	3.2	(4.1)	(0.9)
Other regulatory and professional associations	9	1.1	(3.0)	(1.9)	1.0	(3.0)	(2.0)
		<b>9.6</b>	<b>(8.2)</b>	<b>1.4</b>	<b>4.2</b>	<b>(7.1)</b>	<b>(2.9)</b>
<b>Operating result</b>	<b>11</b>	<b>100.1</b>	<b>(94.7)</b>	<b>5.4</b>	<b>90.4</b>	<b>(89.1)</b>	<b>1.3</b>
Investment income	12	1.9	-	1.9	1.5	-	1.5
<b>Result before taxation</b>		<b>102.0</b>	<b>(94.7)</b>	<b>7.3</b>	<b>91.9</b>	<b>(89.1)</b>	<b>2.8</b>
Taxation	16			(0.1)			(0.1)
<b>Net result after taxation for the year</b>				<b>7.2</b>			<b>2.7</b>
<b>Net result comprises:</b>							
FRC fines and cost recoveries (see note 8)		4.7	1.9	6.6	1.0	1.4	2.4
Operational result		97.3	(96.7)	0.6	90.9	(90.6)	0.3
<b>Net result after taxation for the year</b>		<b>102.0</b>	<b>(94.8)</b>	<b>7.2</b>	<b>91.9</b>	<b>(89.2)</b>	<b>2.7</b>

# 06 ICAEW income statement for the year ended 31 December 2015

		2015			2014		
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		45.2	-	45.2	43.3	-	43.3
Learning and professional development	1	11.3	(17.4)	(6.1)	10.4	(15.6)	(5.2)
Professional standards	2	16.4	(15.1)	1.3	15.5	(14.7)	0.8
Commercial and shared services	3	11.0	(13.7)	(2.7)	10.7	(13.6)	(2.9)
Members	4	1.0	(15.3)	(14.3)	1.1	(14.0)	(12.9)
Technical strategy	5	4.7	(9.4)	(4.7)	4.3	(9.1)	(4.8)
Central activities	6	0.7	(14.1)	(13.4)	0.7	(13.5)	(12.8)
		<b>90.3</b>	<b>(85.0)</b>	<b>5.3</b>	<b>86.0</b>	<b>(80.5)</b>	<b>5.5</b>
FRC Conduct Committee	8	8.5	(5.2)	3.3	3.2	(4.1)	(0.9)
Other regulatory and professional associations	9	1.1	(3.0)	(1.9)	1.0	(3.0)	(2.0)
		<b>9.6</b>	<b>(8.2)</b>	<b>1.4</b>	<b>4.2</b>	<b>(7.1)</b>	<b>(2.9)</b>
Gift aid and library funding	10	-	(1.5)	(1.5)	-	(1.5)	(1.5)
<b>Operating result</b>	11	<b>99.9</b>	<b>(94.7)</b>	<b>5.2</b>	<b>90.2</b>	<b>(89.1)</b>	<b>1.1</b>
Investment income	12	1.7	-	1.7	1.3	-	1.3
<b>Result before taxation</b>		<b>101.6</b>	<b>(94.7)</b>	<b>6.9</b>	<b>91.5</b>	<b>(89.1)</b>	<b>2.4</b>
Taxation	16			-			-
<b>Net result after taxation for the year</b>				<b>6.9</b>			<b>2.4</b>

<b>Net result comprises:</b>						
FRC fines and cost recoveries (see note 8)	4.7	1.9	6.6	1.0	1.4	2.4
Operational result	96.9	(96.6)	0.3	90.5	(90.5)	-
<b>Net result after taxation for the year</b>	<b>101.6</b>	<b>(94.7)</b>	<b>6.9</b>	<b>91.5</b>	<b>(89.1)</b>	<b>2.4</b>



# 07 Group and ICAEW statements of comprehensive income for the year ended 31 December 2015

	Note	Group		ICAEW	
		2015 £m	2014 £m	2015 £m	2014 £m
Net result after taxation recognised in the income statement in the year		7.2	2.7	6.9	2.4
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on revaluation of available for sale investments	21	(1.2)	0.1	(1.1)	(0.4)
Gains reclassified on disposal	21	0.9	0.5	0.9	0.5
Items that will not be reclassified subsequently to profit or loss:					
Gains on revaluation of property, plant and equipment	18	-	3.3	-	3.3
Actuarial gains/(losses) recognised in the year	28	4.6	(0.8)	4.4	(0.8)
Deferred tax	17	(0.2)	(0.1)	(0.2)	(0.1)
Other comprehensive income in the year		4.1	3.0	4.0	2.5
<b>Total comprehensive income in the year</b>		<b>11.3</b>	<b>5.7</b>	<b>10.9</b>	<b>4.9</b>

# 08 Group and ICAEW statements of changes to reserves for the year ended 31 December 2015

## Group

	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Other reserves £m	Charitable trusts £m	Total £m
<b>Reserves at 1 January 2014</b>	<b>6.5</b>	<b>4.1</b>	<b>12.3</b>	<b>5.2</b>	<b>12.7</b>	<b>40.8</b>
Net result after taxation	-	-	2.4	0.2	0.1	2.7
Increase in valuation of property, plant and equipment	3.3	-	-	-	-	3.3
Net change in market value of long-term investments over cost	-	0.1	-	-	0.5	0.6
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(0.8)	-	-	(0.8)
Deferred tax attributable to above	(0.1)	-	-	-	-	(0.1)
Total other comprehensive income/(expense) in the year	<b>3.2</b>	<b>0.1</b>	<b>(0.8)</b>	<b>-</b>	<b>0.5</b>	<b>3.0</b>
Total comprehensive income in the year	3.2	0.1	1.6	0.2	0.6	5.7
<b>Reserves at 1 January 2015</b>	<b>9.7</b>	<b>4.2</b>	<b>13.9</b>	<b>5.4</b>	<b>13.3</b>	<b>46.5</b>
Net result after taxation	-	-	7.1	-	0.1	7.2
Net change in market value of long-term investments over cost	-	(0.2)	-	-	(0.1)	(0.3)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	4.3	0.1	0.2	4.6
Deferred tax attributable to above	-	-	(0.2)	-	-	(0.2)
Total other comprehensive income/(expense) in the year	-	<b>(0.2)</b>	<b>4.1</b>	<b>0.1</b>	<b>0.1</b>	<b>4.1</b>
Total comprehensive income in the year	-	(0.2)	11.2	0.1	0.2	11.3
<b>Reserves at 31 December 2015</b>	<b>9.7</b>	<b>4.0</b>	<b>25.1</b>	<b>5.5</b>	<b>13.5</b>	<b>57.8</b>

