THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW

LEADING THE PROFESSION IN CHALLENGING TIMES

FINANCIAL STATEMENTS 2008

FINANCIAL STATEMENTS

The role of chartered accountants across the world economy has never been more important. People and organisations facing economic adversity need to be able to rely on knowledge and guidance based on the highest technical and ethical standards. Our members provide this better than anyone.

Our mission is to deliver on our Charter obligations. Our strategy is to focus on premium positioning for reputation and influence, qualifications and services and member support – delivered through partnerships and international growth. Building on our leadership position in the UK we are focused on becoming a body capable of representing and supporting an increasingly global profession.

These financial statements should be read in conjunction with the *Institute's annual review 2008*

Contents

FINANCIAL REVIEW

2008

The financial statements for 2008 include the four charitable trusts associated with the Institute, and the Institute's two new international subsidiaries, ICAEW China Limited and ICAEW Malaysia Limited – in accordance with IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*. The commentary below relates primarily to the operating activities of the Institute.

Results

Total income was up by 6.5% to £73,561k (2007: £69,052k) and the retained surplus after taxation for the year was £242k (2007: £1,639k deficit). The operating surplus, before funding of the Joint Disciplinary Scheme (JDS), was £356k (2007: £1,750k).

Net assets at 31 December 2008 were £28,788k (2007: £29,514k). Cash and cash equivalents ended the year at £8,670k (2007: £9,259k). When including restricted and non-restricted available for sale investments, the cash deposits and equity investments of the Institute total £34,743k (2007: £35,358k). The net decrease in cash and cash equivalents in 2008 was £589k (2007: £4,232k).

The consolidated outcome for the year, including the results of the Institute's charitable trusts, was a surplus after tax of £226k (2007: £1,909k deficit).

Student and membership numbers

2008 was the first full calendar year of the credit crisis which provided a particularly challenging environment for recruitment of students. Nevertheless, we achieved student intake of 5,104, an increase of 47 on the 2007 intake of 5,057. This contributed to a 4.8% increase in total students to 16,165 (2007: 15,422).

Our membership grew by 1.7% to 132,411. Student admissions were up 15.0% to 2,827 (2007: 2,459), reflecting the increase in student numbers seen over recent years. New agreed reciprocal arrangements with the Australian, South African and New Zealand institutes generated 153 new members. Other admissions from *Pathways*, Hong Kong and readmissions totalled 894 (2007: 1,314). Growth in membership was further helped by a decrease in the level of resignations and ceased memberships, which dropped to their lowest levels in 20 years at 1,070 (2007: 1,299).

Income

Total income rose by 6.5% to £73,561k (2007: £69,052k). The main source of revenue is from members' fees and subscriptions, which made up 45.0% (2007: 45.8%) of total revenue. Fees and subscriptions rose by 4.8% to £33,136k (2007: £31,610k), including the effects of a 4.0% increase in the main subscription rate.

Income in areas outside of core fees and subscriptions grew by 8.0%.

Income summary

	2008 £'000	2007 £'000
Fees and subscriptions	33,136	31,610
Students and other qualifications	11,810	10,522
Practice regulation and faculties	17,653	16,593
Subscription based services and commercial income	5,558	5,086
Investment and equity portfolio	3,009	3,368
Licence fees from Wolters Kluwer	1,850	1,850
External bodies	545	23
	73,561	69,052

Income from practice regulation and faculties includes the first admission fees generated by the new affiliates from Ernst & Young's new European structure. Income from subscription based services, sponsorship of Institute events and publications, commercial activities and consultancy work increased by 9.3% to £5,558k (2007: £5,086k). This included the first full financial year's income from the projects in Bangladesh, which are being carried out in partnership with the World Bank to promote best practice and raise standards with the accountancy profession in Bangladesh.

Income from students and other qualifications, including ACA, IFRS, Corporate Finance and the Diploma in Charity Accounting rose by 12.2% to £11,810k (2007: £10,522k). Investment income was affected by the steep reduction in Bank of England base rates in the last quarter of 2008, as well as the significant deterioration in the performance of equity markets throughout 2008, and declined by 10.7% to £3,009k (2007: £3,368k).

Expenditure

Total expenditure increased by 4.5% to £73,366k (2007: £70,204k). Increased student numbers, the continued development of new qualifications, and further international investment resulted in an increase in student and other qualification costs by 13.7% to £15,765k (2007: £13,866k).

Practice and disciplinary related costs increased by 8.3% to £17,092k which included the full year costs of the Bangladesh consultancy contracts.

2008 also saw the development of new products in the Institute's commercial portfolio, including the recruitment portal, development of the F-TEN executive network and online networks, in direct support of our strategy. These developments together with continued investment in our other commercial income streams saw costs increase by £680k. A number of reallocations of costs from other departments, such as the contact centre and web communications, into Member Services resulted in a 32.0% increase in reported costs of £2,055k to £8,484k.

