



# FINANCIAL STATEMENTS 2010



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The role of 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 2010*

# Financial review 2010

➔ ICAEW's financial statements for 2010 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 £76.4m, £2.7m higher than in 2009. The retained surplus after tax for the year was £1.8m (2009: £0.7m).

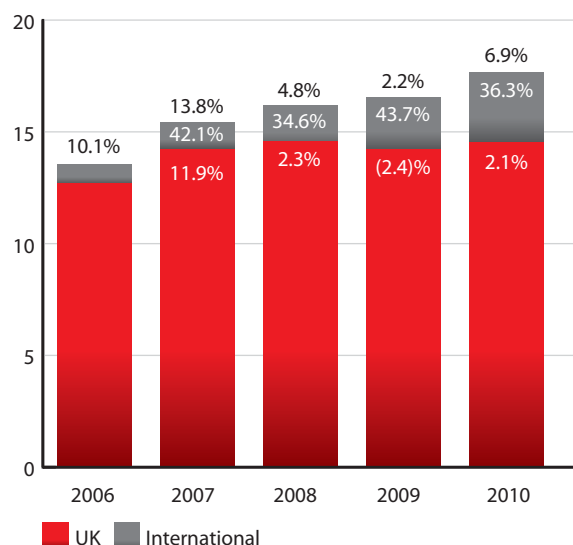
Net assets at 31 December 2010 were £29.3m, an increase of £7.9m over 2009 net assets of £21.4m. Cash and cash equivalents ended the year at £10.3m, reflecting a net cash inflow of £0.3m in the year. Total cash and investments stood at £41.1m at the end of the year, an increase of £2.9m on 2009.

The consolidated outcome for the year, including the results of ICAEW's charitable trusts, was a surplus after tax of £2.0m (2009: £1.1m).

## Student and membership growth

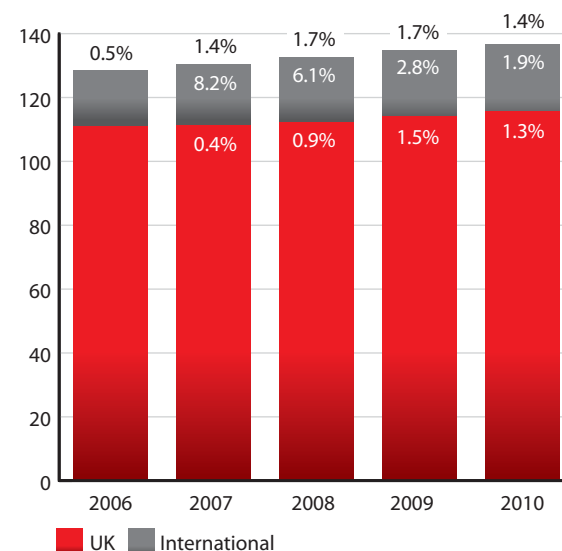
2010 ACA student intake of 5,652 (2009: 4,854) was the highest for 19 years and reflects both increases in our market share in the UK and growth in our number of overseas students. Total ACA student numbers at the end of 2010 stood at 17,653 (2009: 16,517). In addition 625 students signed up for our foundation level Certificate in Finance, Accounting and Business (2009: 342).

Student growth ('000)



Membership grew by 1.4% to 136,615, from admissions of newly qualified students to membership, together with reciprocal and similar arrangements with members of other institutes.

Membership growth ('000)



## Income

Revenue from members' fees and subscriptions rose by 3.4% to £36.0m. Other income, outside of core fees and subscriptions, increased by £1.5m to £40.4m in 2010.

Income from students and other qualifications, including ACA, International Financial Reporting Standards (IFRSs), Corporate Finance and the Diploma in Charity Accounting remained flat at £11.8m.

Professional standards income, including from practice regulation together with disciplinary-related income, reduced by £0.5m to £13.7m.

Revenues from our commercial initiatives increased in the year to £4.6m (2009: £3.9m).

During 2010, the final Joint Disciplinary Scheme (JDS) case was concluded and resulted in fines of £0.4m and cost recoveries of £2.1m being returned to ICAEW by the scheme.

Investment income increased 28% to £1.8m following a review of our investment policy and objectives in 2009.

# Financial review 2010 (continued)

## Expenditure

Operating expenditure increased by 1.9% over the year to £74.5m. We have continued to exert tight control over our costs, while investing in our strategy.

Learning and professional development expenditure reduced by 4.5% to £14.8m (2009: £15.5m) as a result of restructuring carried out during the year, continued cost control, and the transfer of certain international responsibilities to the regional teams.

Within our regional teams, costs increased to £8.1m from £6.5m in 2009 as we continued to invest in supporting our members and students locally in the UK while continuing to develop our international regional network.

During 2010 we charged costs of £5.1m to the income statement in relation to the Accountancy and Actuarial Discipline Board (AADB), an increase of £3.0m on 2009. This reflects the funding required for their increasing case load.

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

## Tax

The net corporation tax charge for the year was £0.1m (2009: £0.1m credit).

## Pensions

ICAEW's defined benefits pension scheme was closed to future 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, reducing to £3.5m a year thereafter until the deficit is eliminated. We have also agreed to increase funds held in escrow should there be a breach of our financial covenants, from £5.0m to £10.0m. A charge remains over Chartered Accountants' Hall.

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

The 2010 actuarial valuation of the scheme has not yet been completed but is expected to show a deficit as at 31 March 2010 of £22.6m. The deficit funding arrangements referred to above are intended to eliminate the deficit in around five years. We are working with the trustee to develop and implement an investment strategy intended to make the scheme entirely self-sufficient by 2025.

The IAS 19 deficit on the scheme at 31 December 2010 was £5.7m (2009: £14.8m) following a year of good investment performance in addition to the impact of closing the scheme to future accrual and deficit funding contributions.

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

## Financial position

Net assets at 31 December 2010 were £29.3m – an increase of £7.9m on the 2009 position. The most significant movement within net assets was the reduction in ICAEW's share of the pension deficit to £5.4m from £14.2m in 2009 discussed above.

During 2010 the market value of our long-term investments increased to £30.8m from £28.2m in 2009. In addition, the value of Chartered Accountants' Hall, together with our silver collection and antiques, increased by £1.2m in total, following a reduction in 2009 of £1.8m. Chartered Accountants' Hall was valued at £8.9m at 31 December 2010.

Trade and other payables were £28.2m (2009: £26.8m). This increase reflects our continued focused approach to working capital management as well as an increase in 2011 regulatory income in advance.

We have provided £8.8m (2009: £5.3m) of costs relating to the AADB at 31 December 2010 reflecting their increasing 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 as to 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 2010 were £10.3m. Net cash inflow was £0.3m compared to a £1.3m inflow in 2009. Our cash profile fluctuates on an annual cycle, this year peaking at £36.2m in March and bottoming out at £4.9m in November.

We continued to focus on working capital management with a net inflow of £0.4m in the year in that area. Funding of the JDS and the AADB saw a cash outflow of £2.2m (2009: £2.5m).

ICAEW provided £6.2m (2009: £3.9m) of funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £2.7m (2009: £3.3m). We expect to spend £3.0m of capital expenditure in 2011.

## 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 2010*.

# Financial review 2010 (continued)

## Charitable trusts

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

During the year we made donations under gift aid to our charitable trusts amounting to £1.6m (2009: £1.8m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.2m (2009: £0.3m).

## 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 2010 were 23 days (2009: 23 days).

## Corporate responsibility commitment

We are committed to meeting our responsibilities in support of a sustainable world. We do this by maximising the benefits and minimising the downsides of the impacts of our activities and also by the way in which we meet our public interest obligations.

There are four main ways in which we will implement this:

- ▶ being a leader in corporate responsibility to ensure we meet and exceed good practice business regulation;
- ▶ working towards sustainability by improving our environmental performance and minimising the adverse impact we have on natural resources;
- ▶ encouraging community links for and by our members and our staff; and
- ▶ promoting partnerships that bring added value to our members through commercial and non-commercial activities.

You can find more information about our commitment to corporate responsibility in our *annual review 2010*.

## 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 2010*. 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 capital, 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.

## 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. 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 2010 and has continued up to the date on which this document was approved.

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

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

Annually in March, the council undertakes a 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; 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



# Financial review 2010 (continued)

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 key items:

- ▶ how we manage through our leadership and stakeholder programmes, the reputational and economic consequences of a major corporate or firm failure;
- ▶ through our budget and forecasting process, how we manage our resources to deliver ICAEW's strategy and services, particularly in the face of unexpected events;
- ▶ through our communications programme, the need to state clearly what ICAEW stands for in an increasingly competitive environment;
- ▶ in the changing regulatory environment emerging from the financial crisis, how we best represent the public interest and the interests of our members through our leadership, stakeholder and communications programmes, to law-makers, standard setters and regulators; and
- ▶ through our key contact programmes, how we maintain and develop our relationships with the major trainers and employers of chartered accountants.

## 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.

## Business plans and budgets

Staff prepare detailed business plans and budgets for the board and 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 on the council members' online community.

