



FINANCIAL STATEMENTS 2011



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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 2011*

FINANCIAL REVIEW 2011

ICAEW's financial statements for 2011 include the four charitable trusts associated with ICAEW together with our international subsidiaries. The commentary below relates primarily to the operating activities of ICAEW.

Results

Total income was £82.4m, £6.0m higher than in 2010. The retained surplus after tax for the year was £4.1m (2010: £1.8m). This is after receipt of £2.4m of one-off fines and recoveries of past costs from the Accountancy and Actuarial Discipline Board (AADB), which remains a significant area of expenditure as outlined below. The result for the year needs to be viewed in conjunction with our cash flow position, which reflects a number of significant cash flow commitments outside the income statement, including the AADB and pension funding.

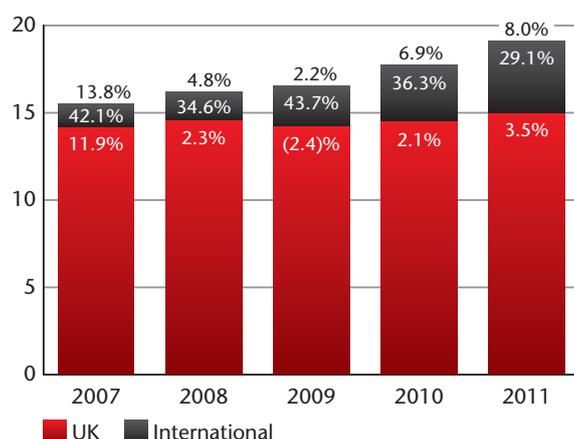
Net assets at 31 December 2011 were £25.3m, a reduction of £4.0m over the 2010 net assets of £29.3m. Cash and cash equivalents ended the year at £5.1m, reflecting a net cash outflow of £5.2m in the year. Total cash and investments stood at £35.0m at the end of the year, a reduction of £6.1m on 2010.

The consolidated outcome for the year, including the results of ICAEW's charitable trusts, was a surplus after tax of £4.5m (2010: £2.0m).

Student and membership growth

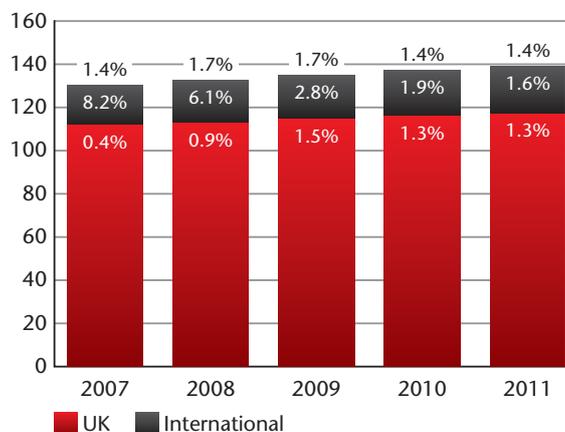
2011 ACA student intake of 5,951 (2010: 5,652) was the highest for 20 years and reflects both increases in our market share in the UK and growth in our number of overseas students. Total ACA student numbers at the end of 2011 stood at 19,073 (2010: 17,653). In addition 814 students signed up for our foundation level Certificate in Finance, Accounting and Business (2010: 625).

Student growth ('000s)



Membership grew by 1.4% to 138,464, from admissions of newly-qualified students to membership, together with reciprocal and similar arrangements with members of other institutes.

Membership growth ('000s)



Income

Revenue from members' fees and subscriptions rose by 4.7% to £37.7m. Other income, as outlined below, increased by £4.3m to £44.7m in 2011.

Income from students and other qualifications, including ACA, International Financial Reporting Standards (IFRSs), Corporate Finance and the Diploma in Charity Accounting grew by £0.7m to £12.5m.

Professional standards income, including from practice regulation and disciplinary-related income, increased by £0.3m to £14.0m.

Revenues from our commercial initiatives increased in the year to £5.4m (2010: £4.6m).

During 2011 the AADB brought two cases to tribunal which resulted in fines of £1.6m being imposed and passed to ICAEW as income. In addition, cost recoveries of £0.8m were returned to ICAEW in respect of these cases.

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

Investment income from our multi-asset portfolio increased by 28% to £2.3m.

Expenditure

Operating expenditure increased to £78.3m, a rise of 3.1% excluding the impact of cost recoveries from AADB and JDS. We have continued to exert tight control over our costs, while investing in our strategy.

Professional standards expenditure reduced by £0.8m to £13.4m as a result of restructuring carried out previously, including the impact of the change to our pension arrangements and continued cost control.

Costs of providing member services increased by £1.9m to £12.5m, reflecting investment in new initiatives including leadership programmes and publishing.

Within our regional teams, costs increased to £9.4m from £8.1m in 2010 as we continued to invest in supporting our members and students locally in the UK while continuing to develop our international regional network. This includes

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the launch of the Business Advice Service and the opening of our Greater China office.

During 2011 we charged costs of £2.7m to the income statement in relation to the AADB, a decrease of £2.4m on 2010. This was partly offset by cost recoveries of £0.8m imposed by AADB tribunals and returned to ICAEW, as noted above. Notwithstanding these fines and cost recoveries, we maintain a significant funding deficit in relation to the AADB, as outlined in the financial position section below.

Tax

The net corporation tax charge for the year was less than £0.1m (2010: £0.1m).

Pensions

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

As part of the agreement to the closure of the scheme, we have agreed to make deficit funding contributions of £6.0m a year for three years from 1 July 2010, reducing to £3.5m a year thereafter until the deficit is eliminated. A charge remains over Chartered Accountants' Hall and the fund has an interest in up to £10.0m of our investment portfolio, although this is no longer required to be ring-fenced and all investments are therefore unrestricted.

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

The 2010 actuarial valuation showed a deficit of £22.5m at 31 March 2010. The deficit funding arrangements referred to above are intended to eliminate this deficit in around five years and we are working with the trustee to develop an investment strategy intended to make the scheme entirely self-sufficient by 2025.

The scheme deficit has been affected by the turbulence in the financial markets arising from the crisis in the eurozone. This has led to an increased demand for UK gilts which has reduced their yields significantly, increasing scheme liabilities. A desktop valuation of the funding position at 31 December 2011 estimated the scheme deficit at £40.1m, at which level a trigger event is recognised on the covenant agreement. The situation is being monitored to determine whether this represents a temporary event and discussions are continuing with the trustee. This review will not be concluded until after the date of signing of these financial statements. At that date our estimate of the scheme funding was 82.5%, at which level we would expect the trigger event to be deemed temporary.

If the trigger event is not deemed to be temporary and the covenant agreement is enforced, an additional funding contribution of £5.0m to the scheme would be required and the funding plan reviewed as to duration and size of payments; the current covenant agreement would also end. Such a contribution does not have a direct impact on the income statement and no provision has been made within current liabilities owing to the uncertainty of the temporary event.

Further details are given in note 27 to the financial statements.

Financial position

Net assets at 31 December 2011 were £25.3m – a reduction of £4.0m on the 2010 position. This includes the impact of the underlying increase in ICAEW's share of the pension deficit, which rose to £6.0m in 2011 from £5.4m in 2010 after the input of £6.4m deficit funding contributions. In addition, during 2011 the market value of our long-term investments decreased to £29.9m from £30.8m in 2010.

The value of Chartered Accountants' Hall increased by £0.6m in total, following an increase of £1.2m in 2010. Chartered Accountants' Hall was valued at £9.1m at 31 December 2011.

Trade and other payables were £29.6m (2010: £28.2m). This reflects an increase in 2012 subscription income in advance. Trade and other receivables were £12.4m (2010: £8.7m), the increase arising from disciplinary income due from AADB, new regulatory collections and earlier billing of certain income streams.

We have provided £8.6m (2010: £8.8m) of costs relating to the AADB at 31 December 2011, reflecting their current case load. Case costs are forecast on the basis of the available information on actual or prospective cases. However, the accuracy of the forecast will depend on assumptions made about the progress of individual cases and is subject to a significant degree of uncertainty. We do not take account of any potential future income from fines or cost recoveries from the AADB before a judicial judgement has been made.

Cash flow

Cash balances at 31 December 2011 were £5.1m. Net cash outflow was £5.2m compared to a £0.3m inflow in 2010. Our cash profile fluctuates on an annual cycle, this year peaking at £43.6m in March and bottoming out at £5.1m in December.

Funding of the AADB saw a cash outflow of £2.9m (2010: JDS and AADB £2.2m).

ICAEW provided £6.4m (2010: £6.2m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £2.7m (2010: £2.7m). We expect to incur £3.0m of capital expenditure in 2012.

Reserves policies

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

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

Our strategic priorities are summarised in our *Annual Review 2011*.

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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 £1.7m (2010: £1.6m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.1m (2010: £0.2m).

Creditor payment policy

It is our policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers. We then pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2011 were 20 days (2010: 23 days).

Our sustainability commitment

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

There are three main ways in which we implement this.

- Economy – the provision of accurate, trusted information is central to the success of an economic system. We bring people together to share their views, are involved in research, and produce guidance for the wider business community on sustainability. This work helps us to support business to deliver long-term sustainable economic value and people to do business with confidence.
- Society – we recognise the impact we make on society. We believe that financial capability, social mobility and fundraising are essential to long-term economic success. We engage in various activities and programmes which support staff, individuals, organisations and communities around the world.
- Environment – we recognise that business has a significant impact on the environment, and although ICAEW does not operate in a business sector which causes significant pollution, we aim to promote and follow environmental practices, and reduce the negative impacts of our activities. In 2011 we gained the Carbon Trust standard. On an international scale, we convene the debate on climate change policy in government forums and financial institutions.