FINANCIAL REVIEW
(continued)

International expenditure across the Institute increased by 47.6% to £3,153k (2007: £2,136k) reflecting our strategic priorities. Activities continued to focus in China (including Hong Kong), Malaysia and Pakistan, particularly on student training and conferences. This contributed to increased student intake with 9.9% of total students coming from overseas in 2008 compared to 7.7% in 2007. During 2008, we began preparation for the 2009 launch of the regional office in South East Asia, located in Singapore.

Expenditure on communications and marketing remained flat year on year, after taking account of changes to cost allocations in the year, with specific investment in the member communications project in 2008.

During the year the Institute received fines and cost recoveries of £508k and £1,105k respectively from the JDS relating to two cases concluded in 2008. The costs charged to the income and expenditure statement were £1,727k, giving a net JDS funding cost in the year of £114k.

	2008 £'000	2007 £'000
Net result before JDS	356	1,750
Funding of JDS	(114)	(3,389)
Net result after tax	242	(1,639)

The JDS 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

Following a successful application to have elements of investment income reclassified as trading income, the net corporation tax credit for the year was £47k (2007: £487k tax charge).

Pensions

The Institute's defined benefits pension scheme was closed to new members in 2000. The whole scheme IAS 19 deficit at 31 December 2008 was £9,060k (2007: £16,563k). The poor performance of equity markets throughout 2008 led to a decline in the value of fund assets to £90,728k (2007: £98,827k). The discount rate used to value the defined benefit obligations under IAS 19 was 6.35%.

Previously the Institute used the iBoxx over 15 year AA bond index to determine the discount rate, in line with IAS 19 guidance. However, the terms of the constituents of this index were considered to be somewhat shorter than appropriate for the scheme. With the gilt curve now downward sloping at the longer end, the use of the index yield was reviewed. Therefore, in consultation with the actuaries and the trustee a rate of 6.35% was used rather than the iBoxx rate of 6.70%. This reflected the yields available on UK Government bonds (where longer maturity yields are available), adjusted to reflect typical credit spreads between AA rated corporate bonds and similarly dated Government bonds.

Based on the full actuarial valuation at April 2007, the Institute agreed with the trustee in early 2008 to provide further deficit funding. Payments were set at £125k per month, increasing in line with RPI, plus lump sum contributions of £2,000k in each of January 2008, 2009 and 2010. In line with this funding plan, the Institute contributed £3,545k (2007: £1,470k) of deficit funding during 2008, which helped to reduce the pension deficit.

As part of the 2007 actuarial valuation of the Staff Pensions Fund (SPF), the trustee commissioned a review of the strength of the Institute's financial covenant. The resulting agreement set a number of trigger points in relation to the key financial ratios. These covenants are reviewed at each quarterly forecast, and in the Institute's annual operational plan. During 2007, the Institute agreed to ring-fence a sum of £5,000k, held as restricted available for sale investments, which the trustee of the scheme may call upon in the event that the Institute's financial position deteriorates materially as indicated by monitoring of the covenant triggers. The next triennial valuation of the scheme is in 2010.

The actuaries have provided a desktop update on the actuarial deficit, and at 31 December 2008 one of the tier one covenant triggers which measures the ratio of cash to the estimated actuarial deficit had moved to amber. Management met with the trustee in early March 2009 and it was agreed that no further action would be taken at this stage. There remains significant headroom before we hit a red trigger. For a red trigger to occur the pension deficit would have to be nearly twice the value of cash and available for sale investments. The balance of cash and available for sale investments at 31 December 2008 was £34.7m which would mean the actuarial pension deficit would have to be £57.8m. The desktop pension deficit was £40.6m, leaving £17.2m of headroom.

Balance sheet and cash flow

The Institute's balance sheet remained strong with net assets of £28,788k (2007: 29,514k). The most significant movement on the balance sheet was the reduction in the Institute's share of the pension deficit to £8,604k (2007: £15,934k). During 2008 the market value of the Institute's investments, which comprise an equity portfolio and certificates of deposit, remained relatively stable at £26,073k.

Inventories were £814k (2007: £916k) reflecting the timing of sales of the ACA and other product learning materials around the year end. Trade and other receivables were £8,689k (2007: £8,628k). Trade and other payables were £24,009k (2007: £20,996k) highlighting the focused approach to working capital management followed by the Institute during 2008.

FINANCIAL REVIEW
(continued)

In December 2006, the council approved a proposal to enter a 15 year lease on new premises in Milton Keynes. This decision was implemented in March 2008 when staff moved into the new offices. As a result the freehold property, Gloucester House, Milton Keynes, was sold for £3,050k. Completion took place on 15 April 2008. The property had been revalued at £2,971k, its carrying amount at the date of reclassification, less costs of disposal, at 31 December 2007.

