THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

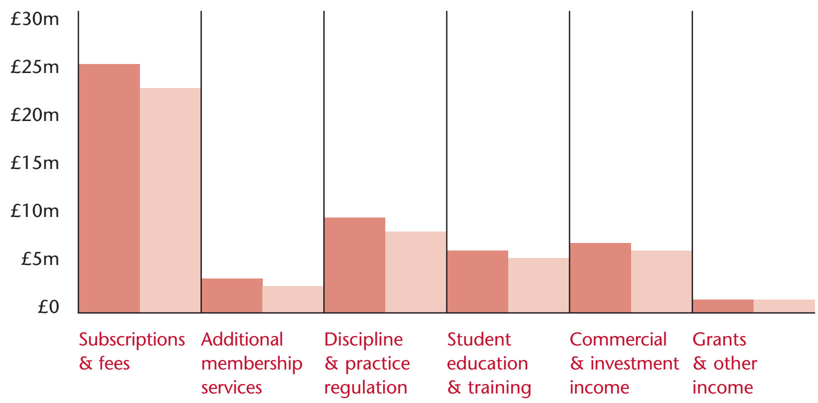
Annual accounts 2004

Securing our heritage for the future

Financial and operating statement

Contents

Operating income 2004 and 2003



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

Subscriptions and other income

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

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

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

Operating activities

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

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of the Joint Disciplinary Scheme (JDS) have fallen in 2004 to £1.37 million (2003: £2.60 million) but have in part been replaced by the initial costs of funding investigations by the Accountancy Investigation and Discipline Board (AIDB) of £0.86 million (of which £0.53 million was recovered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

Full-time equivalent headcount has increased overall during the year from 488 to 509 including library and Fraud Advisory Panel staff who have employment contracts with the Institute. From the start of 2004, 46 former Joint Monitoring Unit (JMU) staff became direct Institute employees as the JMU's activities were transferred back in-house. From the start of January 2005, four Joint Insolvency Monitoring Unit staff also became Institute employees as its activities were transferred to the Institute's professional standards directorates.

Investment income and taxation

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

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

Balance sheet and cash flows

Net assets at 31 December 2004 were £37.06 million (2003: £36.95 million). The valuation of Chartered Accountants' Hall has risen by £0.11 million to £8.35 million following two successive years of decreases. The valuation of Gloucester House has fallen by £0.67 million to £2.20 million reflecting property trends in Milton Keynes. The Institute's historic collections of rare books, silver and antiques have risen in value by £0.11 million to £3.49 million. Fixed asset

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

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

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

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

Pensions

A full actuarial valuation of the Institute's defined benefit pension scheme took place during 2004 and, as expected, showed a substantial deficit in respect of past service costs. Following consultation with the scheme's trustees and employee members, a number of further changes have been agreed to restrict our liabilities in respect of future service costs.

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

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

International financial reporting standards

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

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

Information technology

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

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

Corporate governance statement

Constitution
The Institute is a body incorporated by Royal Charter. As such, the provisions of the *Combined Code on Corporate Governance* (the combined code) and of the Companies Act generally do not apply to its governance. The Institute operates within the terms of the Charter and accompanying bye-laws and regulations. The Institute council has nonetheless agreed that the Institute should also comply with best corporate practice, in particular, the combined code issued by the FRC in July 2003, wherever practicable.

The terminology of the combined code is, of course, directed towards listed companies. As a result, it does not read directly across to Institute governance structures. The council has therefore interpreted the main terms of the combined code widely, although some of these remain an imperfect match. The council believes that the Institute is broadly in compliance with relevant principles and provisions of the code. It has made adjustments where necessary to bring Institute practice more into line with the code where it is appropriate to do so, given the Institute's status as a chartered corporation and member body. In areas referred to below where the Institute has complied fully with the provisions of the code, the detailed requirements have not been reproduced.

Institute meetings
The Charter and bye-laws reserve certain matters to Institute members in general meeting. The ordinary annual business of the Institute includes the reception and consideration of the annual review and the accounts of the Institute with the report of the auditors.

The annual review is one of the principal means of communication with members. Member participation in the business of the annual and special meetings is encouraged by a letter from the president included with the meeting documentation. The president reports at the annual meeting on achievements during the year and opens the meeting to questions from the floor on matters germane to the Institute or the profession.

The Institute council
The council ordinarily meets seven times a year and is responsible for the management of the affairs and business of the Institute in accordance with Charter clause 2(a). It considers, reviews and approves the overall Institute strategy and strategic plan, including the Institute budget. It scrutinises policies, policy changes and budgets proposed by the board and the directorate boards in support of the strategy. It also reviews the activities and performance of the directorate boards and the Institute's annual review and accounts. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws.

Council members take decisions in the best interests of the Institute as a whole. They operate in accordance with a code of conduct which makes explicit reference to objectivity in decision-making.

As at 31 December 2004, the council comprised 96 members as follows:

- 69 members elected by the membership at large from 22 constituencies (which have the same boundaries as the district societies)
- 16 members co-opted on the recommendation of the nominating committee in order to preserve a balance between the various interests requiring representation on the council and to provide seats for members with specialist skills or experience
- 11 members *ex officio* (the office-holders (president, deputy-president and vice-president), the two immediate past-presidents, and the elected chairmen of the faculty and Practice Society committees).

Each council member receives induction on joining the council. Brief details of each council member, including their present principal employment commitments together with their record of attendance at council meetings in 2004, appear in the annual review.

Elections
The Institute conducts elections to the council in alternate years when approximately one half of the elected members retire by rotation. In the intervening years, the Institute may hold elections required as a result of resignations. Any member with a registered address in a constituency at the qualifying date may stand in, join in nominating a member for, or vote in, an election to the council in the constituency concerned. Members outside England and Wales may opt to vote in the constituency of their choice. Members are usually elected for four-year terms, beginning and ending after the annual meeting in the year in question, in accordance with principal bye-law 35.

Council members choose the incoming Institute vice-president by ballot in January each year. The council then formally elects each of the office-holders at its first meeting after the annual meeting each year in accordance with principal bye-law 43. In the normal course of events, the council elects the vice-president in the two succeeding years to serve as deputy-president and then president of the Institute.

The council elects its own chairman annually from amongst its members.

The president and chief executive

The president (the combined code 'chairman') and other office-holders act as the leading ambassadors of the Institute. They have no formal personal powers other than those procedural matters specified in the principal bye-laws. The office-holders represent the views of the council and the wider membership within the Institute to ensure that they are taken into account in the development of Institute strategy and policies. They counsel and advise the chief executive. The president, in particular, represents the Institute at home and abroad, presents the views of the council to Government, other public bodies and the public, and acts as chairman of Institute meetings and the CCAB. He also chairs the Institute board.

The chief executive operates within the framework of delegations approved by the council. He is responsible to the council for the development, promotion and management of the Institute in order to achieve the strategy set by the council. He implements Institute policies in support of the strategy by harnessing the efforts of volunteers and staff and by building effective relationships with policy-makers and opinion formers, and with members. He is responsible for the overall management of the staff and for ensuring that the Institute operates effectively and efficiently. The Institute complies with the provisions of the combined code relating to the separation of roles and responsibilities of chairman and chief executive. It is likely, for all practical purposes, both that the president will ordinarily meet the criteria for independence set out in the code and that the chief executive will not, on standing down, then become president.