## 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 2010. Where control weaknesses have been identified, remedial action was, or is, being taken. None of these weaknesses resulted in any material losses, contingencies or uncertainties that would require disclosure in the annual review.

# Corporate governance statement

## Our approach to governance

ICAEW is a chartered corporation and operates under the terms of its Royal Charter, bye-laws and regulations. Nonetheless, we choose to measure our governance against the UK Corporate Governance Code. We believe that we comply with all relevant provisions of the Code, recognising that it does not always read across to ICAEW. The underlying principle is that our governance must support the delivery of our strategy.

## ICAEW meetings

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

## ICAEW council

Council considers, reviews and approves strategy, operational plans and budgets proposed by the board. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws to the board, the departmental boards and to the chief executive within an overall framework of financial approval limits.

In 2010, council met six times. As at 31 December 2010, it comprised 100 members. The great majority of council members are directly elected by ICAEW members, with a leavening of co-option and membership ex officio. Council elects its chairman annually from among its members. You will find brief details of each council member, including their status and record of attendance at council meetings in 2010, in the *annual review 2010*.

Council members do not receive remuneration other than reimbursement of travel and subsistence costs incurred on ICAEW business, and payments 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; Deputy-President: Clive Parritt; Vice-President: Mark Spofforth) 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. 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 ICAEW meetings and the ICAEW board. He also chairs the CCAB.

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

## 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, normally council members ex officio, and senior executives. The council elects two of its members directly to the board for a two-year term. The elected members fulfil the role of 'senior independent director'. Under reciprocal arrangements, CIPFA nominates a member of the board. In 2010, the board met 11 times.

The board had an independent evaluation of its performance in 2010. This showed that it was in the upper decile of those that the reviewer had seen.

## 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](http://icaew.com)) during 2010 were:

	Position	Appointed	Retired	Attendance
<b>Volunteer members</b>				
Arthur Bailey	elected by the council consultant, Begbies Traynor Group and non-executive director			10/11
Penny Bickerstaff	chairman, member services board independent management consultant			9/11
Ian Cherry	elected by the council director, A I Cherry Ltd			10/11
Martin Hagen	president and chairman to 8 June non-executive director, South West Water and Swallowfield plc, and deputy chairman, Regulatory Decisions Committee, Financial Services Authority		8 June	5/5
Richard Harwood	chairman, professional standards board principal, Harwoods			10/11
Jeremy Jennings	co-opted member global director, regulatory and government relations, Ernst & Young LLP, Brussels			8/11
Caroline Mawhood	appointed as a non-voting member under reciprocal arrangements with CIPFA			6/11
Clive Parritt	vice-president to 8 June; deputy-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			10/11
Andrew Ratcliffe	chairman, technical strategy board partner, PricewaterhouseCoopers LLP			9/11
Gerald Russell	deputy-president to 8 June; president and chairman from 8 June consultant			11/11
Mark Spofforth	vice-president from 8 June partner, Spofforths	8 June		5/6
Jan Weber	chairman, learning and professional development board finance director, DIAM International			9/11
<b>Staff members</b>				
Robin Fieth	executive director, finance & operations			11/11
Robert Hodgkinson	executive director, technical strategy			9/11
Michael Izza	chief executive			10/11
Mark Protherough	executive director, learning & professional development	2 February		10/11
Vernon Soare	executive director, professional standards			9/11



# 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 2010. 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 2010 were:

		Appointed	Retired	Attendance
Brian Boswell	charity trustee & financial adviser to Property Management Co			3/4
John Cain	audit partner, KPMG LLP			3/4
Ian Cherry*	director, A I Cherry Ltd			3/4
David Chitty*	partner, Crowe Clark Whitehill LLP	8 June		1/3
Mary Hardy	head of risk assurance, London Organising Committee for the Olympic Games and Paralympic Games			3/4
Neeraj Kapur*	managing director, Lombard Asset Finance Group			2/4
Michael Pavia* (chairman)	non-executive director, Thames Water and other companies			4/4

\* council member

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

Grant Thornton UK LLP is proposed for re-appointment at the annual meeting. We tendered the appointment of the external auditors in 2010 for the year ended 31 December 2011, in line with our tendering policy. As a result, Grant Thornton UK LLP was recommended for re-appointment by the audit committee. The firm was appointed in 2006, and the current lead partner has been responsible for the audit for four years.

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 firm who sit on ICAEW committees. The committee agrees staff rotation policies in relation to ICAEW's audit with the audit firm. 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 in place regarding non-audit work by the audit firm. The general principle is that the audit firm should not be asked to carry out non-audit services where it may, in the future, be required to give an audit opinion.

During the year the audit committee has:

- reviewed the financial statements, having received a report from the external auditors on their review and audit of the financial statements;
- considered the output of the procedures used to manage risk within ICAEW;

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

The committee has helped the board 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. In line with good governance practice the audit committee reviewed its effectiveness during the year. It reported that the work of the audit committee was effective, measured against its terms of reference and general audit committee practice. 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)

## 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 members of the remuneration committee during 2010 were:

		Appointed	Retired	Attendance
Arthur Bailey*	consultant Begbies Traynor Group and non-executive director			2/4
John Collier*	director, Clive & Stokes International, Executive Search			2/4
Peter Jenkins* (chairman)	finance director, The Prince's Regeneration Trust			4/4
Sean O'Hare	partner, PwC Human Resources Services			3/4
Clive Parritt*	vice-president to 8 June; deputy-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			3/4
Gerald Russell*	deputy-president to 8 June; president and chairman from 8 June  consultant		8 June	2/2
Mark Spofforth*	vice-president from 8 June partner, Spofforths	8 June		2/2

\* council member

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

## 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. The committee deals with much of its business by correspondence and meets only as required.

The members of the nominating committee during 2010 were:

	Posistion	Appointed	Retired	Attendance
Richard Dyson	past-president		8 June	3/3
Susan Field	elected by the council sole practitioner	1 November		1/1
David Furst	past-president chairman, Crowe Clark Whitehill LLP			5/5
Martin Hagen	president and chairman to 8 June; past-president from 8 June non-executive director, South West Water and Swallowfield plc, and deputy chairman, Regulatory Decisions Committee, Financial Services Authority			4/5
Sheilagh Moffat	elected by the council partner, Moffat Gilbert			5/5
Clive Parritt	vice-president to 8 June; deputy-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			3/5
Gerald Russell	deputy-president to 8 June; president and chairman from 8 June consultant			5/5
Mark Spofforth	vice-president from 8 June partner, Spofforths	8 June		1/2
Paul Wagstaff	elected by the council partner, Rouse Partners LLP	1 November		3/4

# 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 February 2010. It appointed Mark Protherough as executive director, learning and professional development.

## Departmental boards

Four departmental boards steer the development of policy for ICAEW's key activities: learning and professional development; member services; professional conduct; and technical strategy. These boards also exercise a general oversight of the work programmes over the departments.

You can find the terms of reference for the key ICAEW committees in the *about us - governance and structure* section of ICAEW's website at [icaew.com](http://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 that disability 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 conducts an annual staff survey to give us the opportunity to glean insight into changes in staff perception, attitudes, behaviours and engagement. Based on the feedback received in 2009 we introduced a new performance management process and new training and development policy. Staff can now discuss their development needs at their one-to-ones or as part of the annual performance management process.

We also improved staff communications and involvement by introducing regular strategy updates and dedicated communications channels, including intranet and weekly email updates. We set up a 'Working at ICAEW Group', which has representatives from all departments, to give staff the opportunity to raise issues, share best practice and encourage cross-departmental working.

The feedback received on these changes has been positive from staff. The 2010 staff survey results show an improvement in staff understanding of what ICAEW is trying to achieve, effectiveness of communications, flexibility of our working arrangements and better access to our training and development programme.

Following consultation with staff members who were active members of the Staff Pensions Fund, the fund closed to future accrual from 30 June 2010.

## Financial responsibilities of the council

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

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

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

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

## Directors' confirmation

As far as each of the directors is aware:

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

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

# ICAEW five-year summary

## Income statement

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Operating income	76.4	73.7	73.6	69.1	63.6
ICAEW services	(67.1)	(66.0)	(67.6)	(62.3)	(52.3)
Funding of regulatory and other professional associations	(5.8)	(5.3)	(4.6)	(7.2)	(5.9)
Gift aid and library funding	(1.6)	(1.8)	(1.2)	(0.8)	(1.4)
<b>Result before taxation</b>	<b>1.9</b>	<b>0.6</b>	<b>0.2</b>	<b>(1.2)</b>	<b>4.0</b>
Taxation	(0.1)	0.1	–	(0.5)	(0.2)
<b>Net result after taxation</b>	<b>1.8</b>	<b>0.7</b>	<b>0.2</b>	<b>(1.7)</b>	<b>3.8</b>

## Net assets

Non-current assets	53.2	49.9	49.8	54.4	52.5
Current assets	19.8	19.1	18.2	18.9	27.7
Current liabilities	(33.6)	(30.4)	(29.1)	(25.0)	(26.3)
Non-current liabilities excluding staff pensions fund liability	(4.7)	(3.0)	(1.5)	(2.8)	(6.0)
Non-current liabilities - staff pensions fund liability	(5.4)	(14.2)	(8.6)	(15.9)	(25.2)
<b>Total net assets</b>	<b>29.3</b>	<b>21.4</b>	<b>28.8</b>	<b>29.6</b>	<b>22.7</b>

## Member and student numbers

	2010	2009	2008	2007	2006
Members	136,615	134,698	132,411	130,243	128,416
Students	17,653	16,517	16,165	15,422	13,551
	<b>154,268</b>	<b>151,215</b>	<b>148,576</b>	<b>145,665</b>	<b>141,967</b>

# Report of the independent auditor to the members of The Institute of Chartered Accountants in England and Wales for the year ended 31 December 2010

We have audited the financial statements of The Institute of Chartered Accountants in England and Wales (ICAEW) for the year ended 31 December 2010. 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 EU.