## ICAEW

	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Other reserves £m	Total £m
<b>Reserves at 1 January 2014</b>	<b>6.5</b>	<b>4.1</b>	<b>11.6</b>	<b>5.2</b>	<b>27.4</b>
Net result after taxation	-	-	2.2	0.2	2.4
Increase in valuation of property, plant and equipment	3.3	-	-	-	3.3
Net change in market value of long-term investments over cost	-	0.1	-	-	0.1
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(0.8)	-	(0.8)
Deferred tax attributable to above	(0.1)	-	-	-	(0.1)
Total other comprehensive income/(expense) in the year	<b>3.2</b>	<b>0.1</b>	<b>(0.8)</b>	<b>-</b>	<b>2.5</b>
Total comprehensive income in the year	3.2	0.1	1.4	0.2	4.9
<b>Reserves at 1 January 2015</b>	<b>9.7</b>	<b>4.2</b>	<b>13.0</b>	<b>5.4</b>	<b>32.3</b>
Net result after taxation	-	-	6.9	-	6.9
Net change in market value of long-term investments over cost	-	(0.2)	-	-	(0.2)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	4.3	0.1	4.4
Deferred tax attributable to above	-	-	(0.2)	-	(0.2)
Total other comprehensive income/(expense) in the year	-	<b>(0.2)</b>	<b>4.1</b>	<b>0.1</b>	<b>4.0</b>
Total comprehensive income in the year	-	(0.2)	11.0	0.1	10.9
<b>Reserves at 31 December 2015</b>	<b>9.7</b>	<b>4.0</b>	<b>24.0</b>	<b>5.5</b>	<b>43.2</b>

# 09 Group and ICAEW statements of financial position as at 31 December 2015

		Group		ICAEW	
	Note	2015 £m	2014 £m	2015 £m	2014 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	18	23.7	21.3	23.7	21.3
Intangible assets	19	4.0	3.2	4.0	3.2
Investments in subsidiaries and associates	20	0.1	0.1	-	-
Financial assets: Available for sale investments	21	50.2	48.9	36.7	35.4
Pension asset	28	9.3	2.8	9.3	3.1
		<b>87.3</b>	<b>76.3</b>	<b>73.7</b>	<b>63.0</b>
<b>Current assets</b>					
Inventories	22	0.7	0.7	0.7	0.7
Trade and other receivables	23	11.8	10.2	10.4	9.1
Cash and cash equivalents	24	10.8	5.3	10.3	4.9
		<b>23.3</b>	<b>16.2</b>	<b>21.4</b>	<b>14.7</b>
<b>Total assets</b>		<b>110.6</b>	<b>92.5</b>	<b>95.1</b>	<b>77.7</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	25	(38.6)	(34.8)	(37.8)	(34.3)
Current tax liabilities		(0.1)	(0.1)	(0.1)	(0.1)
FRC Conduct Committee provision	26	(5.0)	(5.0)	(5.0)	(5.0)
		<b>(43.7)</b>	<b>(39.9)</b>	<b>(42.9)</b>	<b>(39.4)</b>
<b>Non-current liabilities</b>					
Grants payable		(0.1)	(0.1)	-	-
Provisions	27	(0.6)	(0.6)	(0.6)	(0.6)
FRC Conduct Committee provision	26	(6.9)	(4.1)	(6.9)	(4.1)
Deferred tax liability	17	(1.5)	(1.3)	(1.5)	(1.3)
		<b>(9.1)</b>	<b>(6.1)</b>	<b>(9.0)</b>	<b>(6.0)</b>
<b>Total liabilities</b>		<b>(52.8)</b>	<b>(46.0)</b>	<b>(51.9)</b>	<b>(45.4)</b>
<b>Total net assets</b>		<b>57.8</b>	<b>46.5</b>	<b>43.2</b>	<b>32.3</b>
<b>Reserves</b>					
Revaluation reserve		9.7	9.7	9.7	9.7
Investment revaluation reserve		4.0	4.2	4.0	4.2
Accumulated fund		25.1	13.9	24.0	13.0
Other reserves		5.5	5.4	5.5	5.4
Charitable trust funds		13.5	13.3	-	-
		<b>57.8</b>	<b>46.5</b>	<b>43.2</b>	<b>32.3</b>