The board

The board is responsible, on behalf of the council, for all matters relating to the development and implementation of the Institute strategy and operational plans in support of the strategy, and Institute resources, together with other matters delegated by the council. The board reports to each meeting of the council on its activities.

The head of executive office oversees the provision of reports to the board in conjunction with the president, chief executive and executive directors and provides advice on governance issues as required. Senior staff report to each meeting of the board on performance against operational plans. The chief operating officer reports monthly to the board on performance against budget. He also reports three times a year on key risks and internal controls.

The composition, meetings and proceedings of the board comply with the provisions of the combined code with the exception of the provision relating to the appointment of a 'senior independent director'. In practice, there are already mechanisms in place within the Institute to achieve the objective of this code provision. These include the ability of members generally to raise issues with their constituency representatives on the council and for members of the council to raise issues with the office-holders, with the chairman of the council, or with the elected members of the board.

A specific induction programme for board members is in development for introduction in 2005. Board members have undertaken an informal evaluation of their performance and the board will continue to develop this process in 2005.

The membership of the board is largely *ex officio* (by virtue either of election as an office-holder by the council or appointment as an executive director, a directorate board chairman or as treasurer on the recommendation of the nominating committee) and comprises both non-executive volunteers and senior staff. Notice periods for the staff members are set at less than one year, except for the chief executive and chief operating officer whose notice periods are one year. The council also elects two members directly to the board from amongst its membership for terms of two years.

The volunteer members will ordinarily meet the criteria for independence as set out in the combined code and may seek independent professional advice if thought necessary on any issue. Each member of the board is indemnified against loss and expense (other than that incurred by negligence or wilful default). The members of the board (for whom brief biographical details can be found under 'council' in the 'about the Institute' section of the Institute website) during 2004 are listed on the following page:

Corporate governance statement
(continued)

Volunteer members	Position	Appointed	Retired	Attendance
Debbie Anthony	chairman, education and training board			10/11
Ian Cherry	elected by the council			10/11
Paul Druckman	deputy-president to 9 June 2004; president and chairman from 9 June 2004			11/11
Graham Durgan	vice-president	9 June		4/5
Maurice Ede	chairman, professional standards board			8/11
Bruce Gray	chairman, member services board			8/11
Philip Hollins	treasurer			10/11
David Illingworth	president and chairman		9 June	5/6
Geoffrey Mitchell OBE	chairman, technical strategy board		31 December	6/11
Ian Morris	vice-president to 9 June 2004; deputy-president from 9 June 2004			10/11
Robert Webb	elected by the council			9/11
Staff members				
Eric Anstee	chief executive			10/11
Brian Chiplin	executive director, education and training		30 November	8/10
Sally Hinkley CBE	executive director, professional standards			10/11
Michael Izza	chief operating officer			11/11

Audit committee

The audit committee is responsible, on behalf of the council, for ensuring that all activities of the Institute are subject to independent review and audit, and for monitoring the Institute's relationship with its auditors. Its terms of reference reflect, so far as is practical and appropriate, the recommendations of the *Smith Report* and, therefore, the requirements of the combined code. None of its members are members of the board. The chairman of the committee must be a member of the council and at least one member must be a non-council member. It meets at least three times a year. The treasurer attends its meetings. Both the internal and external auditors attend its meetings and have direct access to its chairman.

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

The members of the audit committee during 2004 were:

	Position	Appointed	Retired	Attendance
Gerry Acher CBE	non-council member		19 February	0/1
John Anderson OBE	non-council member			2/3
Arthur Bailey	council member and chairman			3/3
Alun Bowen	non-council member	9 June		2/2
Phillip Day	non-council member		9 June	1/1
Roger Gould	non-council member		9 June	1/1
Peter Jenkins	council member			3/3
Sheilagh Moffat	council member	9 June		2/2
Michael Pavia	council member	9 June		2/2
George Ridgway	non-council member		9 June	1/1
Nigel Turnbull	non-council member			2/3

Remuneration committee

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for Institute staff, including the chief executive and executive directors. Staff are remunerated with reference to their annual performance rating and to benchmark market salaries. Institute staff contracts do not include provisions for compensation payable on early termination. None of the members of the council receive remuneration for services to the Institute, other than reimbursement of out of pocket expenses and payments on a normal commercial basis, in particular in connection with lecturing and writing.

The members of the remuneration committee during 2004 were:

	Position	Appointed	Retired	Attendance
Richard Dyson				1/2
Philip Hollins				2/2
David McBride	chairman			2/2
Ian Morris		9 June		2/2
Clive Parritt		9 June		1/2
Peter Rosewell		9 June		2/2

Nominating committee

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

The nominating committee deals with much of its business by correspondence and meets only as required. Its membership is largely *ex officio*, including the two most recent past-presidents, but also includes two members elected for terms of two years by the council from amongst its members.

The nominating committee members during 2004 were:

	Position	Appointed	Retired	Attendance
Paul Druckman	deputy-president to 9 June; president and chairman from 9 June			1/1
Graham Durgan	vice-president	9 June		0/0
Michael Groom	past-president		8 June	1/1
Martin Hagen	elected by the council	8 November		0/0
David Illingworth	president and chairman to 9 June; past-president from 9 June			1/1
Sheilagh Moffat	elected by the council			0/1
Ian Morris	vice-president to 9 June; deputy-president from 9 June			1/1
Peter Rosewell	elected by the council		8 November	1/1
Peter Wyman	past-president			1/1

Corporate governance statement
(continued)

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

The boards and their chairmen in 2004 were:

Senior staff appointments committee
The senior staff appointments committee has responsibility for all matters relating to the recruitment and appointment of the chief executive and executive directors. Its membership comprises (for the appointment of the chief executive) the president or one other office-holder (chairman), the chairman of council and three members of the council appointed by the nominating committee; and (for the appointment of an executive director) the president or one other office-holder (chairman), the chairman of council, one member of the council appointed by the nominating committee, the chairman of the relevant directorate board (or treasurer in the case of the chief operating officer) and the chief executive. The committee met in 2004 to consider the appointment of the executive director, education & training, following the retirement of Professor Brian Chiplin. This appointment was facilitated by the use of an open advertisement and an external search consultancy. A special committee (comprising the volunteer members of the board and the chairman, remuneration committee) is convened in the event that the removal of a senior staff member is required.

Board	Chairman
education and training	Debbie Anthony
member services	Bruce Gray
professional standards	Maurice Ede
technical strategy	Geoffrey Mitchell OBE (to 31 December)

The council formally appointed Andrew Ratcliffe as the successor to Geoffrey Mitchell as chairman, technical strategy board on 2 February 2005.

The full membership of the boards is available on the Institute's website.

Employees
The Institute aims to create a working environment that is based on a number of key principles including fairness, equality of opportunity, respect and dignity, flexibility, transparency and work-life balance. The Institute believes that these key principles enable its employees to enjoy work, develop as individuals and to provide the best possible service to the Institute, its members, the public and colleagues thus contributing to the continued success of the organisation.

It is the Institute's policy to treat all employees fairly and equally regardless of race, sex, sexual orientation, gender re-assignment, marital status, or disability. Should existing employees suffer a disability the Institute will do all it can to accommodate that disability and to assist the employee to continue their career with the Institute in their existing role where possible, or in an alternative position.

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

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

Creditor payment policy
It is the Institute's policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2004 were 15 days (31 December 2003: 12 days).

Going concern
The financial statements have been prepared on a going concern basis. The council has a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future.