You can find more information about our commitment to corporate responsibility in our *Annual Review 2011*.

Going concern

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

ICAEW's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in our *Annual Review 2011*. 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.

ICAEW has considerable financial resources. Consequently, the council believes that ICAEW is well placed to manage its business risks successfully despite the current economic outlook, and market conditions which may affect pension scheme funding.

Internal control

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

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

Risk management

The council, through the board, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by ICAEW. This process has been in place for the whole of 2011 and has continued up to the date on which this document was approved.

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

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

FINANCIAL REVIEW 2011

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

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

The board reviews the risks twice a year and management puts in place the appropriate mitigation strategies.

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

- proposed EU reforms to the audit market and regulation by professional bodies resulting in the loss by ICAEW of key functions and activities – we manage a communications and representations programme at all levels, exploring alternative models and proposals with the regulators and with our member firms, and commissioning independent research with audit committee chairmen;
- ICAEW does not adjust quickly to changes in powers or influence exercised by UK regulatory bodies – we promote the contribution ICAEW makes to the public interest, before the member interest, and engage regularly with law-makers, standard-setters and regulators;
- limitations on resources which arise through unexpected events, such as AADB funding demands and/or market conditions affecting the pension scheme, impacting delivery of our strategy – we maintain robust budget and forecast processes, monitor developments regularly with key stakeholders and amend activity as necessary; and
- disruption to operations and reputational damage arising from failure of physical or data security systems – we run regular audits of access and penetration tests together with careful selection of third parties for sensitive work.

Delegation

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

Business plans and budgets

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

Internal audit

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

Review

The council, through the reports it receives from the board and through the audit committee, has reviewed the effectiveness of ICAEW's system of internal control in operation during 2011. Where control weaknesses have been identified, remedial action was, or is being taken. None of these weaknesses resulted in any material losses, contingencies or uncertainties that would require disclosure in the annual review.

CORPORATE GOVERNANCE STATEMENT

Our approach to governance

ICAEW is a chartered corporation, domiciled in England, and operates under the terms of its Royal Charter, bye-laws and regulations. Nonetheless, we choose to measure our governance against the UK Corporate Governance Code (June 2010). We believe that we comply with all relevant provisions of the Code, recognising that parts of the Code do not relate exactly to the governance of a professional and membership body. The underlying principle is that our governance must support the delivery of our strategy.

ICAEW meetings

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

ICAEW council

Council considers, reviews and approves strategy, operational plans and budgets proposed by the board. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws to the board, the departmental boards and to the chief executive within an overall framework of financial approval limits. Council receives reports from the chief executive at all its meetings and key speakers are invited to give an external perspective on matters of significance.

In 2011, council met six times. As at 31 December 2011, it comprised 83 members. The majority (54) of council members are directly elected by ICAEW members, with the remainder co-opted (17) and ex officio members (12). 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 2011, in the *Annual Review 2011*.

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

The office-holders and chief executive

The ICAEW office-holders (President: Gerald Russell (to 8 June), Clive Parritt (from 8 June); Deputy-President: Mark Spofforth; Vice-President: Martyn Jones) have no formal personal powers other than the procedural matters specified in the principal bye-laws. They have an ambassadorial role, meeting members and stakeholders and promoting ICAEW. They represent the views of the council and the wider membership within ICAEW and ensure that these are taken into account in the development of ICAEW strategy and policies. They counsel and advise the chief executive. The president chairs the annual and special meetings of members and the ICAEW board.

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

The board

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

The board comprises non-executives, principally council members ex officio, and senior executives. Council elects two of its members directly to the board for a two-year term. The elected members fulfil the role of 'senior independent director'. In 2011, the board met 10 times.

Following an external review in 2010, the board undertook a review of its own effectiveness in the autumn of 2011. This showed that, overall, the board works well. The review raised a limited number of detailed issues about the operation of the board which it is addressing, prominent among which is the diversity of its membership.

CORPORATE GOVERNANCE STATEMENT

(continued)

The members of the board (for whom you can find brief biographical details in the ICAEW – governance and structure section of our website at icaew.com) during 2011 were:

Volunteer members	Position	Appointed	Retired	Attendance
Andrew Baigent	chairman, learning and professional development board from 8 June director general, National Audit Office	8 June		6/6
Arthur Bailey	elected by the council consultant, Begbies Traynor Group and non-executive director			8/10
Penny Bickerstaff	chairman, member services board independent management consultant			9/10
Ian Cherry	elected by the council chief executive, A I Cherry Ltd		8 June	3/4
Ian Davies	elected by the council chairman, The Independent Director Ltd	20 June		4/6
Richard Harwood	chairman, professional standards board principal, Harwoods			8/10
Jeremy Jennings	co-opted member global director, regulatory and government relations, Ernst & Young LLP, Brussels			8/10
Martyn Jones	vice-president from 8 June partner, Deloitte LLP	8 June		6/6
Caroline Mawhood	appointed as a non-voting member under reciprocal arrangements with CIPFA		8 June	3/4
Clive Parritt	deputy-president to 8 June; president and chairman from 8 June chairman, Baronsmead VCT 2 plc; DiGiCo Europe Ltd; BG Consulting Group Ltd and non-executive director, London & Associated Properties plc and other companies			9/10
Andrew Ratcliffe	chairman, technical strategy board partner, PricewaterhouseCoopers LLP			8/10
Gerald Russell	president and chairman to 8 June consultant		8 June	4/4
Mark Spofforth	vice-president to 8 June; deputy-president from 8 June partner, Spofforths			9/10
Jan Weber	chairman, learning and professional development board to 8 June finance director, DIAM International		8 June	3/4
Staff members				
Robin Fieth	executive director, finance and operations			10/10
Robert Hodgkinson	executive director, technical strategy			10/10
Michael Izza	chief executive			9/10
Mark Protherough	executive director, learning and professional development			9/10
Vernon Soare	executive director, professional standards			10/10

Sharron Gunn joined the board as executive director, commercial with effect from 1 January 2012. Robin Fieth became executive director, members & operations from 1 January 2012.

CORPORATE GOVERNANCE STATEMENT

(continued)

Audit committee

The audit committee is responsible, on behalf of the council, for: ensuring that all significant activities of ICAEW are subject to independent review and audit; monitoring ICAEW's relationship with its auditors; reviewing internal controls; and assessing risk. The audit committee met four times in 2011. 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 2011 were:

	Position	Appointed	Retired	Attendance
Brian Boswell	charity trustee & financial adviser to Property Management Co			4/4
John Cain	audit partner, KPMG LLP			3/4
Ian Cherry*	chairman from 8 June 2011 chief executive, A I Cherry Ltd			4/4
David Chitty*	partner, Crowe Clark Whitehill LLP			3/4
Mary Hardy	head of risk assurance, London Organising Committee for the Olympic and Paralympic Games			2/4
Neeraj Kapur*	chief financial officer, Secure Trust Bank PLC			2/4
Michael Pavia*	chairman to 8 June 2011 non-executive director, Thames Water and other companies		8 June	1/1
Stuart Bridges	chief financial officer, Hiscox Limited	8 June		2/3
Andrew Ratcliffe*	partner, PricewaterhouseCoopers LLP	1 September		2/2

* council member

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

As recommended by the audit committee, Grant Thornton UK LLP is proposed for re-appointment at the annual meeting. The firm was first appointed in 2006, and re-appointed in 2010 for the year ended 31 December 2011 following a full tender process. The current lead partner has been responsible for the audit for six years. Partner rotation will take place for the audit for the year ended 31 December 2012.

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

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 including management of

AADB provisions and exposure to the pension fund deficit and the implications for the financial statements;

- reviewed the effectiveness of ICAEW's internal controls;
- considered the management letter from the external auditors on their review of the effectiveness of internal controls;
- agreed the fees and terms of appointment of the external auditors, including their quality and effectiveness;
- performed an externally facilitated effectiveness review of the committee; and
- agreed the work plan of internal audit and reviewed the resulting output from that plan.

The committee has helped the board and 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. The audit committee had an externally facilitated performance evaluation during the year. It reported that the audit committee was well-run, efficient and effective. As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as possible) the independence of the external auditors.

CORPORATE GOVERNANCE STATEMENT

(continued)

Nominating committee

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

The members of the nominating committee during 2011 were:

	Position	Appointed	Retired	Attendance
Susan Field	elected by the council sole practitioner			5/5
David Furst	past president chairman, Crowe Clark Whitehill LLP		8 June	3/3
Martin Hagen	past president non-executive director, South West Water and Swallowfield plc, and deputy chairman, Regulatory Decisions Committee, Financial Services Authority			4/5
Martyn Jones	vice-president from 8 June partner, Deloitte LLP	8 June		2/2
Sheilagh Moffat	elected by the council partner, Moffat Gilbert			5/5
Clive Parritt	deputy-president to 8 June; president and chairman from 8 June chairman Baronsmead VCT 2 plc; DiGiCo Europe Ltd; BG Consulting Group Ltd and non-executive director, London & Associated Properties plc and other companies			4/5
Gerald Russell	president and chairman to 8 June; past president from 8 June consultant			5/5
Mark Spofforth	vice-president to 8 June; deputy-president from 8 June partner, Spofforths			5/5

CORPORATE GOVERNANCE STATEMENT

(continued)

Remuneration committee

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for 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 2011 were:

	Position	Appointed	Retired	Attendance
Arthur Bailey*	consultant Begbies Traynor Group and non-executive director			2/4
John Collier*	director, Clive & Stokes International, Executive Search		8 June	2/2
Ian Davies*	chairman, The Independent Director Ltd	8 June		1/2
Peter Jenkins*	chairman finance director, The Prince's Regeneration Trust			4/4
Sean O'Hare	partner, PwC Human Resources Services			4/4
Clive Parritt*	deputy-president to 8 June; president from 8 June chairman Baronsmead VCT 2 plc; DiGiCo Europe Ltd; BG Consulting Group Ltd and non-executive director, London & Associated Properties plc and other companies		8 June	2/2
Mark Spofforth*	vice-president to 8 June; deputy-president from 8 June partner, Spofforths			4/4

* council member

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

CORPORATE GOVERNANCE STATEMENT

(continued)

Senior staff appointments committee

The senior staff appointments committee is responsible for all matters relating to the recruitment and appointment of the chief executive and executive directors. The committee met in October 2011. It appointed Sharron Gunn as executive director, commercial with effect from 1 January 2012.