Approved on behalf of council and authorised for issue

*Andrew Ratcliffe*

Andrew Ratcliffe  
President  
12 April 2016

*Michael Izza*

Michael Izza  
Chief Executive  
12 April 2016

# 10 Group and ICAEW statements of cash flows for the year ended 31 December 2015

		Group		ICAEW	
		2015 £m	2014 £m	2015 £m	2014 £m
<b>Cash flows from operating activities<sup>1</sup></b>	Note				
<b>Result before taxation</b>		<b>7.3</b>	<b>2.8</b>	<b>6.9</b>	<b>2.4</b>
Adjustments for:					
Depreciation and amortisation		3.6	3.2	3.6	3.2
Investment income	12	(1.9)	(1.5)	(1.7)	(1.3)
Non-cash movement in provisions		6.8	6.3	7.1	6.3
<b>Cash flows from operating activities before movements in working capital</b>		<b>15.8</b>	<b>10.8</b>	<b>15.9</b>	<b>10.6</b>
<b>Movements in working capital</b>					
Increase in trade and other receivables		(1.6)	(0.6)	(1.3)	(0.2)
Increase/(decrease) in trade and other payables		3.8	(0.3)	3.4	(0.4)
<b>Cash generated from operating activities after movements in working capital</b>		<b>18.0</b>	<b>9.9</b>	<b>18.0</b>	<b>10.0</b>
<b>Cash flows on provisions</b>					
Tax paid		(0.1)	(0.1)	-	-
Cash outflow on pension liabilities		(1.8)	(1.9)	(1.8)	(1.9)
Cash outflow on FRC Conduct Committee provision		(4.3)	(5.1)	(4.3)	(5.1)
<b>Net cash generated from operating activities</b>		<b>11.8</b>	<b>2.8</b>	<b>11.9</b>	<b>3.0</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(4.6)	(1.4)	(4.6)	(1.4)
Purchase of intangible assets		(2.1)	(1.2)	(2.1)	(1.2)
Purchase of available for sale investments		(34.4)	(33.3)	(26.6)	(26.3)
Disposal of available for sale investments		33.6	32.6	25.9	25.6
Investment income received		1.2	1.1	0.9	0.9
<b>Net cash outflow from investing activities</b>		<b>(6.3)</b>	<b>(2.2)</b>	<b>(6.5)</b>	<b>(2.4)</b>
<b>Net increase in cash and cash equivalents in the year</b>		<b>5.5</b>	<b>0.6</b>	<b>5.4</b>	<b>0.6</b>
Net cash and cash equivalents at 1 January		5.3	4.7	4.9	4.3
<b>Net cash and cash equivalents at 31 December</b>	24	<b>10.8</b>	<b>5.3</b>	<b>10.3</b>	<b>4.9</b>

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

# 11 Notes to the financial statements for the year ended 31 December 2015

## Basis of preparation

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

## Basis of consolidation

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

## Subsidiaries

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

## Associates

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

## New and amended IFRS

ICAEW has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2015. 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

IFRS 9 – Financial Instruments (2014)

IFRS 15 – Revenue from Contracts with Customers

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities – Applying the Consolidation Exception

### Effective from years commencing:

1 January 2018  
(not yet endorsed by the EU)

1 January 2017  
(not yet endorsed by the EU)

1 January 2016  
(not yet endorsed by the EU)

## Foreign currencies

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

## Accounting policies

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

## Critical accounting judgements and key sources of estimation

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

Valuations of property plant and equipment – note 18  
Professional Conduct and FRC Conduct Committee – note 26  
Retirement benefits and IFRIC 14 – note 28

## Financial risk management

### Financial risk factors

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

### Currency risk

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

### Credit risk

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

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

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.



## Result and tax

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

### Accounting policies

#### Income

Income as presented in the income statements is revenue as defined under IAS 18 - Revenue. The following accounting policies relate to our key income streams.

- Income from subscriptions and fees, including subscriptions from membership, special interest groups and faculties, and fees from practice regulation and assurance and authorisation of investment business, is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable.
- Income from qualifications represents predominantly examination income and is recognised in the period in which the exam was sat.
- Income associated with professional conduct (disciplinary fines) is recognised on receipt.
- Income in association with FRC Conduct Committee cases is recognised when receivable ie, when the tribunal judgement has been made and the decision is final.
- Other income, including commercial income and income from consulting services is recognised in the period in which the services are provided. For long-term capacity building contracts, income is recognised by reference to stage of completion of the individual contract.

#### Foreign currencies

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

### 1. Learning and professional development

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Qualifications	11.3	(10.2)	1.1	10.4	(9.6)	0.8
Business development	-	(6.3)	(6.3)	-	(5.1)	(5.1)
Executive, policy and strategy	-	(0.9)	(0.9)	-	(0.9)	(0.9)
	<b>11.3</b>	<b>(17.4)</b>	<b>(6.1)</b>	<b>10.4</b>	<b>(15.6)</b>	<b>(5.2)</b>

### 2. Professional standards

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Disciplinary	1.2	(2.6)	(1.4)	0.9	(2.8)	(1.9)
Authorisation of investment business	2.3	(2.0)	0.3	1.9	(1.8)	0.1
Practice regulation and assurance	12.5	(9.5)	3.0	12.0	(9.3)	2.7
Capacity building and public sector	0.4	(1.0)	(0.6)	0.7	(0.8)	(0.1)
	<b>16.4</b>	<b>(15.1)</b>	<b>1.3</b>	<b>15.5</b>	<b>(14.7)</b>	<b>0.8</b>

### 3. Commercial and shared services

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Commercial	10.9	(8.3)	2.6	10.6	(8.5)	2.1
Shared services	0.1	(5.4)	(5.3)	0.1	(5.1)	(5.0)
	<b>11.0</b>	<b>(13.7)</b>	<b>(2.7)</b>	<b>10.7</b>	<b>(13.6)</b>	<b>(2.9)</b>

#### 4. Members

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Members – special interest groups	0.7	(0.6)	0.1	0.7	(0.7)	-
Member services	-	(4.5)	(4.5)	0.1	(4.2)	(4.1)
UK regions	-	(3.8)	(3.8)	-	(3.7)	(3.7)
International regions	0.3	(6.4)	(6.1)	0.3	(5.4)	(5.1)
	<b>1.0</b>	<b>(15.3)</b>	<b>(14.3)</b>	<b>1.1</b>	<b>(14.0)</b>	<b>(12.9)</b>

#### 5. Technical strategy

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Technical departments	-	(1.2)	(1.2)	-	(1.1)	(1.1)
ICAEW-funded faculty activities	0.1	(2.6)	(2.5)	0.1	(2.7)	(2.6)
Self-financing faculty activities	4.6	(4.6)	-	4.2	(4.1)	0.1
Administration	-	(1.0)	(1.0)	-	(1.2)	(1.2)
	<b>4.7</b>	<b>(9.4)</b>	<b>(4.7)</b>	<b>4.3</b>	<b>(9.1)</b>	<b>(4.8)</b>

#### 6. Central activities

	Group			Group		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(11.9)	(11.9)	-	(11.1)	(11.1)
Marketing and communications	0.7	(9.7)	(9.0)	0.7	(9.6)	(8.9)
Finance and administration	-	(10.0)	(10.0)	-	(9.4)	(9.4)
	0.7	(31.6)	(30.9)	0.7	(30.1)	(29.4)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2014: £1.1m))	-	17.0	17.0	-	16.1	16.1
	<b>0.7</b>	<b>(14.6)</b>	<b>(13.9)</b>	<b>0.7</b>	<b>(14.0)</b>	<b>(13.3)</b>