Internal control
The council is responsible for the Institute's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Wider aspects of internal control
The council, through the board, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by the Institute.

Each directorate identifies and reviews the risks faced by the Institute and assesses both the controls in place and key actions required to manage the significant risks. The key risk assessments are reported three times a year to the management team, the board and the council.

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

Annually in March, council undertakes a regular 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
- how the risks have changed over the period under review and any significant issues.

The key elements of the system of internal control are:

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

Budgets
Detailed annual budgets are prepared by the staff for approval by the board and the council. Actual results are compared to approved budgets on a monthly basis and reported to each meeting of the board and the council. Revised annual forecasts are also prepared and reported three times a year. A summary of both the monthly results, and forecast reviews is posted on the council members' website.

Internal audit
The internal audit department assesses risk and reviews controls, based on a four year, risk-based plan with more frequent reviews where necessary. The department ensures that recommendations to improve controls are followed up by management. The internal audit department reports formally to the audit committee which reviews the risk analysis and testing of the system of internal financial and wider controls. The committee also receives reports from the staff and the external auditors on important control matters.

Review
The council, through the reports it receives from the board and through the audit committee, has reviewed the effectiveness of the Institute's system of internal control in operation during 2004.

Financial responsibilities of the council
Bye-law 12(a) requires the council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Institute and of the surplus or deficit for the Institute for that period.

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

- selected suitable accounting polices and applied them consistently
- made judgements and estimates that are reasonable and prudent
- followed applicable accounting standards
- prepared the financial statements on a going concern basis.

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

Independent auditors' report

to the members of The Institute of Chartered Accountants in England & Wales

We have audited the financial statements on pages 10 to 30.

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

Respective responsibilities of the council and auditors

The council's responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom accounting standards are set out in the statement of financial responsibilities of the council.

Our responsibility is to audit the financial statements in accordance with relevant legal requirements and United Kingdom auditing standards. We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the financial and operating statement and the corporate governance statement are not consistent with the financial statements, if the Institute has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual review and consider whether it is consistent with the audited financial statements. The other information comprises the financial and operating statement, the corporate governance statement and the annual review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Institute's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Institute as at 31 December 2004 and of its surplus for the year then ended.

RSM Robson Rhodes LLP

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

Revenue account

for the year ended 31 December 2004

Note		Income £'000	Expenditure £'000	2004 Net £'000	2003 Net £'000
	Subscriptions and other income				
	Subscriptions and fees	26,014	–	26,014	23,932
	Licence and data access fees	1,850	–	1,850	1,850
		27,864	–	27,864	25,782
	Subscription based services				
1	Members' education and training	598	(3,856)	(3,258)	(2,078)
2	Professional standards	793	(3,562)	(2,769)	(2,355)
3	Member services	2,434	(8,488)	(6,054)	(5,897)
4	Technical strategy	508	(3,814)	(3,306)	(3,135)
5	Central activities	1,560	(10,234)	(8,674)	(8,037)
		5,893	(29,954)	(24,061)	(21,502)
	Self financing activities				
6	Student education and training	6,355	(5,406)	949	(367)
7	Practice regulation	9,200	(9,949)	(749)	(189)
8	Faculties	2,804	(2,881)	(77)	461
		18,359	(18,236)	123	(95)
9	**Participation in external bodies**	151	(2,878)	(2,727)	(3,054)
10	**Gift aid and library funding**	–	(1,910)	(1,910)	(2,073)
	Totals of income and expenditure	52,267	(52,978)		
	(2003 totals of income and expenditure	*47,106*	*(48,048))*		
11	**Operating deficit**			(711)	(942)
	Sale of ABG Professional Information – discontinued operations			–	269
	Net realised and unrealised gains on listed investments			11	110
12	Net investment income			1,298	930
	Surplus before taxation			598	367
13	Taxation			(346)	77
	Net surplus after taxation			252	444
	(Surplus)/deficit attributable to self financing activities			(123)	95
27	**Net surplus transferred to accumulated fund**			129	539

Statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 £'000	2003 £'000
Net surplus transferred to accumulated fund	**129**	539
Net surpluses/(deficits) transferred to/(from) self financing activities		
Student education and training surplus/(deficit) for the financial year	**949**	(367)
Practice regulation deficits for the financial year	**(749)**	(189)
Faculty (deficits)/surpluses for the financial year	**(77)**	461
	123	(95)
Net surplus after taxation	**252**	444
Unrealised deficit on the revaluation of tangible fixed assets	**(445)**	(1,679)
Unrealised surplus on the revaluation of fixed asset investments	**315**	433
Deferred tax on revaluation of fixed asset investments	**(14)**	(131)
Total recognised gains and (losses) relating to the year	**108**	(933)

Additional statements

for the year ended 31 December 2004

	2004 £'000	2003 £'000
Note of historical cost surplus		
Net surplus before taxation	**598**	367
Shortfall of actual depreciation charge over historical cost depreciation	**(262)**	(233)
(Increase)/decrease in market value of short-term investments over cost	**(69)**	27
Historical cost surplus before taxation	**267**	161
Taxation	**(325)**	69
Historical cost (deficit)/surplus after taxation	**(58)**	230

	2004 £'000	2003 £'000
Reconciliation of movements in total reserves		
Net surplus after taxation for the year	**252**	444
Unrealised deficit on the revaluation of tangible fixed assets	**(445)**	(1,679)
Change in market value of investments net of tax	**301**	302
Net increase/(decrease) in reserves	**108**	(933)
Reserves at 1 January	**36,952**	37,885
Reserves at 31 December	**37,060**	36,952

Balance sheet

at 31 December 2004

Note		2004 £'000	2003 £'000
	Fixed assets		
14	Tangible fixed assets	17,708	17,277
15	Investments in subsidiary and associated undertakings	3	3
16	Other investments	21,633	20,425
		39,344	37,705
	Current assets		
17	Stocks	402	409
18	Debtors: amounts receivable within one year	10,940	7,974
19	Debtors: amounts receivable after more than one year	6,500	7,500
20	Short-term investments	3,237	3,031
	Cash on short-term deposit, at bank and in hand	1,532	1,294
		22,611	20,208
21	**Creditors:** amounts falling due within one year	(16,604)	(13,180)
	Net current assets	6,007	7,028
	Total assets less current liabilities	45,351	44,733
	Provisions for liabilities and charges		
22	Staff pensions fund	(3,029)	(2,141)
24	Joint Disciplinary Scheme	(1,713)	(3,079)
25	Chartered Accountants' Compensation Scheme	(2,755)	(2,561)
26	Accountancy Investigation and Discipline Board	(794)	–
		(8,291)	(7,781)
		37,060	36,952
	Reserves		
27	Revaluation reserve	8,313	8,496
27	Investment revaluation reserve	439	403
27	Accumulated fund	20,820	20,688
		29,572	29,587
	Reserves retained by self financing activities		
6	Student education and training	1,926	977
7	Practice regulation	3,731	4,480
8	Faculties	1,831	1,908
		7,488	7,365
		37,060	36,952