Departmental boards

Four departmental boards steered the development of policy for ICAEW's key activities in 2011: learning and professional development; member services; professional conduct; and technical strategy. These boards also exercise a general oversight of the work programmes of the departments. Following an organisational review, ICAEW established a commercial board and a members board with effect from 1 January 2012 to replace the former member services board.

The terms of reference for the key ICAEW committees can be found in the about us – governance and structure section of ICAEW's website at icaew.com.

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 conducts staff surveys and staff focus groups to get insight into changes in staff perception, attitudes, behaviours and engagement. The recent staff focus groups indicated clearly that we are moving in the right direction with regard to our people, work/life balance, interesting work, the prestige of organisation, leadership, modernising ICAEW and raising our external profile. We have achieved incremental progress on collaborative working and knowledge sharing.

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

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

Financial responsibilities of the council

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

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

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

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

Directors' confirmation

As far as each of the directors is aware:

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

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

ICAEW FIVE-YEAR SUMMARY

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Income statement					
Operating income	82.4	76.4	73.7	73.6	69.1
ICAEW services	(71.9)	(67.1)	(66.0)	(67.6)	(62.3)
Funding of regulatory and other professional associations	(4.7)	(5.8)	(5.3)	(4.6)	(7.2)
Gift aid and library funding	(1.7)	(1.6)	(1.8)	(1.2)	(0.8)
Result before taxation	4.1	1.9	0.6	0.2	(1.2)
Taxation	–	(0.1)	0.1	–	(0.5)
Net result after taxation	4.1	1.8	0.7	0.2	(1.7)
Net assets					
Non-current assets	51.9	53.2	49.9	49.8	54.4
Current assets	18.3	19.8	19.1	18.2	18.9
Current liabilities	(34.1)	(33.6)	(30.4)	(29.1)	(25.0)
Non-current liabilities excluding staff pensions fund liability	(4.8)	(4.7)	(3.0)	(1.5)	(2.8)
Non-current liabilities – staff pensions fund liability	(6.0)	(5.4)	(14.2)	(8.6)	(15.9)
Total net assets	25.3	29.3	21.4	28.8	29.6
Members and student numbers					
Members	138,464	136,615	134,698	132,411	130,243
Students	19,073	17,653	16,517	16,165	15,422
	157,537	154,268	151,215	148,576	145,665

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES FOR THE YEAR ENDED 31 DECEMBER 2011

We have audited the financial statements of The Institute of Chartered Accountants in England and Wales (ICAEW) for the year ended 31 December 2011. These comprise the group and ICAEW income statements, the group and ICAEW statements of comprehensive income, the group and ICAEW statements of changes to reserves, the group and ICAEW statements of financial position, the group and ICAEW statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of the council and auditor

As explained more fully in the corporate governance statement set out on page 12, the council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

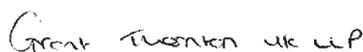
Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of ICAEW's affairs as at 31 December 2011 and of the group's and ICAEW's result for the year then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.



Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants

London
20 March 2012

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

		2011			2010		2010
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		37.7	–	37.7	36.0	–	36.0
Learning and professional development	1	12.5	(15.3)	(2.8)	11.8	(14.8)	(3.0)
Professional standards	2	14.0	(13.4)	0.6	13.7	(14.2)	(0.5)
Member services	3	5.4	(12.5)	(7.1)	4.6	(10.6)	(6.0)
Regional services	4	0.1	(9.4)	(9.3)	0.1	(8.1)	(8.0)
Technical strategy	5	4.1	(9.5)	(5.4)	3.9	(9.1)	(5.2)
Central activities	6	0.5	(12.3)	(11.8)	–	(10.9)	(10.9)
Charitable trusts	7	0.2	(1.1)	(0.9)	0.2	(1.2)	(1.0)
		<u>74.5</u>	<u>(73.5)</u>	<u>1.0</u>	<u>70.3</u>	<u>(68.9)</u>	<u>1.4</u>
Joint Disciplinary Scheme	8	–	–	–	0.4	2.2	2.6
Accountancy and Actuarial Discipline Board	9	3.1	(1.9)	1.2	1.4	(5.1)	(3.7)
Other regulatory and professional associations	10	0.8	(2.8)	(2.0)	0.8	(2.9)	(2.1)
		<u>3.9</u>	<u>(4.7)</u>	<u>(0.8)</u>	<u>2.6</u>	<u>(5.8)</u>	<u>(3.2)</u>
Other income – licence and data access fees		<u>1.9</u>	<u>–</u>	<u>1.9</u>	<u>1.9</u>	<u>–</u>	<u>1.9</u>
Operating result	12	80.3	(78.2)	2.1	74.8	(74.7)	0.1
Investment income	13	<u>2.5</u>	<u>–</u>	<u>2.5</u>	<u>2.0</u>	<u>–</u>	<u>2.0</u>
Result before taxation		82.8	(78.2)	4.6	76.8	(74.7)	2.1
Taxation	14			<u>(0.1)</u>			<u>(0.1)</u>
Net result after taxation for the year				4.5			2.0

ICAEW INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

		2011			2010		
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		37.7	–	37.7	36.0	–	36.0
Learning and professional development	1	12.5	(15.3)	(2.8)	11.8	(14.8)	(3.0)
Professional standards	2	14.0	(13.4)	0.6	13.7	(14.2)	(0.5)
Member services	3	5.4	(12.5)	(7.1)	4.6	(10.6)	(6.0)
Regional services	4	0.1	(9.4)	(9.3)	0.1	(8.1)	(8.0)
Technical strategy	5	4.1	(9.5)	(5.4)	3.9	(9.1)	(5.2)
Central activities	6	0.5	(11.8)	(11.3)	–	(10.3)	(10.3)
		<u>74.3</u>	<u>(71.9)</u>	<u>2.4</u>	<u>70.1</u>	<u>(67.1)</u>	<u>3.0</u>
Joint Disciplinary Scheme	8	–	–	–	0.4	2.2	2.6
Accountancy and Actuarial Discipline Board	9	3.1	(1.9)	1.2	1.4	(5.1)	(3.7)
Other regulatory and professional associations	10	0.8	(2.8)	(2.0)	0.8	(2.9)	(2.1)
		<u>3.9</u>	<u>(4.7)</u>	<u>(0.8)</u>	<u>2.6</u>	<u>(5.8)</u>	<u>(3.2)</u>
Other income – licence and data access fees		<u>1.9</u>	<u>–</u>	<u>1.9</u>	<u>1.9</u>	<u>–</u>	<u>1.9</u>
Gift aid and library funding	11	<u>–</u>	<u>(1.7)</u>	<u>(1.7)</u>	<u>–</u>	<u>(1.6)</u>	<u>(1.6)</u>
Operating result	12	80.1	(78.3)	1.8	74.6	(74.5)	0.1
Investment income	13	<u>2.3</u>	<u>–</u>	<u>2.3</u>	<u>1.8</u>	<u>–</u>	<u>1.8</u>
Result before taxation		82.4	(78.3)	4.1	76.4	(74.5)	1.9
Taxation	14			<u>–</u>			<u>(0.1)</u>
Net result after taxation for the year				4.1			1.8

GROUP AND ICAEW STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		Group		ICAEW	
	Note	2011	2010	2011	2010
		£m	£m	£m	£m
Net result after taxation recognised in the income statement in the year		4.5	2.0	4.1	1.8
Gains on revaluation of property, plant and equipment	15	0.6	1.2	0.6	1.2
(Losses)/gains on revaluation of available for sale investments	18	(2.5)	2.7	(1.9)	1.8
Actuarial (losses)/gains recognised in the year	27	(7.7)	4.3	(7.4)	4.1
Deferred tax	20	0.6	(1.0)	0.6	(1.0)
Net (losses)/gains not recognised in the income statement in the year		(9.0)	7.2	(8.1)	6.1
Total comprehensive (expense)/income in the year		(4.5)	9.2	(4.0)	7.9

GROUP STATEMENT OF CHANGES TO RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2011

						Group
	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Self-financing reserves	Charitable trusts	Total
	£m	£m	£m	£m	£m	£m
Reserves at 1 January 2010	4.2	1.3	10.0	6.0	9.6	31.1
Net result after taxation	–	–	1.4	0.5	0.1	2.0
Re-classification of practice regulation reserves to accumulated fund ¹	–	–	2.5	(2.5)	–	–
Increase in valuation of property, plant and equipment	1.2	–	–	–	–	1.2
Net change in market value of long-term investments over cost	–	1.8	–	–	0.9	2.7
Actuarial gains recognised in year on defined benefit pension scheme	–	–	4.0	0.1	0.2	4.3
Deferred tax attributable to above	(0.1)	(0.5)	(0.4)	–	–	(1.0)
Total comprehensive income/(expense) in the year	1.1	1.3	7.5	(1.9)	1.2	9.2
Reserves at 1 January 2011	5.3	2.6	17.5	4.1	10.8	40.3
Net result after taxation	–	–	3.7	0.6	0.2	4.5
Increase in valuation of property, plant and equipment	0.6	–	–	–	–	0.6
Net change in market value of long-term investments over cost	–	(1.9)	–	–	(0.6)	(2.5)
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(7.2)	(0.2)	(0.3)	(7.7)
Deferred tax attributable to above	–	0.6	–	–	–	0.6
Total comprehensive income/(expense) in the year	0.6	(1.3)	(3.5)	0.4	(0.7)	(4.5)
Reserves at 31 December 2011	5.9	1.3	14.0	4.5	10.1	35.8

¹ From 2010 the former practice regulation reserves have been amalgamated into the accumulated fund.