	ICAEW			ICAEW		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(11.9)	(11.9)	-	(11.1)	(11.1)
Marketing and communications	0.7	(9.7)	(9.0)	0.7	(9.6)	(8.9)
Finance and administration	-	(10.0)	(10.0)	-	(9.4)	(9.4)
	0.7	(31.6)	(30.9)	0.7	(30.1)	(29.4)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2014: £1.1m))	-	17.5	17.5	-	16.6	16.6
	<b>0.7</b>	<b>(14.1)</b>	<b>(13.4)</b>	<b>0.7</b>	<b>(13.5)</b>	<b>(12.8)</b>

#### 7. Charitable trusts

	Group			Group		
	2015	2015	2015	2014	2014	2014
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
External research grants	-	(0.2)	(0.2)	-	(0.2)	(0.2)
Library income and expenditure	-	(0.8)	(0.8)	-	(0.8)	(0.8)
Other income and expenditure	0.2	-	0.2	0.2	-	0.2
	<b>0.2</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>0.2</b>	<b>(1.0)</b>	<b>(0.8)</b>

## 8. FRC Conduct Committee

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Fines	4.7	-	4.7	1.0	-	1.0
Other income	3.8	-	3.8	2.2	-	2.2
Cost recoveries	-	1.9	1.9	-	1.4	1.4
Costs	-	(7.1)	(7.1)	-	(5.5)	(5.5)
	<b>8.5</b>	<b>(5.2)</b>	<b>3.3</b>	<b>3.2</b>	<b>(4.1)</b>	<b>(0.9)</b>

Total ICAEW cash receipts from fines and cost recoveries were £6.6m (2014: £2.4m). Other income relates to a direct levy on regulated firms.

## 9. Other regulatory and professional associations

	Group and ICAEW			Group and ICAEW		
	2015	2015	2015	2014	2014	2014
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Financial Reporting Council	1.1	(1.9)	(0.8)	1.0	(1.8)	(0.8)
Consultative Committee of Accountancy Bodies	-	(0.3)	(0.3)	-	(0.5)	(0.5)
International Federation of Accountants	-	(0.7)	(0.7)	-	(0.6)	(0.6)
Other	-	(0.1)	(0.1)	-	(0.1)	(0.1)
	<b>1.1</b>	<b>(3.0)</b>	<b>(1.9)</b>	<b>1.0</b>	<b>(3.0)</b>	<b>(2.0)</b>

Income relates to a direct levy on regulated firms.

## 10. Gift aid and library funding

ICAEW made payments of £1.5m (2014: £1.5m) 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.

## 11. Operating result

The group and ICAEW operating result is stated after charging:

	Group		ICAEW	
	2015 £m	2014 £m	2015 £m	2014 £m
Staff costs	42.3	40.3	39.5	37.9
Depreciation on owned property, plant and equipment	1.8	2.3	1.8	2.3
Amortisation of intangible assets	1.3	0.9	1.3	0.9
Cost of inventories recognised as an expense	1.0	1.2	1.0	1.2
Amounts payable under operating leases:				
Plant and machinery	0.1	0.1	0.1	0.1
Other	0.9	0.9	0.6	0.7
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 2015 these payments in aggregate amounted to £1.7m (2014: £1.7m). Of this, £85,000 (2014: £30,000) was paid for services to member firms which have a partner or employee who is a member of council. The amounts paid to individual council members for services was £7,000 (2014: £6,000) in total.

Fees payable to ICAEW's auditor for consultancy work were £nil (2014: £17,000). Fees were also payable to the auditor for the audit of the Staff Pensions Fund of £8,600 (2014: £7,000). Fees payable to associates of ICAEW's auditor for the local audits of the international subsidiaries were £42,000 (2014: £35,000).

## 12. Net investment income

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Interest receivable from investment deposits	0.3	0.3	0.1	0.1
Returns on multi-asset portfolio	0.8	0.8	0.8	0.8
Net realised gains from equities	0.8	0.4	0.8	0.4
	<b>1.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.3</b>

## 13. Leasing commitments – operating leases

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

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

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Land and buildings				
Minimum lease payments due:				
Within one year	0.3	0.3	-	-
In two to five years inclusive	0.1	0.2	-	-
After five years	4.2	4.8	4.2	4.8
	<b>4.6</b>	<b>5.3</b>	<b>4.2</b>	<b>4.8</b>

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Plant and machinery				
Minimum lease payments due:				
In two to five years inclusive	0.2	0.2	0.2	0.2

## 14. Staff costs

### Average number of staff employed during the year

	Group		ICAEW	
	2015	2014	2015	2014
Total employees	736	716	685	669
Full-time equivalents	711	685	661	639

### Employment costs

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Wages and salaries	35.9	34.1	33.4	32.0
Employer's social security costs	3.6	3.5	3.5	3.4
Employer's pension costs	2.8	2.7	2.6	2.5
	<b>42.3</b>	<b>40.3</b>	<b>39.5</b>	<b>37.9</b>

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2014: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW.

## 15. Key management compensation – executive directors

	Group and ICAEW			Group and ICAEW		
	Salary	Deferred variable pay	Total	Salary	Deferred variable pay	Total
	2015	2015	2015	2014	2014	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Sharron Gunn	204	53	257	200	51	251
Robert Hodgkinson	262	70	332	257	63	320
Michael Izza	419	135	554	411	134	545
Mark Protherough	204	60	264	200	50	250
Liz Rylatt	204	52	256	197	44	241
Vernon Soare	215	62	277	209	55	264
	<b>1,508</b>	<b>432</b>	<b>1,940</b>	<b>1,474</b>	<b>397</b>	<b>1,871</b>

The executive directors are remunerated on a total-package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards ICAEW benefits such as pension scheme membership, health insurance or a car. Deferred variable pay is payable to executive directors on the basis of performance and is agreed by the remuneration committee. In addition to the above salaries, employer's national insurance contributions totalled £247,000 (2014: £232,000). Liz Rylatt resigned with effect from 5 February 2016.