Approved on behalf of the council

Paul Druckman
President
15 March 2005

Eric Anstee
Chief Executive

Cash flow statement

for the year ended 31 December 2004

Note		2004 £'000	2004 £'000	2003 £'000	2003 £'000
	Cash flow from operating activities		(932)		(6,811)
	Returns on investment and servicing of finance:				
	Income received on investments		1,458		1,501
	Taxation		(121)		(5,480)
	Capital expenditure and financial investment:				
	Purchase of tangible fixed assets	(2,301)		(1,745)	
	Sale of tangible fixed assets	–		4	
	Purchase of long-term investments	(69,540)		(81,060)	
	Realisation of long-term investments	69,406		81,043	
	Net cash outflow for capital expenditure and financial investment		(2,435)		(1,758)
	Sale of ABG Professional Information:				
	Deferred consideration received		1,000		1,000
	Cash flow before management of liquid resources and financing		(1,030)		(11,548)
	Management of liquid resources and financing:				
	Purchase of short-term investments	(72,231)		(112,186)	
	Realisation of short-term investments	72,094		123,619	
	Return of funds from Chartered Accountants' Trustees Limited	1,405		–	
			1,268		11,433
34	**Net increase/(decrease) in cash in the year**		238		(115)

Reconciliation of operating deficit to cash flow from operating activities

	2004 £'000	2003 £'000
Operating deficit	(711)	(942)
Investment income allocated to self financing activities	(477)	(434)
	(1,188)	(1,376)
Depreciation	1,345	1,025
Decrease in stocks	7	257
(Increase)/decrease in current debtors	(4,413)	647
Increase/(decrease) in creditors	3,287	(6,159)
Increase/(decease) in provisions	510	(647)
Loss on disposals of tangible fixed assets	20	14
Gain on disposals and revaluations of other fixed asset investments	(500)	(572)
Cash flow from operating activities	(932)	(6,811)

Reconciliation of net cash flow to change in net funds

Note		2004 £'000	2003 £'000
	Increase/(decrease) in cash in the year	238	(115)
	Increase/(decrease) in liquid resources	137	(11,433)
	Net change in market value of short-term investments over cost	69	(27)
	Change in net funds	444	(11,575)
	Net funds at 1 January	4,325	15,900
34	Net funds at 31 December	4,769	4,325

Accounting policies

I Convention

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

II Income

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

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

III Tangible fixed assets and depreciation

Freehold properties

Freehold properties are revalued triennially on an existing use basis and are included in the balance sheet at their revalued amounts. Surpluses on revaluations are transferred to the revaluation reserve. Deficits arising from market revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the revenue account.

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

Depreciation is not charged on freehold land. Depreciation is charged on the revalued amount of freehold buildings at 2% per annum. A transfer is made annually from the revaluation reserve to the accumulated fund for the difference between the amount of depreciation charged on the revalued amount and that charged on an historical cost basis.

Leasehold improvements

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

Silver collection and antiques

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

Other tangible fixed assets

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

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

IV Investments

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

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

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

V Stocks

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

VI Operating leases

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

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

VII Grants

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

Accounting policies
(continued)

VIII Pensions

Defined benefit scheme

The expected costs of providing pensions under the Institute's defined benefit staff pensions fund, as calculated periodically by qualified actuaries, is charged to the revenue account so as to spread the cost over the service lives of employees in the scheme. The Institute has adopted the transitional provisions of FRS 17.

Defined contribution schemes

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

IX Deferred taxation

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

X Professional Conduct, Joint Disciplinary Scheme and Accountancy Investigation and Discipline Board Scheme

Provision is made for the estimated future external costs of major disciplinary cases relating to events which occurred prior to the balance sheet date.

XI Foreign currencies

Transactions in foreign currencies are translated into sterling at the actual rate at the time of the transactions. Differences arising on foreign currencies are dealt with in the revenue account. Forward contracts are used selectively to cover known foreign currency exposures.

XII Self financing activities

It is the intention of the council that, taking one year with another, the costs of self financing areas should be borne by those members and/or firms deriving benefit from such areas. In calculating the surplus or deficit to be taken to reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income.

Notes to the financial statements

for the year ended 31 December 2004

1 Members' education and training

The members' education and training directorate has received grants from the Chartered Accountants' Trust for Education and Research (CATER) totalling £479,000 (2003: £550,000).

2 Professional standards

	2004 Income £'000	2004 Expenditure £'000	2004 Net £'000	2003 Net £'000
Disciplinary	638	(3,431)	(2,793)	(2,482)
Practice regulation	155	(131)	24	127
	793	(3,562)	(2,769)	(2,355)

3 Member services

	2004 Income £'000	2004 Expenditure £'000	2004 Net £'000	2003 Net £'000
Product sales and development	1,598	(1,968)	(370)	(369)
Local and regional services	542	(3,834)	(3,292)	(3,187)
Focuses and research unit	13	(904)	(891)	(856)
Advisory and other member services	167	(961)	(794)	(829)
Member services administration	114	(821)	(707)	(656)
	2,434	(8,488)	(6,054)	(5,897)

4 Technical strategy

	2004 Income £'000	2004 Expenditure £'000	2004 Net £'000	2003 Net £'000
International	–	(425)	(425)	(293)
Faculties – Institute funded	–	(902)	(902)	(698)
Technical departments	463	(2,121)	(1,658)	(1,882)
Technical support	45	(366)	(321)	(262)
	508	(3,814)	(3,306)	(3,135)

The technical strategy directorate has received grants from CATER totalling £460,000 (2003: £169,000) and from the Chartered Accountants' Permanent Educational Trust (CAPET) totaling £38,000 (2003: £50,000). During the year the centre for business performance, whose income and expenditure is included in technical support, administered research projects which were funded by the PD Leake Trust (PDL). Funding paid to third parties by the trust in 2004 amounted to £113,000 (2003: £251,000), and by CATER totalled £10,000 (2003: £Nil) and have not been included in these financial statements.

5 Central activities

	2004 Income £'000	2004 Expenditure £'000	2004 Net £'000	2003 Net £'000
Accommodation	44	(1,755)	(1,711)	(1,936)
Common office services	–	(2,818)	(2,818)	(2,933)
Membership records	27	(983)	(956)	(861)
Communications	–	(2,526)	(2,526)	(2,576)
Information technology directorate	23	(3,904)	(3,881)	(3,389)
Finance and accounting	–	(1,758)	(1,758)	(1,293)
Council	–	(242)	(242)	(229)
Strategy review	–	(332)	(332)	–
Consolidation costs	–	(464)	(464)	–
Members' facilities	1,438	(2,540)	(1,102)	(1,117)
Executive and administration	28	(1,318)	(1,290)	(947)
	1,560	(18,640)	(17,080)	(15,281)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £753,000 (2003: £702,000))	–	8,406	8,406	7,244
	1,560	(10,234)	(8,674)	(8,037)

Notes to the financial statements

for the year ended 31 December 2004 (continued)

6 Student education and training – self financing

	2004 £'000	2003 £'000
Income	6,355	5,634
Expenditure	(5,406)	(6,001)
Surplus/(deficit) for the year	949	(367)
Reserves at 1 January	977	1,344
Reserves at 31 December	1,926	977

7 Practice regulation – self financing

	Authorisation of investment business £'000	Audit regulation £'000	Insolvency licensing £'000	Total 2004 £'000	Total 2003 £'000
Income	1,646	6,447	1,107	9,200	7,752
Expenditure	(1,901)	(7,160)	(888)	(9,949)	(7,941)
Surplus/(deficit) for the year	(255)	(713)	219	(749)	(189)
Reserves at 1 January	3,495	740	245	4,480	4,669
Reserves at 31 December	3,240	27	464	3,731	4,480

Audit regulation includes the cumulative costs of developing the practice assurance scheme of £1,242,000 (2003: £649,000) which are being repaid into the audit reserves over 6 years from 1 January 2005.