ICAEW STATEMENT OF CHANGES TO RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2011

	ICAEW				
	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Self-financing reserves	Total
	£m	£m	£m	£m	£m
Reserves at 1 January 2010	4.2	1.3	9.9	6.0	21.4
Net result after taxation	–	–	1.3	0.5	1.8
Re-classification of practice regulation reserves to accumulated fund ²	–	–	2.5	(2.5)	–
Increase in valuation of property, plant and equipment	1.2	–	–	–	1.2
Net change in market value of long-term investments over cost	–	1.8	–	–	1.8
Actuarial gains recognised in year on defined benefit pension scheme	–	–	4.0	0.1	4.1
Deferred tax attributable to above	(0.1)	(0.5)	(0.4)	–	(1.0)
Total comprehensive income/(expense) in the year	1.1	1.3	7.4	(1.9)	7.9
Reserves at 1 January 2011	5.3	2.6	17.3	4.1	29.3
Net result after taxation	–	–	3.5	0.6	4.1
Increase in valuation of property, plant and equipment	0.6	–	–	–	0.6
Net change in market value of long-term investments over cost	–	(1.9)	–	–	(1.9)
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(7.2)	(0.2)	(7.4)
Deferred tax attributable to above	–	0.6	–	–	0.6
Total comprehensive income/(expense) in the year	0.6	(1.3)	(3.7)	0.4	(4.0)
Reserves at 31 December 2011	5.9	1.3	13.6	4.5	25.3

² From 2010 the former practice regulation reserves have been amalgamated into the accumulated fund.

GROUP AND ICAEW STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £m	2010 £m	Group 2009 £m	2011 £m	2010 £m	ICAEW 2009 £m
Assets							
Non-current assets							
Property, plant and equipment	15	19.2	19.0	17.2	19.2	19.0	17.2
Intangible assets	16	2.6	2.7	2.4	2.6	2.7	2.4
Investments in subsidiaries and associates	17	0.1	0.1	0.1	–	–	–
Financial assets:							
Restricted available for sale investments	18	–	5.0	5.0	–	5.0	5.0
Available for sale investments	18	40.4	37.0	33.3	29.9	25.8	23.2
Other receivables	19	–	0.5	1.5	–	0.5	1.5
Deferred tax asset	20	0.2	0.2	0.6	0.2	0.2	0.6
		62.5	64.5	60.1	51.9	53.2	49.9
Current assets							
Inventories	21	0.8	0.8	0.8	0.8	0.8	0.8
Trade and other receivables	22	12.6	8.7	8.3	12.4	8.7	8.3
Cash and cash equivalents	23	5.7	10.8	10.5	5.1	10.3	10.0
		19.1	20.3	19.6	18.3	19.8	19.1
Total assets		81.6	84.8	79.7	70.2	73.0	69.0
Liabilities							
Current liabilities							
Trade and other payables	24	(29.9)	(28.7)	(27.2)	(29.6)	(28.2)	(26.8)
Current tax liabilities		(0.1)	(0.1)	–	(0.1)	(0.1)	–
Joint Disciplinary Scheme provision	25	–	–	(0.7)	–	–	(0.7)
Accountancy and Actuarial Discipline Board provision	26	(4.4)	(5.3)	(2.9)	(4.4)	(5.3)	(2.9)
		(34.4)	(34.1)	(30.8)	(34.1)	(33.6)	(30.4)
Non-current liabilities							
Pension liabilities	27	(6.6)	(5.7)	(14.8)	(6.0)	(5.4)	(14.2)
Accountancy and Actuarial Discipline Board provision	26	(4.2)	(3.5)	(2.4)	(4.2)	(3.5)	(2.4)
Deferred tax liability	20	(0.6)	(1.2)	(0.6)	(0.6)	(1.2)	(0.6)
		(11.4)	(10.4)	(17.8)	(10.8)	(10.1)	(17.2)
Total liabilities		(45.8)	(44.5)	(48.6)	(44.9)	(43.7)	(47.6)
Total net assets		35.8	40.3	31.1	25.3	29.3	21.4
Reserves							
Revaluation reserve		5.9	5.3	4.2	5.9	5.3	4.2
Investment revaluation reserve		1.3	2.6	1.3	1.3	2.6	1.3
Accumulated fund		14.0	17.5	10.0	13.6	17.3	9.9
Faculties		1.3	1.0	0.5	1.3	1.0	0.5
Practice regulation ³		–	–	2.5	–	–	2.5
Chartered Accountants' Compensation Scheme		3.2	3.1	3.0	3.2	3.1	3.0
Charitable trust endowment funds		7.9	8.3	7.3	–	–	–
Charitable trust unrestricted funds		2.2	2.5	2.3	–	–	–
		35.8	40.3	31.1	25.3	29.3	21.4

Approved on behalf of the council



Clive Parritt, President
20 March 2012



Michael Izza, Chief Executive

³ From 2010 the former practice regulation reserves have been amalgamated into the accumulated fund.

GROUP AND ICAEW STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £m	Group 2010 £m	2011 £m	ICAEW 2010 £m
Cash flows from operating activities⁴					
Result before taxation		4.6	2.2	4.1	1.9
Adjustments for:					
Depreciation and amortisation		2.9	2.5	2.9	2.5
Investment income	13	(2.5)	(2.0)	(2.3)	(1.8)
Non-cash movement in provisions		2.4	6.3	2.5	6.3
Cash flows from operating activities before movements in working capital		7.4	9.0	7.2	8.9
Movements in working capital					
Increase in trade and other receivables		(3.8)	(0.5)	(3.9)	(0.4)
Increase in trade and other payables		1.3	0.9	1.7	0.8
Cash generated from operating activities after movements in working capital		4.9	9.4	5.0	9.3
Cash flows on provisions					
Cash outflow on pension liabilities		(6.4)	(6.2)	(6.4)	(6.2)
Cash outflow on Joint Disciplinary Scheme		–	(0.6)	–	(0.6)
Cash outflow on Accountancy and Actuarial Discipline Board		(2.9)	(1.6)	(2.9)	(1.6)
Net cash (used by)/generated from operating activities		(4.4)	1.0	(4.3)	0.9
Cash flows from investing activities					
Purchase of property, plant and equipment		(2.0)	(1.6)	(1.9)	(1.6)
Purchase of intangible assets		(0.8)	(1.1)	(0.8)	(1.1)
Deferred consideration received		0.5	1.0	0.5	1.0
Purchase of available for sale investments		(23.8)	(22.6)	(15.1)	(12.1)
Disposal of available for sale investments		23.3	21.9	14.5	11.6
Investment income received		2.1	1.7	1.9	1.6
Net cash outflow from investing activities		(0.7)	(0.7)	(0.9)	(0.6)
Net (decrease)/increase in cash and cash equivalents in the year		(5.1)	0.3	(5.2)	0.3
Net cash and cash equivalents at 1 January		10.8	10.5	10.3	10.0
Net cash and cash equivalents at 31 December	23	5.7	10.8	5.1	10.3

⁴ Fines and cost recoveries from disciplinary cases including the AADB are included within operational cash flows and included in the result before taxation above. Amounts levied on firms as contributions towards AADB costs are similarly included in operational income. Payments to AADB from amounts previously provided are included separately in the cash movement on provisions above.

ACCOUNTING POLICIES

I Basis of preparation

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

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

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

ICAEW has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2011. 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	Effective from years commencing:
Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011 – not yet EU-adopted
Amendment to IFRS 7 Financial Instruments: Disclosures – transfers of financial assets	1 July 2011
IFRS 9 Financial Instruments	1 January 2013
Amendment to IAS 12 Income Taxes – recovery of underlying assets	1 January 2012 – not yet EU-adopted

II Critical accounting judgements and key sources of estimation

To be able to prepare financial statements according to generally accepted accounting principles, the board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on AADB provisions and pensions (notes 26-27). These estimates are based on historical experience and various other assumptions that the board believes are reasonable under the circumstances. The results of these form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Further details in relation to specific areas are included in the accounting policies below, or in the notes to the financial statements.

III Income

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

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

ACCOUNTING POLICIES

(continued)

IV Professional Conduct and Accountancy and Actuarial Discipline Board

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

V Property, plant and equipment, and depreciation

Freehold properties

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

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

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

Leasehold improvements

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

Historic collections

ICAEW's collections of silver, rare books, period furniture, pictures and sculptures are revalued annually and are stated at estimated open market values. In view of the nature of these assets, the estimated residual value is equal to the carrying amount and no depreciation is provided. Surpluses on revaluation, including surpluses arising from donations of items to the collections, are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the income statement.