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, 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 Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to ICAEW's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial review and corporate governance statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2010 and of the group's and ICAEW's result for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- ▶ the information given in the financial review and corporate governance statement is consistent with the financial statements.



Grant Thornton UK LLP  
Registered Auditor  
Chartered Accountants  
London

15 March 2011



# Group income statement

► for the year ended 31 December 2010

		2010					2009 restated <sup>1</sup>
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		36.0	–	36.0	34.8	–	34.8
Learning and professional development	1	11.8	(14.8)	(3.0)	11.8	(15.5)	(3.7)
Professional standards	2	13.7	(14.2)	(0.5)	14.2	(14.5)	(0.3)
Member services	3	4.6	(10.6)	(6.0)	3.9	(10.3)	(6.4)
Regional services	4	0.1	(8.1)	(8.0)	0.1	(6.5)	(6.4)
Technical strategy	5	3.9	(9.1)	(5.2)	3.8	(9.0)	(5.2)
Central activities	6	–	(10.9)	(10.9)	0.1	(10.8)	(10.7)
Charitable trusts	7	0.2	(1.2)	(1.0)	0.3	(1.3)	(1.0)
		70.3	(68.9)	1.4	69.0	(67.9)	1.1
Joint Disciplinary Scheme	8	0.4	2.2	2.6	–	(0.1)	(0.1)
Accountancy and Actuarial Discipline Board	9	1.4	(5.1)	(3.7)	0.9	(2.1)	(1.2)
Other regulatory and professional associations	10	0.8	(2.9)	(2.1)	0.8	(3.1)	(2.3)
		2.6	(5.8)	(3.2)	1.7	(5.3)	(3.6)
Other income - licence and data access fees		1.9	–	1.9	1.9	–	1.9
<b>Operating result</b>	12	<b>74.8</b>	<b>(74.7)</b>	<b>0.1</b>	<b>72.6</b>	<b>(73.2)</b>	<b>(0.6)</b>
Investment income	13	2.0	–	2.0	1.6	–	1.6
<b>Result before taxation</b>		<b>76.8</b>	<b>(74.7)</b>	<b>2.1</b>	<b>74.2</b>	<b>(73.2)</b>	<b>1.0</b>
Taxation	14			(0.1)			0.1
<b>Net result after taxation</b>				<b>2.0</b>			<b>1.1</b>

<sup>1</sup> The presentation of the income statement has been revised to reflect current responsibilities more accurately; 2009 figures have been re-analysed in line with this presentation, this has no impact on the previously reported net assets or result.

# ICAEW income statement

► for the year ended 31 December 2010

		2010					2009 restated <sup>2</sup>
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		36.0	–	36.0	34.8	–	34.8
Learning and professional development	1	11.8	(14.8)	(3.0)	11.8	(15.5)	(3.7)
Professional standards	2	13.7	(14.2)	(0.5)	14.2	(14.5)	(0.3)
Member services	3	4.6	(10.6)	(6.0)	3.9	(10.3)	(6.4)
Regional services	4	0.1	(8.1)	(8.0)	0.1	(6.5)	(6.4)
Technical strategy	5	3.9	(9.1)	(5.2)	3.8	(9.0)	(5.2)
Central activities	6	–	(10.3)	(10.3)	0.1	(10.2)	(10.1)
		70.1	(67.1)	3.0	68.7	(66.0)	2.7
Joint Disciplinary Scheme	8	0.4	2.2	2.6	–	(0.1)	(0.1)
Accountancy and Actuarial Discipline Board	9	1.4	(5.1)	(3.7)	0.9	(2.1)	(1.2)
Other regulatory and professional associations	10	0.8	(2.9)	(2.1)	0.8	(3.1)	(2.3)
		2.6	(5.8)	(3.2)	1.7	(5.3)	(3.6)
Other income - licence and data access fees		1.9	–	1.9	1.9	–	1.9
Gift aid and library funding	11	–	(1.6)	(1.6)	–	(1.8)	(1.8)
<b>Operating result</b>	12	<b>74.6</b>	<b>(74.5)</b>	<b>0.1</b>	<b>72.3</b>	<b>(73.1)</b>	<b>(0.8)</b>
Investment income	13	1.8	–	1.8	1.4	–	1.4
<b>Result before taxation</b>		<b>76.4</b>	<b>(74.5)</b>	<b>1.9</b>	<b>73.7</b>	<b>(73.1)</b>	<b>0.6</b>
Taxation	14			(0.1)			0.1
<b>Net result after taxation</b>				<b>1.8</b>			<b>0.7</b>

<sup>2</sup> The presentation of the income statement has been revised to reflect current responsibilities more accurately; 2009 figures have been re-analysed in line with this presentation, this has no impact on the previously reported net assets or result.

# Group and ICAEW statements of comprehensive income

➡ for the year ended 31 December 2010

	Note	2010 £m	Group 2009 £m	2010 £m	ICAEW 2009 £m
Net result after taxation recognised in the income statement in the year		2.0	1.1	1.8	0.7
Gains/(losses) on revaluation of property, plant and equipment	15	1.2	(1.8)	1.2	(1.8)
Gains on revaluation of available for sale investments	18	2.7	3.2	1.8	2.0
Actuarial gains/(losses) recognised in the year	27	4.3	(8.3)	4.1	(8.0)
Deferred tax	20	(1.0)	(0.3)	(1.0)	(0.3)
Net gains/(losses) not recognised in the income statement in the year		7.2	(7.2)	6.1	(8.1)
<b>Total comprehensive income/(expense) in the year</b>		<b>9.2</b>	<b>(6.1)</b>	<b>7.9</b>	<b>(7.4)</b>

# Group and ICAEW statements of changes to reserves

► for the year ended 31 December 2010

	Group					
	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Self- financing reserves £m	Charitable trusts £m	Total £m
<b>Reserves at 1 January 2009</b>	<b>5.9</b>	<b>(0.1)</b>	<b>17.0</b>	<b>6.1</b>	<b>8.3</b>	<b>37.2</b>
Net result after taxation	–	–	(1.4)	2.1	0.4	1.1
Decrease in valuation of property, plant and equipment	(1.8)	–	–	–	–	(1.8)
Net change in market value of long-term investments over cost	–	2.0	–	–	1.2	3.2
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(5.8)	(2.2)	(0.3)	(8.3)
Deferred tax attributable to above	0.1	(0.6)	0.2	–	–	(0.3)
Total comprehensive (expense)/income in the year	(1.7)	1.4	(7.0)	(0.1)	1.3	(6.1)
<b>Reserves at 1 January 2010</b>	<b>4.2</b>	<b>1.3</b>	<b>10.0</b>	<b>6.0</b>	<b>9.6</b>	<b>31.1</b>
Net result after taxation	–	–	1.4	0.5	0.1	2.0
Re-classification of practice regulation reserves to accumulated fund <sup>3</sup>	–	–	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
<b>Reserves at 31 December 2010</b>	<b>5.3</b>	<b>2.6</b>	<b>17.5</b>	<b>4.1</b>	<b>10.8</b>	<b>40.3</b>

	ICAEW				
	Revaluation reserve £m	Investment revaluation reserve £m	Accumulated fund £m	Self- financing reserves £m	Total £m
<b>Reserves at 1 January 2009</b>	<b>5.9</b>	<b>(0.1)</b>	<b>16.9</b>	<b>6.1</b>	<b>28.8</b>
Net result after taxation	–	–	(1.4)	2.1	0.7
Decrease in valuation of property, plant and equipment	(1.8)	–	–	–	(1.8)
Net change in market value of long-term investments over cost	–	2.0	–	–	2.0
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(5.8)	(2.2)	(8.0)
Deferred tax attributable to above	0.1	(0.6)	0.2	–	(0.3)
<b>Total comprehensive (expense)/income in the year</b>	<b>(1.7)</b>	<b>1.4</b>	<b>(7.0)</b>	<b>(0.1)</b>	<b>(7.4)</b>
<b>Reserves at 1 January 2010</b>	<b>4.2</b>	<b>1.3</b>	<b>9.9</b>	<b>6.0</b>	<b>21.4</b>
Net result after taxation	–	–	1.3	0.5	1.8
Re-classification of practice regulation reserves to accumulated fund <sup>3</sup>	–	–	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)
<b>Total comprehensive income/(expense) in the year</b>	<b>1.1</b>	<b>1.3</b>	<b>7.4</b>	<b>(1.9)</b>	<b>7.9</b>
<b>Reserves at 31 December 2010</b>	<b>5.3</b>	<b>2.6</b>	<b>17.3</b>	<b>4.1</b>	<b>29.3</b>