Non-executive directors are not remunerated.

## 16. Taxation

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

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£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 (2014: £nil).

Factors affecting the tax charge for the year:	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Net result before taxation	7.3	2.8	6.9	2.4
Add back: result on transactions with members	(5.7)	(0.7)	(6.1)	(1.2)
Net result before taxation on transactions with non-members	1.6	2.1	0.8	1.2
Net result above at the standard rate of corporation tax in the UK of 20.3%/21.5%	(0.3)	(0.4)	(0.2)	(0.3)
Effects of:				
Items not chargeable/deductible for tax purposes	0.4	0.4	0.4	0.4
Unutilised tax losses	(0.2)	(0.1)	(0.2)	(0.1)
Tax on operating surplus for the year	<b>(0.1)</b>	<b>(0.1)</b>	-	-

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

## 17. Deferred tax

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

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

	Group and ICAEW			
	Revaluation of available for sale investments £m	Revaluation of properties and historic collections £m	Defined benefit pension scheme £m	Net £m
Liability at 1 January 2014	(1.0)	(0.2)	-	(1.2)
Movement in year: Recognised as other comprehensive income	-	(0.1)	-	(0.1)
Liability at 1 January 2015	(1.0)	(0.3)	-	(1.3)
Movement in year: Recognised as other comprehensive income	-	-	(0.2)	(0.2)
<b>Liability at 31 December 2015</b>	<b>(1.0)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(1.5)</b>

## Financial position

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

## 18. Property, plant and equipment

### Freehold properties

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

During the year, we started a major refurbishment project at Chartered Accountants' Hall which is expected to take approximately 18 months to complete. Work done at the end of the year totalled £3.0m; of this, £0.2m related to assets or stages of the project which were in use by the year end, the remainder has been identified separately as in course of construction and will be brought into use over the project programme. A professional valuation of Chartered Accountants' Hall will be carried out on completion of the project.

### **Silver collection and antiques**

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

ICAEW's historic collections were revalued at open market value at 31 December 2014 by William Walter Antiques Limited (the Benney silver collection and other silver), John Drury Rare Books (rare books) and Ritchie Associates (period furniture, pictures and sculptures).

### **Short leasehold property**

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

### **Furniture, computer hardware and equipment**

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

At 31 December 2015 there were £8.6m contracts for capital expenditure not provided for in these financial statements (2014: £nil).

There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 28).



Group and ICAEW

	Freehold property £m	Refurbishment project in course of construction £m	Short leasehold property £m	Silver collection and antiques £m	Furniture, computer hardware and equipment £m	Total £m
<b>Cost or valuation</b>						
<b>At 1 January 2014</b>	<b>12.2</b>	<b>-</b>	<b>2.8</b>	<b>4.1</b>	<b>10.0</b>	<b>29.1</b>
Additions	0.6	-	0.4	-	0.7	1.7
Disposals at cost or valuation	(0.6)	-	-	-	(0.5)	(1.1)
Surplus on revaluation	3.1	-	-	0.1	-	3.2
<b>At 1 January 2015</b>	<b>15.3</b>	<b>-</b>	<b>3.2</b>	<b>4.2</b>	<b>10.2</b>	<b>32.9</b>
Additions	0.2	3.0	-	-	1.5	4.7
Brought into use	0.2	(0.2)	-	-	-	-
Disposals at cost or valuation	(0.8)	-	-	-	(1.2)	(2.0)
<b>At 31 December 2015</b>	<b>14.9</b>	<b>2.8</b>	<b>3.2</b>	<b>4.2</b>	<b>10.5</b>	<b>35.6</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2014</b>	<b>2.5</b>	<b>-</b>	<b>1.1</b>	<b>-</b>	<b>6.9</b>	<b>10.5</b>
Depreciation for the year	0.7	-	0.4	-	1.1	2.2
Depreciation on disposals	(0.5)	-	-	-	(0.5)	(1.0)
Adjustment on revaluation	(0.1)	-	-	-	-	(0.1)
<b>At 1 January 2015</b>	<b>2.6</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>7.5</b>	<b>11.6</b>
Depreciation for the year	0.6	-	0.2	-	1.0	1.8
Depreciation on disposals	(0.4)	-	-	-	(1.1)	(1.5)
<b>At 31 December 2015</b>	<b>2.8</b>	<b>-</b>	<b>1.7</b>	<b>-</b>	<b>7.4</b>	<b>11.9</b>
<b>Carrying amount</b>						
At 31 December 2014	12.7	-	1.7	4.2	2.7	21.3
<b>At 31 December 2015</b>	<b>12.1</b>	<b>2.8</b>	<b>1.5</b>	<b>4.2</b>	<b>3.1</b>	<b>23.7</b>
On an historical cost basis the comparable amounts of property, plant and equipment are:						
Cost	13.1	2.8	3.2	0.2	10.5	29.8
Accumulated depreciation	8.3	-	1.7	-	7.4	17.4
<b>Net historical cost at 31 December 2015</b>	<b>4.8</b>	<b>2.8</b>	<b>1.5</b>	<b>0.2</b>	<b>3.1</b>	<b>12.4</b>
Net historical cost at 31 December 2014	5.9	-	1.7	0.2	2.7	10.5

## 19. 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.

	Group and ICAEW	
	2015	2014
Computer software	£m	£m
<b>Cost</b>		
At 1 January	11.5	10.3
Additions at cost	2.1	1.3
Disposals at cost	-	(0.1)
<b>At 31 December</b>	<b>13.6</b>	<b>11.5</b>
<b>Accumulated amortisation</b>		
At 1 January		
Amortisation for the year	8.3	7.5
Amortisation on disposals	1.3	0.9
<b>At 31 December</b>	<b>-</b>	<b>(0.1)</b>
<b>Carrying amount at 31 December</b>	<b>9.6</b>	<b>8.3</b>
	<b>4.0</b>	<b>3.2</b>

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

## 20. Investments in subsidiaries and associates

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

	Activity
ICAEW Foundation	Makes charitable donations of particular interest to ICAEW
PD Leake Trust	Provides grants for accountancy research, conferences and publications
Chartered Accountants' Permanent Education Trust	Provides 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

The trusts, although separately administered, are accounted for as a single charity under the authority of a uniting direction from the Charity Commission. There is an agreement between the above trusts and ICAEW to provide administrative services to the trusts. The total value of the transactions amounted to £0.5m (2014: £0.5m). At the year end, the trusts owed ICAEW £0.1m (2014: £0.1m).