8 Faculties

	Tax Faculty £'000	Faculty of Information Technology £'000	Faculty of Finance and Management £'000	Audit and Assurance Faculty £'000	Corporate Finance Faculty £'000	Total 2004 £'000	Total 2003 £'000
Income	677	445	608	629	445	2,804	2,691
Expenditure	(982)	(627)	(668)	(991)	(515)	(3,783)	(2,928)
Less: funded by general membership subscriptions	280	102	79	362	79	902	698
	(702)	(525)	(589)	(629)	(436)	(2,881)	(2,230)
Surplus/(deficit) for the year	(25)	(80)	19	–	9	(77)	461
Reserves at 1 January	504	211	453	571	169	1,908	1,447
Reserves at 31 December	479	131	472	571	178	1,831	1,908

9 Participation in external bodies

	Income £'000	Total expenditure £'000	Expenditure borne by self financing activities £'000	Net expenditure £'000	Net 2004 £'000	Net 2003 £'000
Accountancy Foundation	–	(190)	83	(107)	(107)	(659)
Financial Reporting Council	–	(963)	423	(540)	(540)	–
CCAB	–	(405)	–	(405)	(405)	(743)
International Federation of Accountants	–	(264)	–	(264)	(264)	(215)
Accountancy Investigation and Discipline Board	–	(858)	525	(333)	(333)	–
Joint Disciplinary Scheme						
– costs	–	(1,374)	–	(1,374)	(1,374)	(2,597)
– cost recoveries	–	145	–	145	145	415
– fines	151	–	–	–	151	745
	151	(3,909)	1,031	(2,878)	(2,727)	(3,054)

10 Gift aid

Payments of £1,900,000 (2003: £2,070,000) were made in the year under gift aid to CATER, which funds the Institute library and education in the field of accountancy and related subjects. A further £10,000 was paid by way of gift aid to the General Charitable Trust (GCT) (2003: £3,000 to the Worshipful Company of Chartered Accountants).

11 Operating deficit

The operating deficit of £711,000 (2003: £942,000) is stated after charging:

	2004 £'000	2003 £'000
Staff costs	24,407	17,366
Depreciation	1,345	1,025
Loss on disposal of tangible fixed assets	20	14
Amounts payable under operating leases – plant and machinery	271	95
– other	587	579
Audit fees	46	44

The operating deficit includes reimbursement of volunteer expenses and payments on a normal commercial basis to members and member firms for services, in particular in connection with lecturing and writing. In 2004 these payments in aggregate amounted to £1,791,000 (2003: £1,739,000). Of this £70,000 (2003: £161,000) was paid for services to member firms who have a partner or employee who is also a member of the council. The amounts paid to individual council members for services was £78,000 (2003: £45,000) in total.

12 Net investment income

	2004 £'000	2003 £'000
Bank interest receivable	48	66
Realised gains from certificates of deposit	1,045	1,115
Other financial income	244	144
Dividend income	110	93
	1,447	1,418
Net change in market value of certificates of deposit over cost	328	(27)
	1,775	1,391
Reallocated to self financing activities	(477)	(434)
Interest payable	–	(27)
Net investment gains and income	1,298	930

Notes to the financial statements

for the year ended 31 December 2004 (continued)

13 Taxation

	2004 £'000	2003 £'000
UK corporation tax:		
On income for the year	(405)	(245)
Adjustment for previous periods	86	500
	(319)	255
Deferred tax:		
Origination and reversal of timing differences	(27)	(178)
Tax on operating surplus	(346)	77

The Institute is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER and to GCT.

Factors affecting the tax charge for the year

	2004 £'000	2003 £'000
Net surplus before taxation	598	367
Add back: deficit on transactions with members	535	903
Net surplus before taxation on transactions with non-members	1,133	1,270
Net deficit attributable to investment gains and income and transactions with non-members multiplied by standard rate of corporation tax in the UK of 30%	(340)	(381)
Effects of:		
Capital losses and unrealised capital gains on equities and unit trusts	(3)	20
Realised capital gains transferred from investment revaluation reserve to accumulated fund	(79)	–
Inflationary element of deferred consideration on disposal of ABG Professional Information	25	14
Losses not utilised	–	(9)
Net expenses not (chargeable)/deductible for tax purposes	(48)	74
Franked investment income not taxable	34	28
Other adjustments, including marginal relief	6	9
Adjustments in respect of prior years	86	500
	(319)	255

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

No provision has been made for deferred tax on gains arising from the revaluation of the Institute's silver collection and antiques as a tax liability would only crystallise if items from the collections were sold. There is no intention to dispose of these assets. A deferred tax asset of £177,000 (2003: £195,000) relating to non-trade losses has not been recognised as its future recovery is uncertain. Deferred tax assets relating to capital allowances and pension contributions have not been recognised as they are not material.

14 Tangible fixed assets

	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computers and equipment £'000	Total £'000
Cost or valuation					
At 1 January 2004	11,055	284	3,375	8,738	23,452
Additions at cost	345	–	–	1,896	2,241
Disposals at cost or valuation	–	–	–	(800)	(800)
Surplus/(deficit) on revaluation	(753)	–	111	–	(642)
At 31 December 2004	10,647	284	3,486	9,834	24,251
At valuation	10,647	–	3,486	–	14,133
At cost	–	284	–	9,834	10,118
	10,647	284	3,486	9,834	24,251
Accumulated depreciation					
At 1 January 2004	134	213	–	5,828	6,175
Depreciation for the year	160	18	–	1,167	1,345
Depreciation on disposals	–	–	–	(780)	(780)
Adjustment on revaluation	(197)	–	–	–	(197)
At 31 December 2004	97	231	–	6,215	6,543
Net book amount at 31 December 2004	10,550	53	3,486	3,619	17,708
Net book amount at 31 December 2003	10,921	71	3,375	2,910	17,277
On an historical cost basis the comparable amounts for tangible fixed assets are:					
Cost	10,932	284	161	9,834	21,211
Accumulated depreciation	5,357	231	–	6,215	11,803
Net historical cost at 31 December 2004	5,575	53	161	3,619	9,408
Net historical cost at 31 December 2003	5,664	71	161	2,910	8,806

The freehold properties, Chartered Accountants' Hall, London, and Gloucester House, Milton Keynes, were fully revalued by CB Richard Ellis Ltd, chartered surveyors at 31 December 2004 in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. Surpluses on revaluation over the original net historical cost have been credited to the revaluation reserve, deficits have been charged to the revaluation reserve to the extent that there are available surpluses relating to the same asset.

The historical cost of the Institute's silver collection and antiques represents only the cost of items purchased by the Institute. The valuations in respect of these collections also include substantial donations and bequests received by the Institute.

The valuations of the Institute's historic collections at 31 December 2004 were carried out by Simon Benney *(the Benney silver collection)*; William Walter Antiques Limited *(other silver)*; John Drury Rare Books *(rare books)* and Christies and The Fine Art Society *(period furniture, pictures and sculptures)*. Surpluses on revaluation over the original net historical cost have been credited to the revaluation reserve.

There were no contracts for capital expenditure not provided for in these financial statements at 31 December 2004 (2003: £Nil).