<sup>3</sup> 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 2010

	Note	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
<b>Assets</b>							
<b>Non-current assets</b>							
Property, plant and equipment	15	19.0	17.2	18.2	19.0	17.2	18.2
Intangible assets	16	2.7	2.4	2.6	2.7	2.4	2.6
Investments in subsidiaries and associates	17	0.1	0.1	0.1	—	—	—
<b>Financial assets:</b>							
Restricted available for sale investments	18	5.0	5.0	5.0	5.0	5.0	5.0
Available for sale investments	18	37.0	33.3	29.8	25.8	23.2	21.1
Other receivables	19	0.5	1.5	2.5	0.5	1.5	2.5
Deferred tax asset	20	0.2	0.6	0.4	0.2	0.6	0.4
		<b>64.5</b>	<b>60.1</b>	<b>58.6</b>	<b>53.2</b>	<b>49.9</b>	<b>49.8</b>
<b>Current assets</b>							
Inventories	21	0.8	0.8	0.8	0.8	0.8	0.8
Trade and other receivables	22	8.7	8.3	8.8	8.7	8.3	8.7
Cash and cash equivalents	23	10.8	10.5	8.9	10.3	10.0	8.7
		<b>20.3</b>	<b>19.6</b>	<b>18.5</b>	<b>19.8</b>	<b>19.1</b>	<b>18.2</b>
<b>Total assets</b>		<b>84.8</b>	<b>79.7</b>	<b>77.1</b>	<b>73.0</b>	<b>69.0</b>	<b>68.0</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Trade and other payables	24	(28.7)	(27.2)	(24.3)	(28.2)	(26.8)	(24.0)
Current tax liabilities		(0.1)	—	(0.2)	(0.1)	—	(0.2)
Joint Disciplinary Scheme provision	25	—	(0.7)	(1.8)	—	(0.7)	(1.8)
Accountancy and Actuarial Discipline Board provision	26	(5.3)	(2.9)	(3.1)	(5.3)	(2.9)	(3.1)
		<b>(34.1)</b>	<b>(30.8)</b>	<b>(29.4)</b>	<b>(33.6)</b>	<b>(30.4)</b>	<b>(29.1)</b>
<b>Non-current liabilities</b>							
Pension liabilities	27	(5.7)	(14.8)	(9.0)	(5.4)	(14.2)	(8.6)
Accountancy and Actuarial Discipline Board provision	26	(3.5)	(2.4)	(1.4)	(3.5)	(2.4)	(1.4)
Deferred tax liability	20	(1.2)	(0.6)	(0.1)	(1.2)	(0.6)	(0.1)
		<b>(10.4)</b>	<b>(17.8)</b>	<b>(10.5)</b>	<b>(10.1)</b>	<b>(17.2)</b>	<b>(10.1)</b>
<b>Total liabilities</b>		<b>(44.5)</b>	<b>(48.6)</b>	<b>(39.9)</b>	<b>(43.7)</b>	<b>(47.6)</b>	<b>(39.2)</b>
<b>Total net assets</b>		<b>40.3</b>	<b>31.1</b>	<b>37.2</b>	<b>29.3</b>	<b>21.4</b>	<b>28.8</b>
<b>Reserves</b>							
Revaluation reserve		5.3	4.2	5.9	5.3	4.2	5.9
Investment revaluation reserve		2.6	1.3	(0.1)	2.6	1.3	(0.1)
Accumulated fund		17.5	10.0	17.0	17.3	9.9	16.9
Faculties		1.0	0.5	0.5	1.0	0.5	0.5
Practice regulation <sup>4</sup>		—	2.5	2.6	—	2.5	2.6
Chartered Accountants' Compensation Scheme		3.1	3.0	3.0	3.1	3.0	3.0
Charitable trust endowment funds		8.3	7.3	6.0	—	—	—
Charitable trust unrestricted funds		2.5	2.3	2.3	—	—	—
		<b>40.3</b>	<b>31.1</b>	<b>37.2</b>	<b>29.3</b>	<b>21.4</b>	<b>28.8</b>

Approved on behalf of the council



Gerald Russell, President  
15 March 2011



Michael Izza, Chief Executive

<sup>4</sup> 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 2010

	Note	2010 £m	Group 2009 £m	2010 £m	ICAEW 2009 £m
<b>Cash flows from operating activities<sup>5</sup></b>					
<b>Result before taxation</b>		<b>2.2</b>	<b>1.0</b>	<b>1.9</b>	<b>0.5</b>
Adjustments for:					
Depreciation and amortisation		2.5	2.3	2.5	2.3
Investment income	13	(2.0)	(1.6)	(1.8)	(1.4)
Non-cash movement in provisions		6.3	3.6	6.3	3.6
<b>Cash flows from operating activities before movements in working capital</b>		<b>9.0</b>	<b>5.3</b>	<b>8.9</b>	<b>5.0</b>
<b>Movements in working capital</b>					
(Increase)/decrease in trade and other receivables		(0.5)	0.5	(0.4)	0.4
Increase in trade and other payables		0.9	3.2	0.8	3.3
<b>Cash generated from operating activities</b>		<b>9.4</b>	<b>9.0</b>	<b>9.3</b>	<b>8.7</b>
<b>Cash flows on provisions</b>					
Cash outflow on pension liabilities		(6.2)	(3.9)	(6.2)	(3.9)
Cash outflow on Joint Disciplinary Scheme		(0.6)	(1.2)	(0.6)	(1.2)
Cash outflow on Accountancy and Actuarial Discipline Board		(1.6)	(1.3)	(1.6)	(1.3)
<b>Net cash generated from operating activities</b>		<b>1.0</b>	<b>2.6</b>	<b>0.9</b>	<b>2.3</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1.6)	(2.5)	(1.6)	(2.5)
Purchase of intangible assets		(1.1)	(0.8)	(1.1)	(0.8)
Deferred consideration received		1.0	1.0	1.0	1.0
Purchase of available for sale investments		(22.6)	(65.7)	(12.1)	(56.1)
Disposal of available for sale investments		21.9	65.6	11.6	56.2
Investment income received		1.7	1.4	1.6	1.2
<b>Net cash outflow from investing activities</b>		<b>(0.7)</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>(1.0)</b>
<b>Net increase in cash and cash equivalents in the year</b>		<b>0.3</b>	<b>1.6</b>	<b>0.3</b>	<b>1.3</b>
Net cash and cash equivalents at 1 January		10.5	8.9	10.0	8.7
<b>Net cash and cash equivalents at 31 December</b>	23	<b>10.8</b>	<b>10.5</b>	<b>10.3</b>	<b>10.0</b>

<sup>5</sup> Fines and cost recoveries from disciplinary cases including the JDS and 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 JDS and 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 2010. 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. ICAEW is outside the scope of IFRS 8 *Operating Segments*.

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:
IFRS 9 <i>Financial Instruments</i>	1 January 2013
IAS 24 <i>Related Party Disclosures</i> (Revised 2009)	1 January 2011
Amendment to IAS 32 <i>Classification of Rights Issues</i>	1 February 2010
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010
Amendment to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i>	1 January 2011
Improvements to IFRS issued May 2010	1 July 2010 and 1 January 2011
Amendment to IFRS 7 <i>Financial Instruments: Disclosures</i>	1 July 2011
Amendment to IAS 12 <i>Income Taxes</i>	1 January 2012

## 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 JDS and AADB provisions and pensions (notes 25-27). 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 from consulting services is recognised when the services are provided, with reference to the stage of completion of the contract at the reporting date. Income associated with professional conduct is recognised on receipt. Other income, including licence fees, examination fees and income in association with JDS and AADB is recognised when receivable.

# Accounting policies (continued)

## IV Professional Conduct, Joint Disciplinary Scheme 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 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, ie the estimated residual value is equal to the carrying amount, 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

Depreciation is charged on other plant and equipment 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 transferred to the income statement.

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.

## 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.

# 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 approximated 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. Current service costs, 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 'medium 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. 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. The major 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. Where possible, ICAEW uses the income received from services provided in these currencies to hedge any exposures on payments made.

### 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 list of counterparties, which

## Accounting policies (continued)

are all reputable banks with a high-quality external credit rating of at least AA- and which have been judged to be too systematically important for a government to allow to enter administration.

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

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

### **Liquidity and interest rate risk**

ICAEW policy is to maintain a strong statement of financial position with cash or cash equivalent balances and therefore it does not have significant exposure to liquidity risk. ICAEW manages its liquidity risk by monitoring its net cash and cash equivalent flows. Liquidity needs are monitored on a day-to-day and monthly basis for short-term needs. Excess funds are invested as appropriate, depending on the forecast working capital cash flow needs, on short-term high interest deposit 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 activities.