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

	Shareholding	2015 cost £m	2014 cost £m	Activity
ICAEW Malaysia Limited	100%	-	-	Representative office for ICAEW in Malaysia, Indonesia and Vietnam
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 Ltd	100%	-	-	Holding company for the above companies

The above companies provide marketing services for ICAEW. The value of these services during 2015 was £4.9m (2014: £4.4m). At the year end £nil (2014: £nil) 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 exercises significant influence through its power to participate in the financial and operating policy decisions through its representation on the board of directors; participation in the policy-making process; and through the existence of material transactions between the company and ICAEW, but ICAEW does not control the companies.

	Shareholding (ordinary shares)	2015 cost £m	2014 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 but does not have the majority of voting shares on the board.
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 Chartered Accountants Ireland as recognised professional bodies under the Financial Services Act 1986 and as designated professional bodies under the Financial Services and Markets Act 2000.

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

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board 2015 £m	Fraud Advisory Panel 2015 £m	CCAB Limited 2015 £m	Chartered Accountants' Compensation Scheme Limited 2015 £m	Total 2015 £m	Total 2014 £m
Assets	0.2	0.2	1.1	0.2	1.7	1.7
Liabilities	(0.1)	-	(1.1)	(0.2)	(1.4)	(1.5)
Net assets	0.1	0.2	-	-	0.3	0.2
Other comprehensive income and total comprehensive income	0.1	0.2	5.2	0.1	5.6	5.5
Result from continuing operations	-	-	-	-	-	-
Balances due from associates as at 31 December	-	-	-	0.3	0.3	0.2
Balances due to associates as at 31 December	-	-	(0.6)	-	(0.6)	(0.7)
Group share of net assets as at 31 December	-	0.1	-	-	0.1	0.1

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

## 21. Financial assets: available for sale investments

- All our investments are publicly traded in the UK or on other major capital markets and the substantial majority are denominated in sterling. They are held for the purposes of generating long-term investment income and are considered to be level 1 assets as defined by IFRS 13 – Fair Value Measurement and are treated as non-current available for sale investments. They are included at mid-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 other comprehensive income. On disposal, the cumulative gain or loss previously recognised in reserves is reclassified to profit or loss.
- At each year-end date, an assessment is made as to whether there 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 to determine what a significant or prolonged decline is. Impairment charges are recognised in the income statement.

				Group		
	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total
	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	7.0	41.9	48.9	8.0	39.3	47.3
Additions	24.0	10.4	34.4	24.6	8.7	33.3
Disposals	(24.0)	(9.6)	(33.6)	(25.6)	(7.0)	(32.6)
Gains on disposal	-	0.8	0.8	-	0.3	0.3
Change in market value of investments:						
Recognised in other comprehensive income	-	(0.3)	(0.3)	-	0.6	0.6
<b>At 31 December</b>	<b>7.0</b>	<b>43.2</b>	<b>50.2</b>	<b>7.0</b>	<b>41.9</b>	<b>48.9</b>

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

At 31 December	7.0	37.1	44.1	7.0	33.1	40.1
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				ICAEW		
	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total
	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.0	30.4	35.4	5.0	29.3	34.3
Additions	17.0	9.6	26.6	18.6	7.7	26.3
Disposals	(17.0)	(8.9)	(25.9)	(18.6)	(7.0)	(25.6)
Gains on disposal	-	0.8	0.8	-	0.3	0.3
Change in market value of investments:						
Recognised in other comprehensive income	-	(0.2)	(0.2)	-	0.1	0.1
<b>At 31 December</b>	<b>5.0</b>	<b>31.7</b>	<b>36.7</b>	<b>5.0</b>	<b>30.4</b>	<b>35.4</b>

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

At 31 December	5.0	26.6	31.6	5.0	25.1	30.1
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The methods and valuation techniques used to measure fair value are unchanged compared to the previous year.

Within group investments are charitable funds of £13.5m (2014: £13.5m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £3.4m (2014: £4.0m).

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

## 22. Inventories

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

### Group and ICAEW

	2015	2014
	£m	£m
Learning materials	<b>0.7</b>	<b>0.7</b>

There was no provision against learning materials at the year end (2014: £nil).

## 23. Trade and other receivables – current

- 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. Trade and other receivables are stated at cost less allowances made for doubtful receivables after initial recognition, which approximates fair value. It is considered that all the above financial assets which are not impaired or past due are of good credit quality.
- 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.

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade receivables and other receivables	6.1	4.9	4.4	3.7
Amounts owed by subsidiaries	-	-	0.3	0.2
Amounts owed by associates	0.3	0.2	0.3	0.2
Prepayments	2.9	2.6	2.9	2.5
Accrued income	3.0	2.8	3.0	2.8
	<b>12.3</b>	<b>10.5</b>	<b>10.9</b>	<b>9.4</b>
Less: provision for impairment of trade and other receivables	(0.5)	(0.3)	(0.5)	(0.3)
	<b>11.8</b>	<b>10.2</b>	<b>10.4</b>	<b>9.1</b>

All receivables have been reviewed for indicators of impairment. Certain trade receivables, principally in relation to disciplinary fines and costs from members, member firms and former members, were found to be impaired, and a provision of £0.5m (2014: £0.3m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Balance at 1 January	0.3	0.4	0.3	0.4
Amounts written off (uncollectable)	-	(0.1)	-	(0.1)
Impairment losses	0.4	0.2	0.4	0.2
Impairment losses reversed	(0.2)	(0.2)	(0.2)	(0.2)
	<b>0.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.3</b>

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	
	2015	2014	2015	2014
	£m	£m	£m	£m
More than one month but not more than three months	0.9	1.1	0.9	1.1
More than three months	0.1	0.4	0.1	0.4
	<b>1.0</b>	<b>1.5</b>	<b>1.0</b>	<b>1.5</b>

## 24. Cash and cash equivalents

- Cash and cash equivalents comprise cash in hand, balances with banks and investments in money market instruments representing short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are categorised as loans and receivables as required by IAS 39.