Other plant and equipment

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

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

VI Intangible assets

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

VII Investments

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

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

VIII Cash and cash equivalents

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

IX Inventories

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

X Trade and other receivables

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

ACCOUNTING POLICIES

(continued)

XI Leases

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

XII Grants

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

XIII Pensions

Defined benefit scheme

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

The scheme closed to future accrual with effect from 30 June 2010. The quantification of the pension deficit is based on actuarial assumptions made by the board, in conjunction with the scheme's actuary, relating to discount rate, expected return on the plan's assets, inflation and future price increases. These assumptions, the details of which for the current financial year are included in note 27, are reviewed in the context of the economic climate.

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

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

Defined contribution schemes

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

XIV Taxation

Current tax

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

Deferred tax

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

XV Financial risk management

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

Currency risk

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

Credit risk

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

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

In respect of trade and other receivables, ICAEW is not exposed to any significant credit risk to any single

ACCOUNTING POLICIES

(continued)

counterparty or group of counterparties. The majority of ICAEW's counterparties are members or member firms which are not considered to be a credit risk to ICAEW. ICAEW continuously monitors defaults of counterparties and incorporates this information into its credit risk controls relating to non-member customers.

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

Liquidity and interest rate risk

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

Going concern

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

XVI Reserves

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

Reserves comprise the following:

Revaluation reserve

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

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, practice regulation, Chartered Accountants' compensation Scheme and Charitable trust reserve funds. In calculating the result to be taken to self-financing reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1 Learning and professional development

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Qualifications	12.5	(9.4)	3.1	11.7	(9.0)	2.7
Business development	–	(5.0)	(5.0)	0.1	(5.0)	(4.9)
Executive, policy and strategy	–	(0.9)	(0.9)	–	(0.8)	(0.8)
	12.5	(15.3)	(2.8)	11.8	(14.8)	(3.0)

2 Professional standards

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Disciplinary	0.5	(2.9)	(2.4)	0.6	(3.5)	(2.9)
Authorisation of investment business	1.6	(1.5)	0.1	1.6	(1.5)	0.1
Practice regulation and assurance	11.0	(8.2)	2.8	10.9	(8.5)	2.4
Commercial consultancy	0.9	(0.8)	0.1	0.6	(0.7)	(0.1)
	14.0	(13.4)	0.6	13.7	(14.2)	(0.5)

3 Member services

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Commercial	4.0	(5.2)	(1.2)	3.3	(4.6)	(1.3)
Member services	1.4	(6.0)	(4.6)	1.3	(4.8)	(3.5)
Administration	–	(1.3)	(1.3)	–	(1.2)	(1.2)
	5.4	(12.5)	(7.1)	4.6	(10.6)	(6.0)

4 Regional services

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
UK regions	–	(4.6)	(4.6)	0.1	(4.6)	(4.5)
International regions	0.1	(4.8)	(4.7)	–	(3.5)	(3.5)
	0.1	(9.4)	(9.3)	0.1	(8.1)	(8.0)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

5 Technical strategy

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
ICAEW-funded faculty activities	–	(2.7)	(2.7)	–	(2.6)	(2.6)
Technical departments	0.1	(3.1)	(3.0)	0.1	(2.8)	(2.7)
Audit and Assurance Faculty	0.9	(0.6)	0.3	0.9	(0.6)	0.3
Corporate Finance Faculty	0.5	(0.5)	–	0.5	(0.5)	–
Finance and Management Faculty	0.7	(0.5)	0.2	0.7	(0.5)	0.2
Financial Reporting Faculty	0.3	(0.4)	(0.1)	0.2	(0.3)	(0.1)
Financial Services Faculty	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Information Technology Faculty	0.5	(0.4)	0.1	0.5	(0.4)	0.1
Tax Faculty	0.8	(0.6)	0.2	0.7	(0.7)	–
Administration	–	(0.3)	(0.3)	–	(0.3)	(0.3)
	4.1	(9.5)	(5.4)	3.9	(9.1)	(5.2)

6 Central activities

	Group			Group		
	2011	2011	2011	2010	2010	2010
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Infrastructure	0.4	(9.9)	(9.5)	–	(9.7)	(9.7)
Marketing and communications	0.1	(9.8)	(9.7)	–	(8.6)	(8.6)
Finance and administration	–	(6.0)	(6.0)	–	(6.2)	(6.2)
	0.5	(25.7)	(25.2)	–	(24.5)	(24.5)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2010: £1.1m))	–	13.4	13.4	–	13.6	13.6
	0.5	(12.3)	(11.8)	–	(10.9)	(10.9)

	ICAEW			ICAEW		
	2011	2011	2011	2010	2010	2010
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Infrastructure	0.4	(9.9)	(9.5)	–	(9.7)	(9.7)
Marketing and communications	0.1	(9.8)	(9.7)	–	(8.6)	(8.6)
Finance and administration	–	(6.0)	(6.0)	–	(6.2)	(6.2)
	0.5	(25.7)	(25.2)	–	(24.5)	(24.5)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2010: £1.1m))	–	13.9	13.9	–	14.2	14.2
	0.5	(11.8)	(11.3)	–	(10.3)	(10.3)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

7 Charitable trusts

	Group			Group		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
External research grants	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Library income and expenditure	–	(1.0)	(1.0)	–	(1.0)	(1.0)
Other income and expenditure	0.2	–	0.2	0.2	–	0.2
	0.2	(1.1)	(0.9)	0.2	(1.2)	(1.0)

8 Joint Disciplinary Scheme

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Cost recoveries	–	–	–	–	2.2	2.2
Fines	–	–	–	0.4	–	0.4
	–	–	–	0.4	2.2	2.6

The Joint Disciplinary Scheme was closed during 2010.

9 Accountancy and Actuarial Discipline Board

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Fines	1.6	–	1.6	–	–	–
Other income	1.5	–	1.5	1.4	–	1.4
Cost recoveries	–	0.8	0.8	–	–	–
Costs	–	(2.7)	(2.7)	–	(5.1)	(5.1)
	3.1	(1.9)	1.2	1.4	(5.1)	(3.7)

Total ICAEW cash receipts from fines and cost recoveries were £2.4m (2010: £nil). Of this, £1.6m relates to fines and is reflected as income. Other income relates to a direct levy on regulated firms.

10 Other regulatory bodies and professional associations

	Group and ICAEW			Group and ICAEW		
	2011	2011	2011	2010	2010	2010
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Financial Reporting Council	0.8	(1.8)	(1.0)	0.8	(1.8)	(1.0)
Consultative Committee of Accountancy Bodies	–	(0.4)	(0.4)	–	(0.5)	(0.5)
International Federation of Accountants	–	(0.6)	(0.6)	–	(0.6)	(0.6)
	0.8	(2.8)	(2.0)	0.8	(2.9)	(2.1)

Income relates to a direct levy on regulated firms.

11 Gift aid and library funding

ICAEW made payments of £1.7m (2010: £1.6m) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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12 Operating result

The group and ICAEW operating result is stated after charging:

	Group		ICAEW	
	2011	2010	2011	2010
	£m	£m	£m	£m
Staff costs	36.3	36.0	35.5	35.2
Depreciation on owned property, plant and equipment	1.9	1.6	1.9	1.6
Amortisation of intangible assets	1.1	0.9	1.1	0.9
Cost of inventories recognised as an expense	0.8	0.9	0.8	0.9
Amounts payable under operating leases:				
Plant and machinery	0.2	0.2	0.2	0.2
Other	0.8	0.8	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 2011 these payments in aggregate amounted to £1.7m (2010: £1.7m). Of this, £51,000 (2010: £18,000) was paid for services to member firms which have a partner or employee who is a member of the council. The amounts paid to individual council members for services was £10,000 (2010: £52,000) in total.

Fees payable to ICAEW's auditor for taxation services were £nil (2010: £8,000) and for consultancy work £22,000 (2010: £17,000). Fees were also payable to the auditor for the audit of the Staff Pensions Fund of £6,000 (2010: £6,000). Fees payable to associates of ICAEW's auditor for the local audits of the international subsidiaries were £25,000 (2010: £14,000).

13 Net investment income

	Group		ICAEW	
	2011	2010	2011	2010
	£m	£m	£m	£m
Bank interest receivable	0.1	0.1	0.1	0.1
Interest receivable from investment deposits	0.3	0.3	0.1	0.1
Other financial income	0.9	0.7	0.9	0.7
Returns on multi-asset portfolio	0.8	0.7	0.8	0.7
Realised gains from equities	0.4	0.2	0.4	0.2
	2.5	2.0	2.3	1.8

Other financial income relates in the main to indexation on the licence fees and deferred consideration from Wolters Kluwer NV.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

14 Taxation

	Group		ICAEW	
	2011	2010	2011	2010
	£m	£m	£m	£m
Current tax				
Current period	(0.1)	–	–	–
Adjustment for previous periods	–	(0.1)	–	(0.1)
	<u>(0.1)</u>	<u>(0.1)</u>	<u>–</u>	<u>(0.1)</u>
Deferred tax				
Origination and reversal of temporary differences	–	–	–	–
Tax charge on operating result	(0.1)	(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 £45,000 (2010: £100,000).