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 2010

## 1 Learning and professional development

	Group and ICAEW			Group and ICAEW restated 2009		
	2010 Income £m	2010 Expenditure £m	2010 Net £m	2009 Income £m	2009 Expenditure £m	2009 Net £m
Qualifications	11.7	(9.0)	2.7	11.7	(9.2)	2.5
Business development	0.1	(5.0)	(4.9)	0.1	(5.1)	(5.0)
Executive, policy and strategy	—	(0.8)	(0.8)	—	(1.2)	(1.2)
	11.8	(14.8)	(3.0)	11.8	(15.5)	(3.7)

The presentation of the learning and professional development note has been revised to reflect current responsibilities more accurately, in particular the international support team has been reported within international regions in note 4 below. The 2009 figures have been re-analysed in line with this presentation, this has no impact on the reported results.

## 2 Professional standards

	Group and ICAEW			Group and ICAEW restated 2009		
	2010 Income £m	2010 Expenditure £m	2010 Net £m	2009 Income £m	2009 Expenditure £m	2009 Net £m
Disciplinary	0.6	(3.5)	(2.9)	0.5	(3.4)	(2.9)
Authorisation of investment business	1.6	(1.5)	0.1	1.6	(1.8)	(0.2)
Practice regulation and assurance	10.9	(8.5)	2.4	11.2	(8.5)	2.7
Commercial consultancy	0.6	(0.7)	(0.1)	0.9	(0.8)	0.1
	13.7	(14.2)	(0.5)	14.2	(14.5)	(0.3)

From 2010, the results of professional standards are reported as a whole, and no longer split between professional standards and practice regulation on the face of the income statement as was the case in 2009. In addition, regulatory income and costs relating specifically to AADB and FRC have been reflected in notes 9 and 10 below, rather than within the professional standards note. The 2009 figures have been re-analysed in line with this presentation; this has no impact on the reported results.

## 3 Member services

	Group and ICAEW			Group and ICAEW		
	2010 Income £m	2010 Expenditure £m	2010 Net £m	2009 Income £m	2009 Expenditure £m	2009 Net £m
Commercial	3.3	(4.6)	(1.3)	2.8	(4.6)	(1.8)
Member services	1.3	(4.8)	(3.5)	1.1	(3.0)	(1.9)
Administration	—	(1.2)	(1.2)	—	(2.7)	(2.7)
	4.6	(10.6)	(6.0)	3.9	(10.3)	(6.4)

## 4 Regional services

	Group and ICAEW			Group and ICAEW restated 2009		
	2010 Income £m	2010 Expenditure £m	2010 Net £m	2009 Income £m	2009 Expenditure £m	2009 Net £m
UK regions	0.1	(4.6)	(4.5)	0.1	(4.6)	(4.5)
International regions	—	(3.5)	(3.5)	—	(1.9)	(1.9)
	0.1	(8.1)	(8.0)	0.1	(6.5)	(6.4)

The presentation of the regional services note has been revised to reflect current responsibilities more accurately. The 2009 figures have been re-analysed in line with this presentation, this has no impact on the reported results.

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 5 Technical strategy

	Group and ICAEW			Group and ICAEW		
	2010	2010	2010	2009	2009	2009 restated
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
ICAEW-funded faculty activities	–	(2.6)	(2.6)	–	(2.6)	(2.6)
Technical departments	0.1	(2.8)	(2.7)	0.1	(2.4)	(2.3)
Audit and Assurance Faculty	0.9	(0.6)	0.3	1.0	(0.8)	0.2
Corporate Finance Faculty	0.5	(0.5)	–	0.6	(0.6)	–
Finance and Management Faculty	0.7	(0.5)	0.2	0.7	(0.6)	0.1
Financial Reporting Faculty	0.2	(0.3)	(0.1)	0.1	(0.2)	(0.1)
Financial Services Faculty	0.3	(0.4)	(0.1)	0.2	(0.4)	(0.2)
Information Technology Faculty	0.5	(0.4)	0.1	0.4	(0.4)	–
Tax Faculty	0.7	(0.7)	–	0.7	(0.6)	0.1
Administration	–	(0.3)	(0.3)	–	(0.4)	(0.4)
	3.9	(9.1)	(5.2)	3.8	(9.0)	(5.2)

From 2010, the results of technical strategy are reported as a whole, and no longer split between technical strategy and self financing faculties on the face of the income statement as was the case in 2009. In addition, the Europe region is now reported within international regions. The 2009 figures have been re-analysed in line with this presentation; this has no impact on the reported results.

## 6 Central activities

	Group			Group		
	2010	2010	2010	2009	2009	2009
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Infrastructure	–	(9.7)	(9.7)	0.1	(10.3)	(10.2)
Marketing and communications	–	(8.6)	(8.6)	–	(8.0)	(8.0)
Finance and administration	–	(6.2)	(6.2)	–	(6.3)	(6.3)
	–	(24.5)	(24.5)	0.1	(24.6)	(24.5)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2009: £1.1m))	–	13.6	13.6	–	13.8	13.8
	–	(10.9)	(10.9)	0.1	(10.8)	(10.7)

	ICAEW			ICAEW		
	2010	2010	2010	2009	2009	2009
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Infrastructure	–	(9.7)	(9.7)	0.1	(10.3)	(10.2)
Marketing and communications	–	(8.6)	(8.6)	–	(8.0)	(8.0)
Finance and administration	–	(6.2)	(6.2)	–	(6.3)	(6.3)
	–	(24.5)	(24.5)	0.1	(24.6)	(24.5)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2009: £1.1m))	–	14.2	14.2	–	14.4	14.4
	–	(10.3)	(10.3)	0.1	(10.2)	(10.1)

## 7 Charitable trusts

	Group			Group		
	2010	2010	2010	2009	2009	2009
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
External research grants	–	(0.2)	(0.2)	–	(0.3)	(0.3)
Library income and expenditure	–	(1.0)	(1.0)	–	(1.0)	(1.0)
Other income and expenditure	0.2	–	0.2	0.3	–	0.3
	0.2	(1.2)	(1.0)	0.3	(1.3)	(1.0)



# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 8 Joint Disciplinary Scheme

	Group and ICAEW			Group and ICAEW		
	2010	2010	2010	2009	2009	2009
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Costs	–	–	–	–	(0.1)	(0.1)
Cost recoveries	–	2.2	2.2	–	–	–
Fines	0.4	–	0.4	–	–	–
	0.4	2.2	2.6	–	(0.1)	(0.1)

Total ICAEW cash receipts from fines and cost recoveries were £2.5m (2009: nil). Of this, £0.4m relates to fines, and is reflected as income. The remainder relates to the recovery of costs paid over previous years and therefore has been recognised as a cost recovery.

## 9 Accountancy and Actuarial Discipline Board

	Group and ICAEW			Group and ICAEW		
	2010	2010	2010	2009	2009	2009
	Income	Expenditure	Net	Income	Expenditure	restated Net
	£m	£m	£m	£m	£m	£m
Accountancy and Actuarial Discipline Board	1.4	(5.1)	(3.7)	0.9	(2.1)	(1.2)

Income relates to a direct levy on regulated firms. This income, and the matching costs, was previously reported within professional standards. The 2009 figures have been re-analysed in line with this presentation; this has no impact on the reported results.

## 10 Other regulatory bodies and professional associations

	Group and ICAEW			Group and ICAEW		
	2010	2010	2010	2009	2009	2009
	Income	Expenditure	Net	Income	Expenditure	restated Net
	£m	£m	£m	£m	£m	£m
Financial Reporting Council	0.8	(1.8)	(1.0)	0.8	(2.0)	(1.2)
Consultative Committee of Accountancy Bodies	–	(0.5)	(0.5)	–	(0.4)	(0.4)
International Federation of Accountants	–	(0.6)	(0.6)	–	(0.7)	(0.7)
	0.8	(2.9)	(2.1)	0.8	(3.1)	(2.3)

Income relates to a direct levy on regulated firms. This income, and the matching costs, was previously reported within professional standards. The 2009 figures have been re-analysed in line with this presentation; this has no impact on the reported results.

## 11 Gift aid and library funding

ICAEW made payments of £1.6m (2009: £1.8m) 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 (continued)

► for the year ended 31 December 2010

## 12 Operating result

The group and ICAEW operating result is stated after charging:

	2010 £m	Group 2009 £m	2010 £m	ICAEW 2009 £m
Staff costs	36.0	35.4	35.2	34.5
Depreciation on owned property, plant and equipment	1.6	1.4	1.6	1.4
Amortisation of intangible assets	0.9	1.0	0.9	1.0
Cost of inventories recognised as an expense	0.9	0.9	0.9	0.9
Amounts payable under operating leases:				
Plant and machinery	0.2	0.2	0.2	0.2
Other	0.8	0.7	0.7	0.6
Fees payable to ICAEW's auditor for the audit of the financial statements	0.1	0.1	0.1	0.1

The group and ICAEW operating results include reimbursement of members' expenses on ICAEW activities and payments on a normal commercial basis to members and member firms for services, particularly in connection with lecturing and writing. In 2010 these payments in aggregate amounted to £1.7m (2009: £1.8m). Of this, £18,000 (2009: £8,000) 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 £52,000 (2009: £54,000) in total.