Forward contracts are used to cover known foreign currency exposures. No forward contracts were in place at the year end (2014: £nil). US dollar and euro bank accounts stood at £0.1m (2014: £0.5m) equating to 1% (2014: 10%) of cash and cash equivalent balances.

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 £34,000 (2014: £22,000). All other variables are held constant.

## 25. Trade and other payables

- Trade and other payables are categorised as current financial liabilities measured at amortised cost as required by IAS 39. All the above trade and other payables are short term and are payable within one month. Subscriptions, admission fees and other income in advance relate to income received during 2015 but relating to 2016 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

	Group		ICAEW	
	2015	2014	2015	2014
	£m	£m	£m	£m
Subscriptions and admission fees in advance	15.3	13.8	15.3	13.8
Amounts owed to subsidiaries	-	-	0.2	0.1
Amounts owed to associates	0.6	0.7	0.6	0.7
Other income in advance	6.8	7.4	6.8	7.4
Trade payables	3.7	3.0	3.7	3.0
Other payables	1.9	1.6	1.1	1.0
Income tax and social security payables	1.0	1.0	1.0	1.0
Accruals	9.3	7.3	9.1	7.3
	<b>38.6</b>	<b>34.8</b>	<b>37.8</b>	<b>34.3</b>

## 26. FRC Conduct Committee provision

- ICAEW makes provision for the estimated future external costs of Conduct Committee disciplinary cases based on the estimated present obligation to ICAEW of investigations by the committee for cases arising from past events up to 31 December 2015. Case costs are forecast on the basis of the available information on actual or prospective cases.
- ICAEW reviews the adequacy of the 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 judgements on information provided by the FRC, and is subject to a significant degree of judgement and a range of potential outcomes. In setting the provision, no account is taken of any potential fines or cost recoveries potentially due to ICAEW from tribunals not yet completed.

The FRC Conduct Committee is part of the FRC 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, Chartered Accountants Ireland and the Institute of Chartered Accountants of Scotland. The FRC Conduct Committee also operates and administers a separate independent disciplinary scheme (the Actuarial Scheme) covering members of the Institute and Faculty of Actuaries.

The provision covers a total of 18 investigations involving ICAEW members and member firms (2014: 20) and is expected to be used over the next five years.

	Group and ICAEW	
	2015	2014
	£m	£m
Balance at 1 January	9.1	8.5
Charge to income statement	7.1	5.5
Other income in advance	-	0.2
Amounts paid	(4.3)	(5.1)
Balance at 31 December	<b>11.9</b>	<b>9.1</b>
Provision expected to be used within one year	5.0	5.0
Provision expected to be used after more than one year	6.9	4.1
	<b>11.9</b>	<b>9.1</b>

## 27. Provisions for future liabilities

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

	Group and ICAEW	
	2015	2014
	£m	£m
Balance at 1 January	0.6	-
Provision relating to repairs obligations	-	0.2
Provision relating to reinstatement obligations	-	0.4
Balance at 31 December	<b>0.6</b>	<b>0.6</b>

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

## 28. Pension asset/liabilities

### Defined benefit scheme

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

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 2013 on the projected unit credit method, taking into account the closure of the scheme to future accrual from 30 June 2010. At the valuation date, the market value of the assets of the scheme was £149.9m, which represented 86% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

A recovery plan has been agreed with the trustee whereby ICAEW has undertaken to make monthly payments of £0.15m (£1.8m per year) until the deficit is eliminated, to be reviewed at the next triennial valuation, together with additional payments for enhanced early retirements at the next valuation. Total payments by ICAEW to the scheme during 2015 for past service costs amounted to £1.8m (2014: £1.9m). Contributions to the scheme in 2016 are therefore estimated at £1.8m, together with contributions in kind in relation to the administration costs of the scheme. The next triennial review will be as at 31 March 2016.

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

In conjunction with the 2013 valuation of the scheme, ICAEW agreed to continue with 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.

### Desktop actuarial valuation

The actuary has provided a desktop actuarial update on the scheme's financial position as at 31 December 2015. This review estimated that the deficit, based on assumptions consistent with the 2013 triennial valuation, was £11.0m, reflecting a funding level of 94% (2014: £17.8m).

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

Pre-retirement discount rate – Bank of England gilt curve plus 1.25% pa (varies by term)

Inflation – Bank of England gilt inflation curve (varies by term)

Life expectancy – bespoke mortality base tables with future improvements underpinned at broadly one year per decade, reflecting the characteristics of the fund's membership

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

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

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 6%	10.9
Rate of inflation	Increase/(decrease) by 0.25% pa	(Decrease)/increase by 3%	5.6
Longevity	Increase by 1 year	Decrease by 2%	3.4

### 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 2015 by the board on the advice of the scheme's actuary were:

	2015	2014
Discount rate	3.80%	3.50%
Rate of inflation	3.00%	2.95%

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. A yield curve of iBoxx AA bonds has been used to estimate an appropriate discount rate for the scheme's liabilities, which are estimated to have a weighted average term of 16 years.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 23.1 years (men) and 25.5 years (women); and for current non-pensioners of 25.5 years (men) and 28.4 years (women). These assumptions are in line with the actuarial valuation as at 31 March 2013.