Notes to the financial statements

for the year ended 31 December 2004 (continued)

15 Investments in subsidiary and associated undertakings

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

Subsidiary undertakings	Shareholding and voting %	2004 cost £	Institute interest in net assets £	Activity	2003 cost £
CCAB Limited	51.7	517	517	Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles.	517
Consultative Committee of Accountancy Bodies Limited	50.0	1	1	Dormant	1
Joint Monitoring Unit Limited	80.0	800	800	Monitored compliance with investment business regulations under the Financial Services and Markets Act 2000 and with audit regulations under the Companies Act 1989 on behalf of the Institute and other professional bodies. Ceased trading 31 December 2003.	800
Chartered Accountants' Compensation Scheme Limited	80.0	800	800	Evaluates and administers claims for compensation arising from the Institute's obligations as a recognised professional body under the Financial Services Act 1986 and as a designated professional body under the Financial Services and Markets Act 2000.	800
Chartered Accountants' Independent Financial Services Limited	100.0	1	1	Dormant	1
CAIFS Limited	100.0	1	1	Dormant	1
Chartered Accountants' Trustees Limited	100.0	100	100	Acts as corporate trustee of the various charitable trusts connected with the Institute.	100
F.C.A. Limited	100.0	100	100	Acts as corporate trustee of the Institute of Chartered Accountants' staff pensions fund.	100
A.C.A. Limited	100.0	100	100	Acts as corporate trustee of the Chartered Accountants Employees' Superannuation Scheme.	100
The Society of Incorporated Accountants Limited	100.0	100	100	Dormant	100
ICAEW Limited	100.0	1	1	Dormant	1
Chartac Limited	100.0	2	2	Dormant	2
Associated undertakings					
Accountancy and Financial Publishing Limited	50.0	100	7,016	Prepares learning materials for use in the Institute's examinations.	100
The Joint Insolvency Examination Board (A company limited by guarantee)	–	–	–	Conducts examinations in insolvency practice to meet the education requirements of the Insolvency Act 1986. The Institute is one of seven subscribers each of whom has guaranteed £1 in the event of the company being wound up.	–
The Foundation for Accountancy and Financial Management (A company limited by guarantee)	–	–	–	Dormant	–
Joint Insolvency Monitoring Unit (A company limited by guarantee)	–	–	–	Monitors compliance of insolvency practitioners with the Insolvency Act 1986 on behalf of the Institute and other professional bodies. The Institute is one of two subscribers each of whom has guaranteed £10 in the event of the company being wound up.	–
Chartered Accountants' Property Leasing (A company limited by guarantee)	–	–	–	Held the leases of premises occupied by district societies. Ceased trading 31 December 2004. The Institute as subscriber has guaranteed £250,000 in the event of the company being wound up.	–
		2,623			2,623

The undertakings are all registered in England and Wales or in the case of the Foundation for Accountancy and Financial Management, Scotland, and operate on a not for profit basis.

Joint Insolvency Monitoring Unit ceased trading on 31 December 2004.

15 Investments in subsidiary and associated undertakings (continued)

The Institute incurs administrative expenses on behalf of the subsidiary and associated undertakings. The Institute's share of the annual costs of each subsidiary or associated undertaking is included in the revenue account. The balances due (to)/from the subsidiary undertakings as at 31 December were:

	2004 £'000	2003 £'000
CCAB Limited	(263)	(209)
Joint Monitoring Unit Limited	–	(206)
Chartered Accountants' Compensation Scheme Limited	202	(9)

16 Other investments

	Fixed and floating interest securities £'000	Equities and unit trusts £'000	Total £'000
Market value			
At 1 January 2004	16,628	3,797	20,425
Additions	67,075	2,465	69,540
Disposals	(66,987)	(2,419)	(69,406)
Realised and unrealised gains	749	19	768
Change in market value of investments:			
Charged to revenue account	–	(9)	(9)
Recognised in statement of total recognised gains and losses	–	315	315
At 31 December 2004	17,465	4,168	21,633
On an historical cost basis the comparable amounts of investments are:			
At 31 December 2004	16,954	3,557	20,511
At 31 December 2003	16,627	3,242	19,869

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

Notes to the financial statements

for the year ended 31 December 2004 (continued)

17 Stocks

	2004 £'000	2003 £'000
Publications, other products and sundry stocks	402	409

18 Debtors: amounts receivable within one year

	2004 £'000	2003 £'000
Other debtors	7,355	3,045
Deferred consideration receivable	1,000	1,000
Prepayments	1,538	1,367
Chartered Accountants' Trustees Limited	–	977
Deferred taxation	137	178
Accrued income	910	1,407
	10,940	7,974

19 Debtors: amounts falling due after more than one year

	2004 £'000	2003 £'000
Deferred consideration receivable	6,500	7,500

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

	2004 £'000	2003 £'000
Within one year	1,000	1,000
Within two to five years	4,000	4,000
After more than five years	2,500	3,500
	7,500	8,500

20 Short-term investments

	Market value 2004 £'000	Cost 2004 £'000	Market value 2003 £'000	Cost 2003 £'000
Fixed and floating interest securities	3,237	3,158	3,031	3,018

Fixed and floating interest securities (including certificates of deposit) are held through an independent custodian.

21 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Subscriptions and admission fees in advance	3,922	4,036
Other income in advance	3,956	2,124
Trade creditors	2,502	1,984
Other creditors	1,783	–
Corporation tax	544	346
Income tax and social security payments	774	680
Accruals	3,123	4,010
	16,604	13,180

22 Staff pension funds

Defined benefit scheme

The Institute operates a defined benefit staff pension scheme which provides participating members of staff with retirement benefits based on their final pensionable salary. The assets of the scheme are held by a separate trustee administered fund. The scheme was closed to new members on 1 July 2000 and therefore, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The level of contributions required to fund the scheme is assessed by a qualified actuary on a triennial basis using the projected unit method. The Institute's share of contributions is charged to the revenue account so as to spread these costs over the average remaining service lives of participating employees.

22 Staff pension funds (continued)

Pension costs under SSAP 24

The most recent valuation of the fund was carried out by Hymans Robertson as at 5 April 2004 using the projected unit method and was based on the following principal annual assumptions:

Price inflation	3.00% pa
Increase in pensionable earnings	4.50% pa
Increase in pensions payable	3.00% pa
Investment rates of return and rates used to discount scheme liabilities:	
Pre-retirement	6.75% pa
Post-retirement	5.75% pa

At the valuation date, the market value of the assets of the fund was £55.2 million, which represented 76% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

On the basis of the most recent valuations the agreed rate of employer's contribution is currently 15.7% of pensionable earnings for participating employees on the Group A scale, and 22.5% for employees on the Group C scale, reducing to 13.5% and 20.6% respectively from 1 April 2005. Employee contributions during 2004 ranged from 6% to 7% (2003: 6% to 7%). The Institute agreed to make additional employer contributions during the year in respect of back-dated benefits awarded to participating employees attaining ten years' service with the Institute during that period of £400,000 (2003: £500,000). The Institute agreed to make a further contribution of £5 million in respect of past service deficits in January 2005.

The pension costs for the period for this scheme were £2,694,000 (2003: £1,151,000), after deducting £201,000 (2003: £173,000) in respect of the amortisation of experience surpluses, under the terms agreed in respect of the previous valuation of the fund and charging £1,099,000 (2003: £Nil) in respect of the amortisation of experience deficits under the terms agreed in respect of the most recent valuation.