Fees payable to ICAEW's auditor for taxation services were £8,000 (2009: £17,000) and for consultancy work £17,000 (2009: £20,000). Fees were also payable to the auditor for the audit of the Staff Pensions Fund of £6,000 (2009: £6,000). Fees payable to associates of ICAEW's auditor for the local audits of the international subsidiaries were £14,000 (2009: £7,000).

## 13 Net investment income

	2010 £m	Group 2009 restated £m	2010 £m	ICAEW 2009 restated £m
Bank interest receivable	0.1	0.1	0.1	0.1
Interest receivable from investment deposits	0.3	0.8	0.1	0.6
Other financial income	0.7	0.7	0.7	0.7
Returns on multi-asset portfolio	0.7	0.2	0.7	0.2
Realised gains/(losses) from equities	0.2	(0.2)	0.2	(0.2)
	2.0	1.6	1.8	1.4
Allocated to self-financing activities and charitable trusts	(0.2)	(0.5)	—	(0.2)
Net investment gains and income to the accumulated fund	1.8	1.1	1.8	1.2

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

Investment income allocated to self-financing activities and charitable trusts is summarised as follows:

	2010 £m	Group 2009 £m	2010 £m	ICAEW 2009 £m
Practice regulation	—	0.1	—	0.1
Faculties	—	0.1	—	0.1
Charitable trusts	0.2	0.3	—	—
	0.2	0.5	—	0.2

From 2010 the former practice regulation reserves have been amalgamated into the accumulative fund. Consequently there is no allocation of net investment gains and income from the accumulated fund. The 2009 figures have been re-analysed in line with this, resulting in an increase of £0.1m of net investment gains and income to the accumulated fund in 2009.

# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 14 Taxation

	Group and ICAEW	
	2010 £m	2009 £m
<b>Current tax</b>		
Adjustment for previous periods	(0.1)	0.1
	(0.1)	0.1
<b>Deferred tax</b>		
Origination and reversal of temporary differences	—	—
Tax (charge)/credit on operating result	(0.1)	0.1

ICAEW is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER. The charitable trusts fall outside the scope of corporation tax and accordingly there is no liability for their activities. The subsidiary companies pay local tax based on their country of operation and this has been included in the current tax calculations. The ICAEW net corporation tax charge for the year was £100,000 (2009: £115,000 credit).

Factors affecting the tax credit for the year:

	Group		ICAEW	
	2010 £m	2009 £m	2010 £m	2009 £m
Net result before taxation	2.1	1.0	1.9	0.6
Add back: result on transactions with members	(1.1)	(1.2)	(0.9)	(0.9)
Net result before taxation on transactions with non-members	1.0	(0.2)	1.0	(0.3)
Net result above at the standard rate of corporation tax in the UK of 28%	(0.2)	0.1	(0.2)	0.1
Effects of:				
Items not chargeable/deductible for tax purposes	0.4	0.1	0.4	0.1
Unutilised tax losses	(0.2)	(0.2)	(0.2)	(0.2)
Adjustments in respect of prior years	(0.1)	0.1	(0.1)	0.1
	(0.1)	0.1	(0.1)	0.1

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

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 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 2010 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 2010 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 2010 resulted in a valuation increase of £1.2m (2009: reduction of £1.8m). Depreciation is provided on the plant and equipment elements within the freehold property. At 31 December 2010 there were no contracts for capital expenditure not provided for in these financial statements (2009: £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 £m	Short leasehold property £m	Silver collection and antiques £m	Furniture, computer hardware and equipment £m	Total £m
<b>Cost or valuation</b>					
<b>At 1 January 2008</b>	<b>12.2</b>	<b>1.4</b>	<b>4.0</b>	<b>7.1</b>	<b>24.7</b>
Additions	1.5	1.2	–	2.4	5.1
Disposals at cost or valuation	–	(0.3)	–	(0.8)	(1.1)
Deficit on revaluation	(4.2)	–	(0.2)	–	(4.4)
<b>At 1 January 2009</b>	<b>9.5</b>	<b>2.3</b>	<b>3.8</b>	<b>8.7</b>	<b>24.3</b>
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)
<b>At 1 January 2010</b>	<b>8.5</b>	<b>2.4</b>	<b>3.8</b>	<b>9.2</b>	<b>23.9</b>
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
<b>At 31 December 2010</b>	<b>10.0</b>	<b>2.4</b>	<b>4.3</b>	<b>8.5</b>	<b>25.2</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2008</b>	<b>0.5</b>	<b>0.3</b>	<b>–</b>	<b>5.5</b>	<b>6.3</b>
Depreciation for the year	0.2	0.1	–	0.6	0.9
Depreciation on disposals	–	(0.3)	–	(0.7)	(1.0)
Adjustment on revaluation	(0.1)	–	–	–	(0.1)
<b>At 1 January 2009</b>	<b>0.6</b>	<b>0.1</b>	<b>–</b>	<b>5.4</b>	<b>6.1</b>
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)
<b>At 1 January 2010</b>	<b>0.8</b>	<b>0.3</b>	<b>–</b>	<b>5.6</b>	<b>6.7</b>
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)
<b>At 31 December 2010</b>	<b>1.1</b>	<b>0.5</b>	<b>–</b>	<b>4.6</b>	<b>6.2</b>
<b>Carrying amount</b>					
At 31 December 2008	8.9	2.2	3.8	3.3	18.2
At 31 December 2009	7.7	2.1	3.8	3.6	17.2
<b>At 31 December 2010</b>	<b>8.9</b>	<b>1.9</b>	<b>4.3</b>	<b>3.9</b>	<b>19.0</b>
On an historical cost basis the comparable amounts of property, plant and equipment are:					
Cost	12.1	2.4	0.2	8.5	23.2
Accumulated depreciation	4.8	0.5	–	4.6	9.9
<b>Net historical cost at 31 December 2010</b>	<b>7.3</b>	<b>1.9</b>	<b>0.2</b>	<b>3.9</b>	<b>13.3</b>

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

Cost	12.1	2.4	0.2	8.5	23.2
Accumulated depreciation	4.8	0.5	–	4.6	9.9
<b>Net historical cost at 31 December 2010</b>	<b>7.3</b>	<b>1.9</b>	<b>0.2</b>	<b>3.9</b>	<b>13.3</b>

# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 16 Intangible assets

	Group and ICAEW Computer software		
	2010 £m	2009 £m	2008 £m
<b>Cost</b>			
At 1 January	7.7	6.9	6.0
Additions at cost	1.2	0.8	0.9
Disposals at cost	(1.7)	–	–
<b>At 31 December</b>	<b>7.2</b>	<b>7.7</b>	<b>6.9</b>
<b>Accumulated amortisation</b>			
At 1 January	5.3	4.3	3.2
Amortisation for the year	0.9	1.0	1.1
Amortisation on disposals	(1.7)	–	–
<b>At 31 December</b>	<b>4.5</b>	<b>5.3</b>	<b>4.3</b>
<b>Carrying amount at 31 December</b>	<b>2.7</b>	<b>2.4</b>	<b>2.6</b>

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

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 %	2010 cost £m	2009 cost £m	2008 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 CIS Limited	100	–	–	–	Dormant company
ICAEW Ltd	100	–	–	–	Holding company for the above companies
Dormant companies	100	–	–	–	Dormant

# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 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) %	2010 cost £m	2009 cost £m	2008 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.
CCAB Limited	51.7%	–	–	–	Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles. Although 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](http://icaew.com/review).

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board 2010 £m	Fraud Advisory Panel 2010 £m	CCAB Limited 2010 £m	Chartered Accountants' Compensation Scheme Limited 2010 £m	Total 2010 £m	Total 2009 £m	Total 2008 £m
Assets	0.3	0.2	1.3	0.1	1.9	1.9	1.5
Liabilities	(0.1)	(0.1)	(1.3)	(0.1)	(1.6)	(1.6)	(1.3)
Net assets	0.2	0.1	–	–	0.3	0.3	0.2
Revenue	0.2	0.2	5.6	0.1	6.1	6.2	5.1
Net result	–	–	–	–	–	–	–
Balances due from associates as at 31 December	–	–	–	0.1	0.1	0.1	0.1
Balances due to associates as at 31 December	–	–	(1.2)	–	(1.2)	(1.0)	(0.5)
Group share of net assets as at 31 December	–	0.1	–	–	0.1	0.1	0.1



# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 18 Financial assets: available for sale investments