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

	Number of members	Liability split	Duration - years
Deferred members	341	50.9%	20.2
Pensioners	403	49.1%	13.0
Total/weighted average	<b>744</b>	<b>100.0%</b>	<b>16.2</b>

The scheme actuary has confirmed that the assumptions adopted by management are within their acceptable range for the purposes of the IAS 19 valuation. The following table highlights the sensitivities of the funding level in the IAS 19 valuation, as calculated by the actuary, to changes in each of the assumptions individually; the effect of changing more than one assumption would not necessarily be equal to the sum of the two individual changes. As a result of the purchase of the buy in annuity in the year which is discussed below, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 7%	11.5
Rate of inflation	Increase/(decrease) by 0.25% pa	(Decrease)/increase by 4%	5.5
Longevity	Increase by 1 year	Decrease by 3%	3.8

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

	Group		ICAEW	
	2015 £m	2014 £m	2015 £m	2014 £m
Present value of funded obligations	(153.6)	(163.2)	(153.6)	(163.2)
Fair value of plan assets	162.9	166.0	162.9	166.0
Whole scheme surplus	9.3	2.8	9.3	2.8
Less: relating to other group companies	-	-	-	0.3
Scheme surplus	<b>9.3</b>	<b>2.8</b>	<b>9.3</b>	<b>3.1</b>

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

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

	2015 £m	2014 £m
Opening defined benefit obligation	163.2	149.3
Administration cost	0.4	0.4
Interest on obligation	5.6	6.5
Actuarial (gains)/losses arising from changes in financial assumptions	(9.6)	11.9
Benefits and expenses paid	(6.0)	(4.9)
Closing defined benefit obligation	<b>153.6</b>	<b>163.2</b>

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

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

	2015	2014
	£m	£m
Opening fair value of plan assets	166.0	151.0
Net interest income on plan assets	5.7	6.5
Contributions by the employer	2.2	2.3
Actuarial (losses)/gains arising from return on assets, excluding amounts included in net interest	(5.0)	11.1
Benefits and expenses paid	(6.0)	(4.9)
Closing fair value of plan assets	<b>162.9</b>	<b>166.0</b>
Actual return on assets	0.7	17.6

Contributions by the employer include deficit funding payments, together with contributions in kind of £0.4m (2014: £0.4m) in relation to administration costs paid directly.

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

	2015	2014
Equities	40%	42%
Debt securities - Government bonds	5%	9%
Debt securities - Corporate bonds	20%	26%
Insurance contracts	26%	12%
Cash and cash equivalents	9%	11%
	<b>100%</b>	<b>100%</b>

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.

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

- The long-term objective is for the scheme to be self-sufficient, based on the scheme's current funding position and the agreed recovery plan, in 10-15 years.
- The interim target is to be fully funded on the technical provisions basis by 2023.

The modelling carried out as part of the 2013 valuation helped the trustee identify funding and investment strategies that would provide a reasonable probability of meeting their long-term target while taking an acceptable level of risk that ICAEW could tolerate. Given the agreed contribution payments and the strength of ICAEW's covenant, the current asset allocation was identified as appropriate although it will be regularly reviewed in light of emerging changes to the scheme, the wider economy and general market conditions.

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

As part of the continued process to manage scheme volatility, in 2014, the trustee purchased a buy-in annuity with Just Retirement to provide funding for the liabilities of a portion of the largest pension liabilities; a further annuity was purchased in November 2015 with Partnership. The annuities are in the name of the trustee and are an asset of the fund and the corresponding pensioner obligations also remain as liabilities of the fund. The policies have been valued by the scheme actuary on a basis to value the underlying liabilities secured by the policy. It assumes that the fair value of the asset is equal to this liability value which is determined and is consistent with the scheme's ongoing funding basis. The asset is included as insurance contracts elsewhere in this note.

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

	Quoted £m	Unquoted £m	Total £m
Equities	65.0	-	65.0
Debt securities	33.2	8.0	41.2
Insurance contracts	-	42.8	42.8
Cash and cash equivalents	13.9	-	13.9
	<b>112.1</b>	<b>50.8</b>	<b>162.9</b>

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

	Group		ICAEW	
	2015 £m	2014 £m	2015 £m	2014 £m
Administration cost	(0.4)	(0.4)	(0.4)	(0.4)
Net interest income on plan assets	5.7	6.5	5.7	6.5
Interest on obligation	(5.6)	(6.5)	(5.6)	(6.5)
	<b>(0.3)</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(0.4)</b>

Amounts recognised as other comprehensive income:

	Group		ICAEW	
	2015 £m	2014 £m	2015 £m	2014 £m
Actuarial (loss)/gain on plan assets	(5.0)	11.1	(5.0)	11.1
Actuarial gain/(loss) on obligation	9.6	(11.9)	9.6	(11.9)
Actuarial gain/(loss) – whole scheme	4.6	(0.8)	4.6	(0.8)
Less: relating to other group companies within the scheme	-	-	(0.2)	-
	<b>4.6</b>	<b>(0.8)</b>	<b>4.4</b>	<b>(0.8)</b>

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £1.7m (2014: £6.1m).

Amounts for the current and previous periods are as follows:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Defined benefit obligation	(153.6)	(163.2)	(149.3)	(143.6)	(134.1)
Plan assets	162.9	166.0	151.0	138.0	127.5
Whole scheme surplus/(deficit)	<b>9.3</b>	<b>2.8</b>	<b>1.7</b>	<b>(5.6)</b>	<b>(6.6)</b>
Actuarial (loss)/gain on plan assets	(5.0)	11.1	7.4	2.9	-
Actuarial gain/(loss) on obligation	9.6	(11.9)	(4.8)	(7.7)	(7.2)
Experience gains on obligation	-	-	3.0	-	-

### Defined contribution scheme

- For the defined contribution scheme, the contributions under the scheme are charged to the income statement as they become due and payable.

The defined benefit contribution scheme provides benefits based upon contributions made and investment returns achieved. The assets of the scheme are held in a separate trustee fund. ICAEW contributes 9% of pensionable earnings for participating employees. Employees contribute a minimum of 4%.

The amount charged to the income statement during the year for these schemes was £2.2m (2014: £2.3m). There were no contributions payable to the scheme at the year-end date (2014: £nil).

## 29. Reserves

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

Reserves comprise the following:

### **Revaluation reserve**

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

### **Investment revaluation reserve**

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

### **Accumulated fund and other reserves**

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

Included within reserves is £3.3m 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 2014 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.

## 30. 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.



ICAEW is a world leading professional membership organisation that promotes, develops and supports over 145,000 chartered accountants worldwide. 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.

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