Net cash outflow was £589k (2007: £4,232k). The most significant items of expenditure were the fit-out costs of the new offices in Milton Keynes and the new Business Centre at Chartered Accountants' Hall in London. The total cash outflow on capital purchases was £7,694k (2007: £3,117k). The sale of Gloucester House contributed a cash inflow of £3,050k.

Funding of the JDS and Accountancy and Actuarial Discipline Board (AADB) schemes saw a cash outflow of £2,392k (2007: £4,823k). The reduction in this funding is as a result of the winding down of the JDS scheme. The Institute has provided £1,777k of costs relating to the JDS, which represents the expected future cost of the Institute's share of cases at 31 December 2008. Any potential future income from fines that may be received is uncertain as to timing and value, so cannot be included in the provision.

The Institute provided £3,545k (2007: £1,470k) of deficit funding to the SPF, in line with the agreement of January 2008.

The Institute generated a cash inflow from working capital of £4,211k (2007: £228k cash outflow) principally through tight control of trade payables, illustrated by the increase in creditor days to 22 (2007: 14). The cash profile of the Institute fluctuated throughout the year, peaking at £30,800k in February 2008 and bottoming out at £6,100k in November 2008.

Capital expenditure and property assets

Capital expenditure was £5,993k (2007: £3,372k), as a result of the fit-out of Metropolitan House, Milton Keynes, and the refurbishment of the new Business Centre in Chartered Accountants' Hall, London. The total costs of these two projects were £3,600k and £1,850k respectively, being the largest capital expenditure projects the Institute has carried out in many years. Chartered Accountants' Hall was valued at £8,850k (2007: £11,700k). We expect to spend £2,700k in 2009 of which it is estimated that £500k will be spent on Chartered Accountants' Hall.

The effects of the credit crisis

The swift reduction in the Bank of England base rate in the last quarter of 2008 affected the level of investment income received. This will continue to impact investment income in 2009. In October 2008 the Institute increased the minimum required Standard & Poor's (S&P) long-term rating from A+ to AA- for the approved counterparties in which the Institute invests certificates of deposit.

In December 2008, the continuing deterioration in credit markets led to the credit agencies downgrading the credit ratings of a number of the world's leading banks. Both the increase in the required S&P long-term rating and the downgrading of credit ratings of a number of banks has led to a reduced number of banks with which the Institute can invest certificates of deposit.

The principal risks and uncertainties facing the Institute as a result of the global credit crisis could affect:

- the Institute's commercial income streams;
- increased take-up of reduced subscription rates that the Institute offers for members;
- the numbers of students training in the larger member firms. This is likely to be mitigated by the Institute's move into international markets where there are still opportunities for growth in numbers of students training with the Institute.

The council does not currently see any reason to change significantly the direction of the strategy agreed by the council in December 2007. However, the current economic conditions are very different to those we faced in 2007 and our strategy is something we will keep under review. The council believes that the significant financial resources of the Institute may also allow it to take advantage of any opportunities that arise as a result of the current economic climate, in terms of student growth and reputation-enhancing activities. The implications of the global financial crisis on the resources available to implement the Institute's strategy, both in speed and scale are continually monitored and reported to board and the council on a quarterly basis.

Plans for the future

The council intends to continue to grow the Institute within the agreed strategy and financial principles framework. The financial principles framework states that the Institute will seek each year to set a balanced budget. Budget deficits will only be approved if within any three year planning cycle there is overall a balanced budget. Our strategic priorities are summarised in the Institute's *annual review 2008*.

Charitable donations

During the year the Institute made donations under gift aid to its charitable trusts amounting to £1,200k (2007: £800k). The Institute's charitable trusts continued to run the Library and Information Service and approved grants in the year of £230k (2007: £296k).

Creditor payment policy

It is the Institute's policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days at 31 December 2008 were 22 days (2007: 14 days).

FINANCIAL REVIEW
(continued)

Corporate responsibility commitment
We are committed to meeting our responsibilities in support of a sustainable world, both by maximising the benefits and minimising the downsides of the impacts of our activities and 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 by developing competencies, systems and targets 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;
- 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 2008* at www.icaew.com/review.

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

The Institute's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in the Institute's *annual review 2008* at www.icaew.com/review. The financial position of the Institute, its cash flows and liquidity position are described in the financial review above. In addition the accounting policies include the Institute'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.

The Institute has considerable financial resources. As a consequence, the council believes that the Institute is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Internal control
The council is responsible for the Institute'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:

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 the Institute. This process has been in place for the whole of 2008 and has continued up to the date on which this document was approved.

Each department identifies and reviews the risks faced by the Institute, 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. Any changes in risks and key risk highlights are also reported to the board regularly by directors.

The assessment of risk is linked with the evolving Institute strategy in compliance with the guidance *Internal Control: Guidance for Directors on the Combined Code* (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
- how the risks have changed over the period under review and any significant issues.