	Interest-bearing investments			Equities and unit trusts			Group		
	2010	2010	Total 2010	2009	2009	Total 2009	2008	2008	Total 2008
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Fair value</b>									
At 1 January	8.2	30.1	38.3	24.7	10.1	34.8	24.1	12.8	36.9
Additions	13.6	9.0	22.6	46.9	18.8	65.7	93.2	2.4	95.6
Disposals	(13.6)	(8.3)	(21.9)	(63.7)	(1.9)	(65.6)	(93.9)	(1.9)	(95.8)
Gains/(losses) on disposal	–	0.3	0.3	0.4	(0.2)	0.2	1.2	–	1.2
Change in market value of investments:									
Recognised as other comprehensive income	–	2.7	2.7	(0.1)	3.3	3.2	0.1	(3.2)	(3.1)
<b>At 31 December</b>	<b>8.2</b>	<b>33.8</b>	<b>42.0</b>	<b>8.2</b>	<b>30.1</b>	<b>38.3</b>	<b>24.7</b>	<b>10.1</b>	<b>34.8</b>
<b>Held as</b>									
Restricted	5.0	–	5.0	5.0	–	5.0	5.0	–	5.0
Unrestricted	3.2	33.8	37.0	3.2	30.1	33.3	19.7	10.1	29.8
	<b>8.2</b>	<b>33.8</b>	<b>42.0</b>	<b>8.2</b>	<b>30.1</b>	<b>38.3</b>	<b>24.7</b>	<b>10.1</b>	<b>34.8</b>

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

At 31 December	8.2	29.6	37.8	8.3	28.4	36.7	24.6	12.0	36.6
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	Interest-bearing investments			Equities and unit trusts			ICAEW		
	2010	2010	Total 2010	2009	2009	Total 2009	2008	2008	Total 2008
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Fair value</b>									
At 1 January	5.0	23.2	28.2	21.6	4.5	26.1	20.2	5.9	26.1
Additions	3.3	8.9	12.2	37.4	18.7	56.1	77.9	1.9	79.8
Disposals	(3.3)	(8.3)	(11.6)	(54.3)	(1.9)	(56.2)	(77.9)	(1.9)	(79.8)
Gains/(losses) on disposal	–	0.2	0.2	0.4	(0.2)	0.2	1.3	–	1.3
Change in market value of investments:									
Recognised as other comprehensive income	–	1.8	1.8	(0.1)	2.1	2.0	0.1	(1.4)	(1.3)
<b>At 31 December</b>	<b>5.0</b>	<b>25.8</b>	<b>30.8</b>	<b>5.0</b>	<b>23.2</b>	<b>28.2</b>	<b>21.6</b>	<b>4.5</b>	<b>26.1</b>
<b>Held as</b>									
Restricted	5.0	–	5.0	5.0	–	5.0	5.0	–	5.0
Unrestricted	–	25.8	25.8	–	23.2	23.2	16.6	4.5	21.1
	<b>5.0</b>	<b>25.8</b>	<b>30.8</b>	<b>5.0</b>	<b>23.2</b>	<b>28.2</b>	<b>21.6</b>	<b>4.5</b>	<b>26.1</b>

On an historical cost basis the comparable amounts of investments are

At 31 December	5.0	22.2	27.2	5.0	21.1	26.1	21.5	4.8	26.3
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Within group investments are charitable funds of £11.1m (2009: £10.1m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £4.5m (2009: £6.8m).

All the listed 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.

Restricted available for sale investments relate to ring-fenced funds which the trustee of the Staff Pensions Fund may call upon should ICAEW's financial position deteriorate materially in relation to the pension scheme (see note 27).

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 19 Non-current financial assets: other receivables

	2010 £m	Group and ICAEW	
		2009 £m	2008 £m
Deferred consideration receivable	0.5	1.5	2.5

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

	2010 £m	2009 £m	2008 £m
Within one year (included within current assets)	1.0	1.0	1.0
Within two to five years	0.5	1.5	2.5
	1.5	2.5	3.5

Non-current financial assets: other receivables are categorised as loans and receivables as required by IAS 39. Deferred consideration is receivable from Wolters Kluwer NV, a group with annual revenues for 2010 of €3,556m (2009: €3,425m) incorporated in the Netherlands and engaged in publishing and providing information products and services. The carrying value of this asset is considered to be equal to its fair value, as interest is receivable at an appropriate level to compensate for the discounted value of the deferred consideration. The relationship with Wolters Kluwer is managed and monitored through ICAEW's risk management process.

## 20 Deferred taxation

	2010 £m	Group and ICAEW	
		2009 £m	2008 £m
The provision for deferred taxation comprises:			
Revaluation of available for sale investments	(0.9)	(0.4)	0.2
Revaluation of properties and historic collections	(0.3)	(0.2)	(0.3)
Deferred tax liability	(1.2)	(0.6)	(0.1)
Defined benefit pension scheme deficit	0.2	0.6	0.4
Deferred tax asset	0.2	0.6	0.4
<b>Net deferred tax (liability)/asset</b>	<b>(1.0)</b>	<b>–</b>	<b>0.3</b>

Movements in the net deferred tax (liability)/asset are summarised as follows:

	Group and ICAEW				
	Revaluation of available for sale investments £m	Revaluation of properties and historic collections £m	Inflationary element of deferred consideration £m	Defined benefit pension scheme deficit £m	Net £m
(Liability)/asset at 1 January 2008	(0.2)	(0.5)	0.1	0.5	(0.1)
Movement in year:					
Recognised in income statement	–	–	(0.1)	–	(0.1)
Recognised as other comprehensive income	0.4	0.2	–	(0.1)	0.5
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)
<b>(Liability)/asset at 31 December 2010</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>–</b>	<b>0.2</b>	<b>(1.0)</b>

The government substantively enacted a change in the national corporation tax rate from 28% to 27% in 2011.

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 21 Inventories

	Group and ICAEW		
	2010 £m	2009 £m	2008 £m
Learning materials	0.8	0.8	0.8

There was no provision for learning material publications at the year end (2009: £nil, 2008: £nil).

## 22 Trade and other receivables – current

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Trade and other receivables	5.0	4.6	4.6	4.7	4.5	4.4
Amounts owed by subsidiaries	–	–	–	0.3	0.1	0.1
Amounts owed by associates	0.1	0.1	0.1	0.1	0.1	0.1
Deferred consideration receivable	1.0	1.0	1.0	1.0	1.0	1.0
Prepayments	1.8	1.7	1.7	1.8	1.7	1.7
Accrued income	1.4	1.6	2.0	1.4	1.6	2.0
	9.3	9.0	9.4	9.3	9.0	9.3
Less: provision for impairment of trade and other receivables	(0.6)	(0.7)	(0.6)	(0.6)	(0.7)	(0.6)
	8.7	8.3	8.8	8.7	8.3	8.7

Trade 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 £0.6m (2009: £0.7m, 2008: £0.6m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Balance at 1 January	0.7	0.6	0.7	0.7	0.6	0.7
Amounts written off (uncollectable)	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Impairment losses	0.1	0.4	0.3	0.1	0.4	0.3
Impairment losses reversed	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)
	0.6	0.7	0.6	0.6	0.7	0.6

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

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
More than one month but not more than three months	0.5	0.8	0.8	0.5	0.8	0.8
More than three months	0.3	0.2	0.2	0.3	0.2	0.2
	0.8	1.0	1.0	0.8	1.0	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 (2009: £nil, 2008: £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 £37,000 (2009: £42,000). All other variables are held constant.

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 24 Trade and other payables

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Subscriptions and admission fees in advance	10.5	10.9	9.3	10.5	10.9	9.3
Amounts owed to associates	1.2	1.0	0.5	1.2	1.0	0.5
Other income in advance	5.7	3.9	3.6	5.7	3.9	3.6
Trade payables	3.5	3.3	4.3	3.5	3.3	4.3
Other payables	1.1	1.1	0.8	0.6	0.8	0.5
Income tax and social security payables	1.0	0.9	1.0	1.0	0.9	1.0
Accruals	5.7	6.1	4.8	5.7	6.0	4.8
	28.7	27.2	24.3	28.2	26.8	24.0

Trade 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 and admission fees in advance relate to income received during 2010 but relating to 2011 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

## 25 Joint Disciplinary Scheme provision

	2010 £m	Group and ICAEW 2009 £m	2008 £m
Balance at 1 January	0.7	1.8	1.4
(Credit)/charge to income statement	(0.1)	0.1	1.8
Amounts paid	(0.6)	(1.2)	(1.4)
Balance at 31 December	—	0.7	1.8

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

## 26 Accountancy and Actuarial Discipline Board provision

	2010 £m	Group and ICAEW 2009 £m	2008 £m
Balance at 1 January	5.3	4.5	4.0
Charge to income statement	5.1	2.1	1.5
Amounts paid	(1.6)	(1.3)	(1.0)
Balance at 31 December	8.8	5.3	4.5
Provision expected to be used within one year	5.3	2.9	3.1
Provision expected to be used after more than one year	3.5	2.4	1.4
	8.8	5.3	4.5

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 2010. 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 (continued)

► for the year ended 31 December 2010

## 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. The assets of the scheme continue to be held by a separate trustee-administered fund. Following consultation during 2009, the scheme was closed to future accrual from 30 June 2010.