Factors affecting the tax charge for the year:

	Group		ICAEW	
	2011	2010	2011	2010
	£m	£m	£m	£m
Net result before taxation	4.6	2.1	4.1	1.9
Add back: result on transactions with members	(2.4)	(1.1)	(2.2)	(0.9)
Net result before taxation on transactions with non-members	<u>2.2</u>	<u>1.0</u>	<u>1.9</u>	<u>1.0</u>
Net result above at the standard rate of corporation tax in the UK of 26.5%/28%	(0.6)	(0.2)	(0.5)	(0.2)
Effects of:				
Items not chargeable/deductible for tax purposes	0.6	0.4	0.6	0.4
Unutilised tax losses	(0.1)	(0.2)	(0.1)	(0.2)
Adjustments in respect of prior years	–	(0.1)	–	(0.1)
	<u>(0.1)</u>	<u>(0.1)</u>	<u>–</u>	<u>(0.1)</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

15 Property, plant and equipment

The freehold property, Chartered Accountants' Hall, London, was revalued by CB Richard Ellis Ltd, independent chartered surveyors, at 31 December 2011 at open market value, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors.

The historical cost of ICAEW's silver collection and antiques represents only the cost of items bought by ICAEW. The valuations of these collections also include substantial donations and bequests. ICAEW's historic collections were revalued at open market value at 31 December 2011 by William Walter Antiques Limited (the Benney silver collection and other silver); John Drury Rare Books (rare books) and Ritchie Associates (period furniture, pictures and sculptures).

The revaluations during the year ended 31 December 2011 resulted in a valuation increase of £0.6m (2010: increase of £1.2m). Depreciation is provided on the plant and equipment elements within the freehold property. At 31 December 2011 there were no contracts for capital expenditure not provided for in these financial statements (2010: £nil).

There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 27).

	Group and ICAEW				
	Freehold property	Short leasehold property	Silver collection and antiques	Furniture, computer hardware and equipment	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 January 2009	9.5	2.3	3.8	8.7	24.3
Additions	1.0	0.1	–	1.2	2.3
Disposals at cost or valuation	(0.1)	–	–	(0.7)	(0.8)
Deficit on revaluation	(1.9)	–	–	–	(1.9)
At 1 January 2010	8.5	2.4	3.8	9.2	23.9
Additions	0.9	–	–	1.3	2.2
Disposals at cost or valuation	–	–	–	(2.0)	(2.0)
Surplus on revaluation	0.6	–	0.5	–	1.1
At 1 January 2011	10.0	2.4	4.3	8.5	25.2
Additions	0.1	–	–	1.4	1.5
Disposals at cost or valuation	–	–	–	(0.4)	(0.4)
Surplus on revaluation	0.5	–	–	–	0.5
At 31 December 2011	10.6	2.4	4.3	9.5	26.8
Accumulated depreciation					
At 1 January 2009	0.6	0.1	–	5.4	6.1
Depreciation for the year	0.4	0.2	–	0.8	1.4
Depreciation on disposals	(0.1)	–	–	(0.6)	(0.7)
Adjustment on revaluation	(0.1)	–	–	–	(0.1)
At 1 January 2010	0.8	0.3	–	5.6	6.7
Depreciation for the year	0.4	0.2	–	1.0	1.6
Depreciation on disposals	–	–	–	(2.0)	(2.0)
Adjustment on revaluation	(0.1)	–	–	–	(0.1)
At 1 January 2011	1.1	0.5	–	4.6	6.2
Depreciation for the year	0.5	0.2	–	1.2	1.9
Depreciation on disposals	–	–	–	(0.4)	(0.4)
Adjustment on revaluation	(0.1)	–	–	–	(0.1)
At 31 December 2011	1.5	0.7	–	5.4	7.6
Carrying amount					
At 31 December 2009	7.7	2.1	3.8	3.6	17.2
At 31 December 2010	8.9	1.9	4.3	3.9	19.0
At 31 December 2011	9.1	1.7	4.3	4.1	19.2

On an historical cost basis the comparable amounts of property, plant and equipment are:

Cost	12.3	2.4	0.2	9.4	24.3
Accumulated depreciation	5.5	0.7	–	5.4	11.6
Net historical cost at 31 December 2011	6.8	1.7	0.2	4.0	12.7
Net historical cost at 31 December 2010	7.3	1.9	0.2	3.9	13.3
Net historical cost at 31 December 2009	6.9	2.1	0.2	3.6	12.8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

16 Intangible assets

	Group and ICAEW Computer software		
	2011	2010	2009
Cost	£m	£m	£m
At 1 January	7.2	7.7	6.9
Additions at cost	1.0	1.2	0.8
Disposals at cost	–	(1.7)	–
At 31 December	8.2	7.2	7.7
Accumulated amortisation			
At 1 January	4.5	5.3	4.3
Amortisation for the year	1.1	0.9	1.0
Amortisation on disposals	–	(1.7)	–
At 31 December	5.6	4.5	5.3
Carrying amount at 31 December	2.6	2.7	2.4

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

17 Investments in subsidiaries and associates

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

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

There is an agreement between the above trusts and ICAEW to provide administrative services to the trusts. The total value of the transactions amounted to £0.6m (2010: £0.6m). At the year end, the trusts owed ICAEW £nil (2010: £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:

	Shareholding %	2011 cost £m	2010 cost £m	2009 cost £m	Activity
ICAEW Malaysia Limited	100	–	–	–	Representative office for ICAEW in Malaysia
ICAEW China Limited	100	–	–	–	Representative office for ICAEW in China
ICAEW Middle East Limited	100	–	–	–	Representative office for ICAEW in the Middle East
ICAEW SEA Limited	100	–	–	–	Representative office for ICAEW in South East Asia
ICAEW Europe Limited	100	–	–	–	Representative office for ICAEW in Europe
ICAEW CIS Limited	100	–	–	–	Dormant company
ICAEW Ltd	100	–	–	–	Holding company for the above companies
Dormant companies	100	–	–	–	Dormant

The above companies provide marketing services for ICAEW. The value of these services during 2011 was £3.1m (2010: £2.2m). At the year end £0.4m (2010: £0.2m) was owed to ICAEW.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

17 Investments in subsidiaries and associates (continued)

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

	Shareholding (ordinary shares) %	2011 cost £m	2010 cost £m	2009 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%	–	–	–	During the year CCAB Limited was dissolved at the behest of one of the shareholders and a new company set up which took the same name on a same-day name change. CCAB Limited undertakes activities of mutual interest to five major accountancy bodies in the British Isles. ICAEW is the majority shareholder. It does not have the majority of voting shares on the board and therefore does not control the company.
Chartered Accountants' Compensation Scheme Limited	80.0%	–	–	–	Evaluates and administers claims for compensation arising from the obligations of ICAEW, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland as recognised professional bodies under the Financial Services Act 1986 and as designated professional bodies under the Financial Services and Markets Act 2000. The company is not treated as a subsidiary as a result of the rights of the other shareholders to nominate directors such that no party has a majority of the board.

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

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board 2011 £m	Fraud Advisory Panel 2011 £m	CCAB Limited 2011 £m	CCAB Limited (dissolved) 2011 £m	Chartered Accountants' Compensation Scheme Limited 2011 £m	Total 2011 £m	Total 2010 £m	Total 2009 £m
Assets	0.3	0.2	1.0	–	0.1	1.6	1.9	1.9
Liabilities	(0.2)	(0.1)	(1.0)	–	(0.1)	(1.4)	(1.6)	(1.6)
Net assets	0.1	0.1	–	–	–	0.2	0.3	0.3
Revenue	0.2	0.1	0.7	4.7	–	5.7	6.1	6.2
Net result	–	–	–	–	–	–	–	–
Balances due from associates as at 31 December	–	–	–	–	0.1	0.1	0.1	0.1
Balances due to associates as at 31 December	–	–	(0.5)	–	–	(0.5)	(1.2)	(1.0)
Group share of net assets as at 31 December	–	0.1	–	–	–	0.1	0.1	0.1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

18 Financial assets: available for sale investments

	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Group Total
	2011	2011	2011	2010	2010	2010	2009	2009	2009
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fair value									
At 1 January	8.2	33.8	42.0	8.2	30.1	38.3	24.7	10.1	34.8
Additions	14.5	9.3	23.8	13.6	9.0	22.6	46.9	18.8	65.7
Disposals	(14.7)	(8.6)	(23.3)	(13.6)	(8.3)	(21.9)	(63.7)	(1.9)	(65.6)
Reclassification adjustment gains/(losses) on disposal	–	0.4	0.4	–	0.3	0.3	0.4	(0.2)	0.2
Change in market value of investments: Recognised as other comprehensive (expense)/income	–	(2.5)	(2.5)	–	2.7	2.7	(0.1)	3.3	3.2
At 31 December	8.0	32.4	40.4	8.2	33.8	42.0	8.2	30.1	38.3
Held as									
Restricted	–	–	–	5.0	–	5.0	5.0	–	5.0
Unrestricted	8.0	32.4	40.4	3.2	33.8	37.0	3.2	30.1	33.3
	8.0	32.4	40.4	8.2	33.8	42.0	8.2	30.1	38.3

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

At 31 December	8.1	30.8	38.9	8.2	29.6	37.8	8.3	28.4	36.7
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	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	Total	Interest-bearing investments	Equities and unit trusts	ICAEW Total
	2011	2011	2011	2010	2010	2010	2009	2009	2009
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fair value									
At 1 January	5.0	25.8	30.8	5.0	23.2	28.2	21.6	4.5	26.1
Additions	6.0	9.1	15.1	3.3	8.9	12.2	37.4	18.7	56.1
Disposals	(6.0)	(8.5)	(14.5)	(3.3)	(8.3)	(11.6)	(54.3)	(1.9)	(56.2)
Reclassification adjustment gains/(losses) on disposal	–	0.4	0.4	–	0.2	0.2	0.4	(0.2)	0.2
Change in market value of investments: Recognised as other comprehensive (expense)/income	–	(1.9)	(1.9)	–	1.8	1.8	(0.1)	2.1	2.0
At 31 December	5.0	24.9	29.9	5.0	25.8	30.8	5.0	23.2	28.2
Held as									
Restricted	–	–	–	5.0	–	5.0	5.0	–	5.0
Unrestricted	5.0	24.9	29.9	–	25.8	25.8	–	23.2	23.2
	5.0	24.9	29.9	5.0	25.8	30.8	5.0	23.2	28.2

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

At 31 December	5.0	23.1	28.1	5.0	22.2	27.2	5.0	21.1	26.1
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Within group investments are charitable funds of £10.6m (2010: £11.1m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £6.1m (2010: £4.5m).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

19 Non-current financial assets: other receivables

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
Deferred consideration receivable	–	0.5	1.5

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

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
Within one year (included within current assets)	0.5	1.0	1.0
Within two to five years	–	0.5	1.5
	0.5	1.5	2.5

Non-current financial assets: other receivables are categorised as loans and receivables as required by IAS 39. All deferred consideration was paid after the end of the financial year.