The movement on the staff pensions fund account was:

	2004 £'000	2003 £'000
Pension costs	**2,694**	1,151
Contributions paid	**(2,021)**	(1,690)
	673	(539)
Provision at 1 January	**2,141**	2,680
Joint Monitoring Unit provision transferred at 1 January 2004	**215**	–
Provision at 31 December	**3,029**	2,141

Pension costs under FRS 17

The following additional disclosures are presented in respect of the defined benefit scheme under the transitional requirements of FRS 17 on the basis of the actuarial valuation of the fund carried out by Hymans Robertson as at 5 April 2004, updated to 31 December 2004, on the projected unit basis:

	2004 £'000	2003 £'000	2002 £'000
The fair value of the assets			
Equities	**46,976**	41,966	32,112
Corporate bonds	**–**	934	928
Government bonds	**12,934**	10,270	10,225
Cash	**1,299**	703	736
	61,209	53,873	44,001
Present value of scheme liabilities	**(87,043)**	(80,492)	(66,173)
Scheme deficit	**(25,834)**	(26,619)	(22,172)

Notes to the financial statements
for the year ended 31 December 2004 (continued)

22 Staff pension funds (continued)

The assumptions made at 31 December were:

	2004	2003	2002
Price inflation	2.75%	2.75%	2.25%
Increase in pensionable earnings	4.25%	4.25%	4.25%
Increase in pensions payable	2.75%	2.75%	2.25%
Scheme liability discount rate	5.25%	5.50%	5.50%
Expected return on bonds	4.50%	4.75%	5.00%
Expected return on equities	7.25%	7.50%	7.00%

The following tables illustrate the impact that the full implementation of FRS 17 would have had on key aspects of the Institute's financial statements for the year ended 31 December 2004.

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

	2004 £'000	2003 £'000	2002 £'000
Reserves as reported:			
Accumulated fund	20,820	20,688	20,183
Reserves retained by self financing activities	7,488	7,365	7,460
	28,308	28,053	27,643
Adjustments:			
SSAP 24 pensions provision	3,029	2,141	2,680
FRS 17 scheme deficit	(25,834)	(26,619)	(22,172)
Reserves on FRS 17 basis	5,503	3,575	8,151

Amounts which would have been charged to operating profit:

	2004 £'000	2003 £'000
Current service cost	(2,193)	(2,022)

Amounts which would have been charged to other financial income:

	2004 £'000	2003 £'000
Expected return on pension scheme assets	3,731	2,863
Interest on pension scheme liabilities	(4,445)	(3,653)
Net return	(714)	(790)

Amounts which would have been recognised in the statement of total recognised gains and losses:

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	3,138	6,271
Experience gains and losses arising on the scheme liabilities	2,446	(88)
Changes in assumptions underlying the present value of the scheme liabilities	(3,913)	(10,085)
Actuarial gain/(loss)	1,671	(3,902)

Movement in deficit during the year:

	2004 £'000	2003 £'000
Deficit as at 1 January	(26,619)	(22,172)
Current service cost	(2,193)	(2,022)
Employer contributions	2,021	2,267
Other finance expense	(714)	(790)
Actuarial gain/(loss)	1,671	(3,902)
Deficit as at 31 December	(25,834)	(26,619)

22 Staff pension funds (continued)

Experience gains and losses:

	2004	2003
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	**3,138**	6,271
Percentage of scheme assets	**5.13%**	11.64%
Experience gains/(losses) on scheme liabilities:		
Amount (£'000)	**2,466**	(88)
Percentage of the present value of the scheme liabilities	**2.83%**	-0.11%
Total gains/(losses) recognised in statement of total recognised gains and losses:		
Amount (£'000)	**1,671**	(3,902)
Percentage of the present value of the scheme liabilities	**1.92%**	-4.85%

Defined contribution scheme

The Institute also operates a defined contribution staff pension scheme for employees who are not entitled to participate in the defined benefits scheme. The defined contribution scheme provides benefits based upon contributions made and investment returns achieved. The scheme first received contributions in July 2000. The assets of the scheme are held in a separate trustee fund. The Institute contributes 9% of pensionable earnings for participating employees. The employees themselves contribute 4%.

The amount charged to the revenue account during the year in respect of this scheme was £576,000 (2003: £470,000). There were no contributions payable to the scheme at the balance sheet date (2003: £Nil).

23 Deferred taxation

	2004 £'000	2003 £'000
The provision for deferred taxation comprises:		
Revaluation of short-term investments	**183**	166
Inflationary element of ABG Professional Information deferred consideration	**(320)**	(344)
	(137)	(178)

	2004 £'000	2003 £'000
Asset at 1 January	**178**	487
Deferred taxation credit for the year		
Recognised in revenue account	**(27)**	(178)
Recognised in the statement of total recognised gains and losses	**(14)**	(131)
Asset at 31 December	**137**	178

	2004 £'000	2003 £'000
Potential deferred tax asset not recognised comprises:		
Staff pensions fund	**(90)**	(19)
Losses incurred in prior periods	**(177)**	(195)
	(267)	(214)

24 Joint Disciplinary Scheme

	2004 £'000
Balance at 1 January	**3,079**
Charge to revenue account	**1,374**
Amounts paid	**(2,740)**
Balance at 31 December	**1,713**

The Joint Disciplinary Scheme is funded by two participant bodies, the Institute and The Institute of Chartered Accountants of Scotland.

The amount provided is based on the estimated cost to the Institute of investigations by the Joint Disciplinary Scheme in respect of cases arising from events up to 31 December 2004. The provision is expected to be utilised over the next three years.

Notes to the financial statements

for the year ended 31 December 2004 (continued)

25 Chartered Accountants' Compensation Scheme

	Designated professional body scheme 2004 £'000	Investment business scheme 2004 £'000	Total 2004 £'000
Balance at 1 January	330	2,231	2,561
Additional levy raised transferred to provision	150	–	150
Interest allocation on funds held transferred to provision	11	78	89
Amounts paid	(12)	(33)	(45)
Balance at 31 December	479	2,276	2,755

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

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

26 Accountancy Investigation and Discipline Board

	2004 £'000
Balance at 1 January	–
Charge to revenue account – practice regulation	525
Charge to revenue account – external bodies	333
Amounts paid	(64)
Balance at 31 December	794

27 Reserves

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

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

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

28 Leasing commitments

Operating Leases

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

	Land and buildings 2004 £'000	Plant and machinery 2004 £'000	Land and buildings 2003 £'000	Plant and machinery 2003 £'000
Operating leases which expire:				
– within one year	**39**	**69**	114	12
– in the second to fifth years inclusive	**472**	**206**	424	59
– after five years	**32**	**–**	12	–
	543	**275**	550	71

29 Staff

Staff employed

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

	2004	2003
Education and training	**56**	55
Professional standards	**129**	81
Member services	**98**	90
Technical strategy and faculties	**56**	48
Central activities	**178**	178
Total employees directly financed by the Institute	**517**	452
Full time equivalents	**491**	428

Employment costs

	2004 £'000	2003 £'000
Wages and salaries	**19,211**	14,330
Employer's social security costs	**1,905**	1,425
Employer's pension costs	**3,291**	1,611
	24,407	17,366

The figures do not include 17 staff (2003: 13) whose employment costs are borne by CATER although they have contracts of employment with the Institute and likewise, 1 member of staff whose employment costs are borne by the Fraud Advisory Panel (2003: 1). (The 2003 figures do not include 46 staff whose employment costs were borne by the Joint Monitoring Unit Limited; these staff transferred to the Institute on 1 January 2004).