The most recent completed valuation of the scheme was carried out by Hymans Robertson LLP as at 5 April 2007 on the projected unit credit method. At that valuation date, the market value of the assets of the scheme was £90.0m, which represented 82% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The next triennial valuation of the scheme as at 31 March 2010 had not been completed at the date of signing these financial statements. The draft valuation carried out by Hymans Robertson LLP on the projected unit credit method as at 31 March 2010 has taken into account the closure of the scheme to future accrual from 30 June 2010. At the draft valuation date, the market value of the assets of the scheme was £113.0m, which is provisionally estimated to represent 83% of the value of the benefits that had accrued to members.

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. Total payments by ICAEW to the scheme during 2010 for past service deficits amounted to £5.8m (2009: £3.6m, 2008: £3.5m).

ICAEW also agreed to make additional employer contributions during the year for back-dated benefits awarded to participating employees attaining 10 years' service with ICAEW during that period of £0.4m (2009: £0.3m, 2008: £0.2m).

In conjunction with the 2007 valuation of the scheme, the trustee commissioned a review of the strength of ICAEW's financial covenant. The resulting agreement set a number of trigger points in relation to the key financial ratios. If an amber trigger event occurs, then ICAEW and the trustee of the pension scheme are required to meet to determine whether the deficit recovery period should be shortened. If a red trigger event occurs, then an immediate additional contribution of £5.0m is required to be made by ICAEW to the scheme and the recovery period would be shortened. To secure this arrangement, ICAEW agreed to a charge being made over Chartered Accountants' Hall and to ring-fence £5.0m of available for sale investments, which the trustee of the scheme may call upon should a red trigger event occur.

Once the 2010 valuation is concluded, the 2007 covenant agreement will be replaced by a fresh agreement, expected to be on substantially the same terms other than that the additional contributions payable on a red trigger event occurring will increase to £10.0m.

In order to monitor the strength of ICAEW's financial covenant under the 2007 agreement, the actuary has provided a desktop update on the scheme's funding position as at 31 December 2010. This review estimated that the deficit, based on assumptions consistent with the draft 2010 triennial valuation, was £19.9m (2009: £39.0m). At the year end, both key financial covenant triggers were at green (2009: green).

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

	31 December 2010	31 December 2009	31 December 2008
Pre-retirement discount rate	5.42%	6.50%	5.87%
Inflation	3.62%	3.80%	3.05%
Future salary increases	—	1.50%	1.50%
Life expectancy	Medium 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 8.8%	12.2
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 4.1%	5.7
Longevity	Increase by 1 year	Increase by 3.4%	4.7

### 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 2010 on the advice of the scheme's actuary were:

	2010	2009	2008
Discount rate	5.40%	5.68%	6.35%
Expected return on scheme assets	5.78%	5.92%	5.49%
Future salary increases	—	3.55%	4.20%
Future increases in pensionable earnings	3.35%	3.55%	3.20%
Rate of inflation	3.35%	3.55%	3.20%

# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 27 Pension liabilities (continued)

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 2010 to certain key assumptions as follows:

	Change in assumption	Effect on value of liabilities	
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 8.0%	10.0
Rate of inflation	Increase/(decrease) by 0.25% pa	Increase/(decrease) by 4.0%	5.0
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:

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Present value of funded obligations	(125.0)	(120.4)	(99.9)	(125.0)	(120.4)	(99.9)
Fair value of plan assets	119.3	105.6	90.8	119.3	105.6	90.8
Whole scheme deficit	(5.7)	(14.8)	(9.1)	(5.7)	(14.8)	(9.1)
Less: relating to other employers	—	—	0.1	0.3	0.6	0.5
Scheme deficit relating to ICAEW	(5.7)	(14.8)	(9.0)	(5.4)	(14.2)	(8.6)

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

	2010 £m	2009 £m	2008 £m
Opening defined benefit obligation	120.4	99.9	115.4
Current service cost	0.9	1.9	2.2
Past service cost	0.9	—	—
Interest on obligation	6.7	6.3	6.6
Contributions by plan participants	0.3	0.7	0.8
Actuarial loss/(gain) in the year	2.3	16.2	(20.9)
Benefits paid	(6.5)	(4.6)	(4.2)
Closing defined benefit obligation	125.0	120.4	99.9

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

	2010 £m	2009 £m	2008 £m
Opening fair value of plan assets	105.6	90.8	98.9
Expected return on assets	6.3	5.0	6.3
Contributions by plan participants	0.3	0.7	0.8
Contributions by the employer	7.0	5.8	5.7
Actuarial gain/(loss) in the year	6.6	7.9	(16.7)
Benefits paid	(6.5)	(4.6)	(4.2)
Closing fair value of plan assets	119.3	105.6	90.8
Actual return on assets	12.8	13.0	(10.4)

# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 27 Pension liabilities (continued)

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

	2010	2009	2008
Equities	58%	57%	56%
Government bonds	33%	34%	37%
Cash	3%	4%	2%
Corporate bonds	6%	5%	5%
	100%	100%	100%

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

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Current service cost	(0.9)	(1.9)	(2.2)	(0.9)	(1.9)	(2.2)
Past service cost	(0.9)	–	–	(0.9)	–	–
Expected return on pension scheme assets	6.3	5.0	6.3	6.3	5.0	6.3
Interest on pension scheme liabilities	(6.7)	(6.3)	(6.6)	(6.7)	(6.3)	(6.6)
	(2.2)	(3.2)	(2.5)	(2.2)	(3.2)	(2.5)
Less: relating to other employers within the scheme	–	–	–	0.1	0.1	0.1
	(2.2)	(3.2)	(2.5)	(2.1)	(3.1)	(2.4)

Amounts recognised as other comprehensive income:

	2010 £m	2009 £m	Group 2008 £m	2010 £m	2009 £m	ICAEW 2008 £m
Actuarial gain/(loss) on plan assets	6.6	7.9	(16.7)	6.6	7.9	(16.7)
Actuarial (loss)/gains on obligation	(2.3)	(16.2)	20.9	(2.3)	(16.2)	20.9
Actuarial gain/(loss) – whole scheme	4.3	(8.3)	4.2	4.3	(8.3)	4.2
Less: relating to other employers within the scheme	–	–	–	(0.2)	0.3	(0.1)
	4.3	(8.3)	4.2	4.1	(8.0)	4.1

Amounts for the current and previous periods are as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	(125.0)	(120.4)	(99.9)	(115.4)	(113.1)
Plan assets	119.3	105.6	90.8	98.9	86.8
Whole scheme deficit	(5.7)	(14.8)	(9.1)	(16.5)	(26.3)
Actuarial gain/(loss) on plan assets	6.6	7.9	(16.7)	5.8	1.3
Actuarial (loss)/gain on obligation	(2.3)	(16.2)	20.9	3.1	(6.3)
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 £1.8m (2009: £1.3m). There were no contributions payable to the scheme at the year-end date (2009: £nil).

# Notes to the financial statements (continued)

➡ for the year ended 31 December 2010

## 28 Reserves

Included within reserves is £3.1m 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 2010 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:

	Land and buildings 2010 £m	Group Plant and machinery 2010 £m	Land and buildings 2009 £m	Group Plant and machinery 2009 £m
Minimum lease payments due:				
Within one year	0.1	–	0.1	–
In two to five years inclusive	0.2	0.2	0.2	0.2
After five years	7.0	–	7.7	–
	<b>7.3</b>	<b>0.2</b>	<b>8.0</b>	<b>0.2</b>

	Land and buildings 2010 £m	ICAEW Plant and machinery 2010 £m	Land and buildings 2009 £m	ICAEW Plant and machinery 2009 £m
Minimum lease payments due:				
In two to five years inclusive	0.2	0.2	0.2	0.2
After five years	7.0	–	7.7	–
	<b>7.2</b>	<b>0.2</b>	<b>7.9</b>	<b>0.2</b>

## 30 Staff costs

Average number of staff employed during the year

	2010	Group 2009	2010	ICAEW 2009
Total employees	664	648	646	629
Full-time equivalents	635	618	619	599

Employment costs

	2010 £m	Group 2009 £m	2010 £m	ICAEW 2009 £m
Wages and salaries	29.1	28.1	28.5	27.5
Employer's social security costs	2.9	2.8	2.9	2.7
Employer's pension costs	4.0	4.5	3.8	4.3
	<b>36.0</b>	<b>35.4</b>	<b>35.2</b>	<b>34.5</b>

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2009: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW.



# Notes to the financial statements (continued)

► for the year ended 31 December 2010

## 31 Key management compensation – executive directors

	Group and ICAEW			Group and ICAEW			
	Salary 2010 £'000	Deferred variable pay 2010 £'000	Total 2010 £'000	Salary 2009 £'000	Deferred variable pay 2009 £'000	Payment in lieu of notice and compensation payments £'000	Total 2009 £'000
Robin Fieth	182	41	223	175	40	–	215
Robert Hodgkinson	232	50	282	225	47	–	272
Michael Izza	351	99	450	340	95	–	435
Mark Protherough	170	37	207	–	–	–	–
Vernon Soare	183	33	216	178	41	–	219
Former executive director	–	–	–	117	10	158	285
	1,118	260	1,378	1,035	233	158	1,426

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.

## 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.







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**Because of us, people can do business with confidence.**

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