20 Deferred taxation

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
The provision for deferred taxation comprises:			
Revaluation of available for sale investments	(0.3)	(0.9)	(0.4)
Revaluation of properties and historic collections	(0.3)	(0.3)	(0.2)
Deferred tax liability	(0.6)	(1.2)	(0.6)
Defined benefit pension scheme deficit	0.2	0.2	0.6
Deferred tax asset	0.2	0.2	0.6
Net deferred tax liability	(0.4)	(1.0)	–

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

	Group and ICAEW			
	Revaluation of available for sale investments	Revaluation of properties and historic collections	Defined benefit pension scheme deficit	Net
	£m	£m	£m	£m
Asset/(liability) at 1 January 2009	0.2	(0.3)	0.4	0.3
Movement in year:				
Recognised as other comprehensive income	(0.6)	0.1	0.2	(0.3)
(Liability)/asset at 1 January 2010	(0.4)	(0.2)	0.6	–
Movement in year:				
Recognised as other comprehensive income	(0.5)	(0.1)	(0.4)	(1.0)
(Liability)/asset at 1 January 2011	(0.9)	(0.3)	0.2	(1.0)
Movement in year:				
Recognised as other comprehensive income	0.6	–	–	0.6
(Liability)/asset at 31 December 2011	(0.3)	(0.3)	0.2	(0.4)

21 Inventories

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
Learning materials	0.8	0.8	0.8

There was no provision against learning materials at the year end (2010: £nil, 2009: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

22 Trade and other receivables – current

	Group			ICAEW		
	2011	2010	2009	2011	2010	2009
	£m	£m	£m	£m	£m	£m
Trade receivables and other receivables	6.8	5.0	4.6	6.1	4.7	4.5
Amounts owed by subsidiaries	–	–	–	0.5	0.3	0.1
Amounts owed by associates	0.1	0.1	0.1	0.1	0.1	0.1
Deferred consideration receivable	0.5	1.0	1.0	0.5	1.0	1.0
Prepayments	2.3	1.8	1.7	2.3	1.8	1.7
Accrued income	3.3	1.4	1.6	3.3	1.4	1.6
	13.0	9.3	9.0	12.8	9.3	9.0
Less: provision for impairment of trade and other receivables	(0.4)	(0.6)	(0.7)	(0.4)	(0.6)	(0.7)
	12.6	8.7	8.3	12.4	8.7	8.3

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

All receivables have been reviewed for indicators of impairment. Certain trade receivables, principally in relation to disciplinary fines and costs from members, member firms and former members, were found to be impaired, and a provision of £0.4m (2010: £0.6m, 2009: £0.7m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	Group			ICAEW		
	2011	2010	2009	2011	2010	2009
	£m	£m	£m	£m	£m	£m
Balance at 1 January	0.6	0.7	0.6	0.6	0.7	0.6
Amounts written off (uncollectable)	(0.2)	–	(0.1)	(0.2)	–	(0.1)
Impairment losses	0.1	0.1	0.4	0.1	0.1	0.4
Impairment losses reversed	(0.1)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
	0.4	0.6	0.7	0.4	0.6	0.7

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		
	2011	2010	2009	2011	2010	2009
	£m	£m	£m	£m	£m	£m
More than one month but not more than three months	0.3	0.5	0.8	0.3	0.5	0.8
More than three months	0.7	0.3	0.2	0.7	0.3	0.2
	1.0	0.8	1.0	1.0	0.8	1.0

23 Cash and cash equivalents

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

Forward contracts are used to cover known foreign currency exposures. No forward contracts were in place at the year end (2010: £nil, 2009: £nil).

The effect of a 0.25% change in the average market interest rate on current cash and equivalents, and cash balances within the available for sale portfolio, held at the reporting date that are sensitive to changes in interest rates, would be £28,000 (2010: £37,000, 2009: £42,000). All other variables are held constant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

24 Trade and other payables

	Group			ICAEW		
	2011	2010	2009	2011	2010	2009
	£m	£m	£m	£m	£m	£m
Subscriptions and admission fees in advance	11.2	10.5	10.9	11.2	10.5	10.9
Amounts owed to associates	0.5	1.2	1.0	0.5	1.2	1.0
Other income in advance	5.9	5.7	3.9	5.9	5.7	3.9
Trade payables	3.6	3.5	3.3	3.6	3.5	3.3
Other payables	1.6	1.1	1.1	1.3	0.6	0.8
Income tax and social security payables	1.1	1.0	0.9	1.1	1.0	0.9
Accruals	6.0	5.7	6.1	6.0	5.7	6.0
	<u>29.9</u>	<u>28.7</u>	<u>27.2</u>	<u>29.6</u>	<u>28.2</u>	<u>26.8</u>

Trade payables and other payables are categorised as current financial liabilities measured at amortised cost as required by IAS 39. All the above trade payables and other payables are short term and are payable within one month. Subscriptions, admission fees and other income in advance relate to income received during 2011 but relating to 2012 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

25 Joint Disciplinary Scheme provision

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
Balance at 1 January	–	0.7	1.8
(Credit)/charge to income statement	–	(0.1)	0.1
Amounts paid	–	(0.6)	(1.2)
Balance at 31 December	<u>–</u>	<u>–</u>	<u>0.7</u>

The JDS was closed during 2010 following completion of its one remaining case.

26 Accountancy and Actuarial Discipline Board provision

	Group and ICAEW		
	2011	2010	2009
	£m	£m	£m
Balance at 1 January	8.8	5.3	4.5
Charge to income statement	2.7	5.1	2.1
Amounts paid	(2.9)	(1.6)	(1.3)
Balance at 31 December	<u>8.6</u>	<u>8.8</u>	<u>5.3</u>
Provision expected to be used within one year	4.4	5.3	2.9
Provision expected to be used after more than one year	4.2	3.5	2.4
	<u>8.6</u>	<u>8.8</u>	<u>5.3</u>

The AADB is part of the Financial Reporting Council and is responsible for operating and administering an independent disciplinary scheme (the Accountancy Scheme) covering members of ICAEW and the following participating institutes: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland. The AADB also operates and administers a separate independent disciplinary scheme (the Actuarial Scheme) covering members of the Institute and Faculty of Actuaries.

The amount provided is based on the estimated present obligation to ICAEW of investigations by the AADB for cases arising from past events up to 31 December 2011. The provision is expected to be used over the next five years. ICAEW reviews the adequacy of the AADB provision through a review of past case cost estimates and discussions of current cases with relevant individuals. However, the accuracy of both the provision and the forecast of the period over which it will be used will depend on assumptions made about the progress of individual cases and is subject to a significant degree of uncertainty.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

27 Pension liabilities

Defined benefit scheme

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

The most recent completed valuation of the scheme was carried out by Hymans Robertson LLP as at 31 March 2010 on the projected unit credit method taking into account the closure of the scheme to future accrual from 30 June 2010. At that valuation date, the market value of the assets of the scheme was £113.0m, which represented 83% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

As part of the agreement for the closure of the scheme to future accrual, ICAEW has undertaken to make monthly payments of £0.5m (£6.0m a year) for three years from 1 July 2010 towards funding the estimated deficit on past service costs, reducing to £3.5m a year thereafter until the deficit is eliminated, together with additional payments for enhanced early retirements on a pay-as-you-go basis. Total payments by ICAEW to the scheme during 2011 for past service costs amounted to £6.4m (2010: £5.8m, 2009: £3.6m).

ICAEW also agreed to make additional employer contributions during the period to 2010 for back-dated benefits awarded to participating employees attaining 10 years' service with ICAEW during that period (2010: £0.4m, 2009: £0.3m).

In conjunction with the 2010 valuation of the scheme, the trustee reviewed the strength of ICAEW's financial covenant. The resulting agreement set a number of trigger points in relation to the key financial ratios. An amber trigger event requires ICAEW and the trustee to meet to determine whether the recovery period should be shortened. A red trigger event requires an additional contribution of £5.0m or £10.0m, depending on the result of the trigger, by ICAEW to the scheme and the recovery period shortened. ICAEW agreed to a charge being made over Chartered Accountants' Hall and the trustee having an interest noted in up to £10.0m of the investment portfolio of ICAEW.

The actuary has provided a desktop update on the scheme's financial position as at 31 December 2011. This review estimated that the deficit, based on assumptions consistent with the 2010 triennial valuation, was £40.1m (2010: £19.9m). At the year end one of the key financial covenant triggers was red (2010: green). This is a result of the increase in the present value of liabilities arising from the reduction in gilt yields driven by the eurozone crisis. ICAEW and the trustees are monitoring the valuation and the market conditions to determine whether this represents a temporary event under the terms of the covenant agreement.