Notes to the financial statements

for the year ended 31 December 2004 (continued)

30 Executive directors' remuneration

	Salary 2004 £'000	Bonus 2004 £'000	Benefits 2004 £'000	Total 2004 £'000	Total 2003 £'000
Eric Anstee	300	53	–	353	89
Michael Izza	202	30	–	232	182
Brian Chiplin (retired 30 November 2004)	130	30	21	181	155
Sally Hinkley	148	26	–	174	142
Former executive directors	–	–	–	–	132
	780	139	21	940	700

2004 is the first full year in which Eric Anstee held office as chief executive, having joined the Institute in September 2003.

The executive directors are remunerated on a total-package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards Institute benefits such as pension scheme membership, health insurance or a car. Annual bonuses are payable to executive directors on the basis of performance and the recommendation of the remuneration committee.

Brian Chiplin opted to participate in the Institute's defined benefit pension scheme. The value of his commuted salary and benefits accrued during the year was as follows:

	Increase in accrued pension during the year 2004 £'000	Transfer value increase 2004 £'000	Accumulated annual accrued pension 2004 £'000	Accumulated annual accrued pension 2003 £'000
Brian Chiplin	9	172	20	11

Brian Chiplin paid additional voluntary contributions to purchase additional years of service throughout the year. Pension benefits in respect of these have been excluded from the above figures. Michael Izza has commuted salary of £20,400 during the year in return for a contribution to his personal pension plan (2003: £19,500).

31 Segmented net assets

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

32 Contingent liabilities and guarantees

The Institute has undertakings to Chartered Accountants' Compensation Scheme Limited (CACS Ltd) in respect of its agreed proportion of claims for compensation and administration costs, of amounts up to but not exceeding £10,000,000 in any one year. In support of these undertakings, the Institute and the other participants in CACS Ltd have entered into an agreement with CACS Ltd's bankers to guarantee each participant's proportion of a facility which would enable CACS Ltd to meet its obligations in respect of the first £2,500,000 of claims. Payments for individual claims are limited to a maximum of £50,000. The Institute's share of the costs of the scheme is recovered from those firms licensed by the Institute under the Financial Services and Markets Act 2000 and those firms previously authorised by the Institute under the Financial Services Act 1986 as appropriate.

The Institute acts as guarantor in respect of a lease for property formerly used by the Accountancy Foundation and its successor body, the Financial Reporting Council. The Institute will have the option in September 2005 either to pay a rent deposit of approximately £260,000, or renew the guarantee, or find an alternative guarantor. The Institute is indemnified by the other CCAB bodies against a proportion of any liabilities that may arise, according to an agreed formula.

During the year ended 31 December 2001 ABG Professional Information assigned the residue of a property lease to a third party. The Institute signed an authorised guarantee agreement in respect of rents due under the remainder of the lease. The current annual rental is £87,800 and the lease is due to expire in 2013.

33 Forward rate contract

The Institute used a forward rate contract to manage the short term interest rate exposure from the 2005 IFAC subscription. The value of the contract was £307,000 (2003: £Nil) and was settled on 18 January 2005.

34 Analysis of changes in net funds

	Cash on short-term deposit, at bank and in hand 2004 £'000	Short-term investments 2004 £'000	Total 2004 £'000
Cash flows	238	137	375
Net change in market value of short-term investments over cost	–	69	69
	238	206	444
Balance at 1 January	1,294	3,031	4,325
Balance at 31 December	1,532	3,237	4,769

Securing our heritage for the future

Five year summary

for the years ended 31 December 2004

1 Number of members

	2004	2003	2002	2001	2000
Employed in a practice	***25,701***	*21,011*	*20,691*	*20,153*	*19,413*
In business	***57,690***	*61,558*	*59,721*	*58,168*	*56,301*
Others	***4,990***	*4,573*	*4,620*	*4,500*	*4,741*
Not holding a practising certificate	**88,381**	87,142	85,032	82,821	80,455
Holding a practising certificate	**25,378**	25,778	26,112	26,645	26,875
	113,759	112,920	111,144	109,466	107,330
Retired	**4,997**	6,090	6,016	5,553	5,910
Life members	**7,841**	6,633	6,494	6,337	5,531
	126,597	125,643	123,654	121,356	118,771
Increase	**0.8%**	1.6%	1.9%	2.2%	1.6%

	2004	2003	2002	2001	2000
EU/Europe	**114,407**	110,965	109,306	107,003	104,695
Rest of the world	**12,190**	14,678	14,348	14,353	14,076
	126,597	125,643	123,654	121,356	118,771
Male	**99,355**	99,416	98,716	97,806	96,630
Female	**27,242**	26,227	24,938	23,550	22,141
	126,597	125,643	123,654	121,356	118,771

The statistics above are estimated on information provided by the members for the member profile and also from the membership records. The category of members "Holding a practising certificate" includes some members whose main occupation is not in practice. The increase in members employed in practice shown above is as a result of better data. The geographical classification of members was changed for 2004 and now includes members throughout Europe, rather than just in the EU.

2 Income and expenditure

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Subscriptions and other income	**27,864**	25,782	21,622	18,835	17,862
Members' education and training	**(3,258)**	(2,078)	(1,385)	(1,901)	(1,270)
Professional standards	**(2,769)**	(2,355)	(2,154)	(2,904)	(2,251)
Member services	**(6,054)**	(5,897)	(5,836)	(6,771)	(4,838)
Technical strategy	**(3,306)**	(3,135)	(2,548)	(2,968)	(2,765)
Central activities	**(8,674)**	(8,037)	(7,315)	(8,342)	(7,090)
Student education and training	**949**	(367)	(206)	(1,006)	194
Practice regulation	**(749)**	(189)	(531)	382	1,291
Faculties	**(77)**	461	367	223	141
Participation in external bodies	**(2,727)**	(3,054)	(2,073)	(3,592)	(1,426)
ABG Professional Information	**–**	–	–	1,333	1,697
Gift aid and library funding	**(1,910)**	(2,073)	(1,900)	(1,600)	(1,600)
Operating deficit	**(711)**	(942)	(1,959)	(8,311)	(55)
Exceptional items	**–**	269	22,181	–	–
Investment gains/(losses) and income	**1,309**	1,040	(205)	158	993
Net surplus/(deficit) before taxation	**598**	367	20,017	(8,153)	938
Taxation	**(346)**	77	(5,522)	37	41
Net surplus/(deficit) after taxation	**252**	444	14,495	(8,116)	979
(Surplus)/deficit retained by self financing activities	**(123)**	95	370	401	(1,626)
Net surplus/(deficit) added to/(deducted from) accumulated fund	**129**	539	14,865	(7,715)	(647)

Trusts connected with the Institute

Charitable Trusts

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

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

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

P D Leake Trust
Major accounting research.

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

Pension Funds

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

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

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

Retirement Benefits Scheme

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

Benevolent Association

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

The Institute contributes to CATER's costs, including those of the library, and bears the costs of the administration of both the staff pensions fund and the money purchase plan. Accounts of the charitable trusts and of the pension funds are available on request from the Institute's pensions and trusts department, and those of the Benevolent Association are available from the secretary, CABA.

Accounts

You can choose to read future copies of the accounts on the Institute's website rather than receiving printed copies. If you select this option, you will get an email with the link to the online document. You can see this year's version at **www.icaew.co.uk/review**.

Designed by Soukias Jones Design www.soukiasjones.co.uk

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

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

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