Under the terms of the covenant agreement a red trigger event at 31 December 2011 may be deemed a temporary event if it can be shown that there was no red event:

- for a period of one month during the three calendar months prior to 31 December 2011, and
- for a period of one month during the three calendar months after 31 December 2011, and
- on 31 March 2012.

The review period for this monitoring continues after the date of signing of these financial statements. At that date our estimate of scheme funding was 82.5%, at which level we would expect the trigger event to be deemed temporary.

If, however, the covenant agreement is enforced then an additional contribution of £5.0m will be required during 2012 and the deficit funding plan reviewed, as well as bringing the current covenant agreement to an end. Such a contribution would not have a direct effect on the income statement. No provision has been made within current liabilities owing to the inherent uncertainty over the outcome of the temporary event monitoring.

Contributions to the scheme in 2012 are estimated at £6.0m, plus any additional funding which may arise from the covenant breach described above, and additional payments for enhanced early retirements on a pay-as-you-go basis.

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

	2011	2010	2009
Pre-retirement discount rate	4.20%	5.42%	6.50%
Inflation	3.10%	3.62%	3.80%
Future salary increases	–	–	1.50%
Life expectancy	Long cohort	Medium cohort	Medium cohort

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

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

	Change in assumption	Effect on value of liabilities	
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 10.0%	16.7
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 4.5%	7.6
Longevity	Increase by 1 year	Increase by 3.7%	6.2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

27 Pension liabilities (continued)

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 2011 by the board on the advice of the scheme's actuary were:

	2011	2010	2009
Discount rate	4.70%	5.40%	5.68%
Expected return on scheme assets	4.25%	5.78%	5.92%
Future salary increases	2.85%	3.35%	3.55%
Future increases in pensionable earnings	2.85%	3.35%	3.55%
Rate of inflation	2.85%	3.35%	3.55%

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

The expected return on assets has been based on the long-term expectation for each asset class at the beginning of the year. The return on equities has been taken as 2.75% per annum in excess of the yield on government bonds at the year end.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 22.5 years (men) and 24.5 years (women); and for current non-pensioners of 24.5 years (men) and 26.3 years (women). These assumptions are in line with the actuarial valuation as at 31 March 2010.

The scheme actuary has confirmed that the assumptions adopted are within their acceptable range for the purposes of the IAS 19 valuation, and have calculated the sensitivity of the liabilities as at 31 December 2011 to certain key assumptions as follows:

	Change in assumption	Effect on value of liabilities	
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 7.0%	9.0
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 3.0%	4.0
Longevity	Increase by 1 year	Increase by 3.0%	4.0

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

	Group			ICAEW		
	2011	2010	2009	2011	2010	2009
	£m	£m	£m	£m	£m	£m
Present value of funded obligations	(134.1)	(125.0)	(120.4)	(134.1)	(125.0)	(120.4)
Fair value of plan assets	127.5	119.3	105.6	127.5	119.3	105.6
Whole scheme deficit	(6.6)	(5.7)	(14.8)	(6.6)	(5.7)	(14.8)
Less: relating to other employers/group companies	–	–	–	0.6	0.3	0.6
Scheme deficit	(6.6)	(5.7)	(14.8)	(6.0)	(5.4)	(14.2)

Until February 2009, the scheme was a multi-employer scheme comprising ICAEW group and the Chartered Accountants' Benevolent Association (CABA). CABA ceased to participate in the scheme in February 2009.

Reconciliation of defined benefit obligation – whole scheme

	2011	2010	2009
	£m	£m	£m
Opening defined benefit obligation	125.0	120.4	99.9
Current service cost	–	0.9	1.9
Past service cost	–	0.9	–
Interest on obligation	6.5	6.7	6.3
Contributions by plan participants	–	0.3	0.7
Actuarial loss in the year	7.2	2.3	16.2
Benefits paid	(4.6)	(6.5)	(4.6)
Closing defined benefit obligation	134.1	125.0	120.4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

27 Pension liabilities (continued)

Reconciliation of fair value of plan assets – whole scheme

	2011 £m	2010 £m	2009 £m
Opening fair value of plan assets	119.3	105.6	90.8
Expected return on assets	6.9	6.3	5.0
Contributions by plan participants	–	0.3	0.7
Contributions by the employer	6.4	7.0	5.8
Actuarial (loss)/gain in the year	(0.5)	6.6	7.9
Benefits paid	(4.6)	(6.5)	(4.6)
Closing fair value of plan assets	127.5	119.3	105.6
Actual return on assets	6.4	12.8	13.0

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

	2011	2010	2009
Equities	44%	58%	57%
Government bonds	44%	33%	34%
Cash	4%	3%	4%
Corporate bonds	8%	6%	5%
	100%	100%	100%

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

	2011 £m	2010 £m	Group 2009 £m	2011 £m	2010 £m	ICAEW 2009 £m
Current service cost	–	(0.9)	(1.9)	–	(0.9)	(1.9)
Past service cost	–	(0.9)	–	–	(0.9)	–
Expected return on pension scheme assets	6.9	6.3	5.0	6.9	6.3	5.0
Interest on pension scheme liabilities	(6.6)	(6.7)	(6.3)	(6.6)	(6.7)	(6.3)
	0.3	(2.2)	(3.2)	0.3	(2.2)	(3.2)
Less: relating to other employers within the scheme	–	–	–	–	0.1	0.1
	0.3	(2.2)	(3.2)	0.3	(2.1)	(3.1)

Amounts recognised as other comprehensive income:

	2011 £m	2010 £m	Group 2009 £m	2011 £m	2010 £m	ICAEW 2009 £m
Actuarial (loss)/gain on plan assets	(0.5)	6.6	7.9	(0.5)	6.6	7.9
Actuarial (loss)/gain on obligation	(7.2)	(2.3)	(16.2)	(7.2)	(2.3)	(16.2)
Actuarial (loss)/gain – whole scheme	(7.7)	4.3	(8.3)	(7.7)	4.3	(8.3)
Less: relating to other employers/group companies within the scheme	–	–	–	0.3	(0.2)	0.3
	(7.7)	4.3	(8.3)	(7.4)	4.1	(8.0)

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £3.9m (2010: £3.8m gain).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

27 Pension liabilities (continued)

Amounts for the current and previous periods are as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	(134.1)	(125.0)	(120.4)	(99.9)	(115.4)
Plan assets	127.5	119.3	105.6	90.8	98.9
Whole scheme deficit	(6.6)	(5.7)	(14.8)	(9.1)	(16.5)
Actuarial (loss)/gain on plan assets	(0.5)	6.6	7.9	(16.7)	5.8
Actuarial (loss)/gain on obligation	(7.2)	(2.3)	(16.2)	20.9	3.1
Experience (losses)/gains on obligation	–	(0.7)	–	–	0.2

Defined contribution scheme

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

The amount charged to the income statement during the year for these schemes was £2.3m (2010: £1.8m). There were no contributions payable to the scheme at the year-end date (2010: £nil).

28 Reserves

Included within reserves is £3.2m 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 in respect of work carried out by authorised firms under both the Recognised Professional Body (RPB pre 2001) and Designated Professional Body (DPB post 2001) regimes. ICAEW maintains a reserve to meet anticipated future claims. A levy was made in 2011 on licensed firms under the DPB regime. ICAEW has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

29 Leasing commitments – operating leases

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

	Group		Group	
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	2011	2011	2010	2010
	£m	£m	£m	£m
Minimum lease payments due:				
Within one year	0.1	–	0.1	–
In two to five years inclusive	0.4	0.3	0.2	0.2
After five years	6.6	–	7.0	–
	7.1	0.3	7.3	0.2
		ICAEW		ICAEW
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	2011	2011	2010	2010
	£m	£m	£m	£m
Minimum lease payments due:				
In two to five years inclusive	–	0.3	0.2	0.2
After five years	6.6	–	7.0	–
	6.6	0.3	7.2	0.2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(continued)

30 Staff costs

Average number of staff employed during the year	Group		ICAEW	
	2011	2010	2011	2010
Total employees	713	664	693	646
Full-time equivalents	675	635	657	619

Employment costs	Group		ICAEW	
	2011 £m	2010 £m	2011 £m	2010 £m
Wages and salaries	31.1	29.1	30.5	28.5
Employer's social security costs	3.2	2.9	3.1	2.9
Employer's pension costs	2.0	4.0	1.9	3.8
	36.3	36.0	35.5	35.2

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2010: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW.

31 Key management compensation – executive directors

	Group and ICAEW			Group and ICAEW		
	Salary 2011	Deferred variable pay 2011	Total 2011	Salary 2010	Deferred variable pay 2010	Total 2010
	£'000	£'000	£'000	£'000	£'000	£'000
Robin Fieth	190	40	230	182	41	223
Robert Hodgkinson	243	54	297	232	50	282
Michael Izza	372	105	477	351	99	450
Mark Protherough	190	40	230	170	37	207
Vernon Soare	190	44	234	183	33	216
	1,185	283	1,468	1,118	260	1,378

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. Mark Protherough was appointed as executive director, learning and professional development from 2 February 2010. Sharron Gunn was appointed as executive director commercial from 1 January 2012. In addition to the above salaries, employer's national insurance contributions totalled £166,000 (2010: £163,000).

32 Contingent liabilities and guarantees

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

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

ICAEW is a professional membership organisation, supporting over 138,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

Because of us, people can do business with confidence.

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