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

- a major corporate or firm failure in the current economic downturn leads to a loss of confidence in, and damage to the reputation and brand of, the Institute and the reputation of the profession generally

FINANCIAL REVIEW
(continued)

- resource limitations lead to an inability to develop markets resulting in the failure to deliver ongoing operations or planned expansion
- failure to articulate what the Institute stands for, leading to an inability to develop markets, resulting in the failure to deliver ongoing operations or planned expansion.

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 approval by the board and the council. We have agreed key performance targets and monitor achievement against these on a monthly basis. Actual results are compared to approved budgets 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.

Internal audit
Internal audit provides assurance that risk management processes are addressing the significant risks faced by the Institute and assesses the controls in place. It ensures that, where control weaknesses are identified, appropriate remedial action is taken by management. 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 the Institute's system of internal control in operation during 2008. 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

Constitution

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

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

Institute meetings

The Charter and bye-laws reserve certain matters to Institute members in general meeting including the receipt and consideration of the annual review and the financial statements of the Institute with the report of the auditors.

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

The Institute council

The council ordinarily meets seven times a year and is responsible for the management of the affairs and business of the Institute in accordance with Charter clause 2(a). It considers, reviews and approves policy, strategy, operational plans and budgets proposed by the board and the departmental boards. It also reviews the activities and performance of the boards and the Institute's annual review and financial statements. It represents and articulates the views of members on all these matters and otherwise delegates the powers and authorities conferred on it by the Charter and bye-laws.

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

As at 31 December 2008, the council comprised 104 members as follows.

- 71 members elected by the membership from 23 constituencies (22 of which have the same boundaries as the district societies, together with Scotland).
- 20 members co-opted on the recommendation of the nominating committee in order to preserve a balance between the various interests requiring representation on the council and to provide seats for members with specialist skills or experience.
- 12 members ex officio (the office-holders (president, deputy-president and vice-president), the immediate past president, representatives of the faculty committees and the chair of the national student council).
- 1 observer member appointed as CIPFA's representative under reciprocal arrangements (the CIPFA observer member resigned as at 31 December 2008 and was replaced on 4 February 2009).

Each council member receives an induction on joining the council. Brief details of each council member, including their present principal employment commitments together with their record of attendance at council meetings in 2008, appear in the *annual review 2008*.

Elections

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

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

The council elects its chairman annually from among its members.

CORPORATE GOVERNANCE STATEMENT
(continued)

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

The chief executive represents the Institute at home and abroad, presents the views of the council to government, other public bodies and the public. He operates within the framework of delegations approved by the council. He is responsible to the council for the development, promotion and management of the Institute in order to achieve the strategy set by the council. He implements Institute policies in support of the strategy by harnessing the efforts of volunteers and staff and by building effective relationships with policy-makers and opinion formers, and with members. He is responsible for the overall management of the staff and for ensuring that the Institute operates effectively and efficiently.

The Institute complies with the provisions of the Code relating to the separation of roles and responsibilities of the president and chief executive. It is likely, for all practical purposes, both that the president will meet the criteria for independence set out in the Code and that the chief executive will not, on standing down, then become president.

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

The head of institute governance oversees the provision of reports to the board and provides advice on governance issues as required. Senior staff report to the board on a monthly basis on performance against operational plans. The executive director, finance and operations reports monthly to the board on financial performance. He also reports regularly on key risks and internal controls.

The composition, meetings and proceedings of the board comply with the provisions of the Code. Members generally have the ability to raise issues with their constituency representatives on the council. Members of the council can also raise issues with the office-holders, with the chairman of the council, or with the elected members of the board.

A specific induction programme for board members is in place. The board has evaluated its performance and will continue this process in 2009.

The membership of the board is largely ex officio (by virtue either of election as an office-holder by the council or appointment as an executive director, a departmental board chairman or as treasurer on the recommendation of the nominating committee) and comprises both non-executive volunteers and senior staff. Notice periods for the staff members are set at less than one year, except for the chief executive whose notice period is one year. The council also elects two members directly to the board from among its membership for terms of two years. These members are deemed to fulfil the role of 'senior independent director'. Under reciprocal arrangements a non-voting member is nominated by CIPFA.

The volunteer members will meet the criteria for independence as set out in the Code and may seek independent professional advice if thought necessary on any issue. Each member of the board is indemnified against loss and expense (other than that incurred by negligence or wilful default).

Terms of reference for the key committees can be found in the *About us – governance and structure* section of the Institute's website at www.icaew.com.

CORPORATE GOVERNANCE STATEMENT
(continued)

The members of the board (for whom brief biographical details can be found in the *About us – governance and structure* section of the Institute's website at www.icaew.com) during 2008 were:

	Position	Appointed	Retired	Attendance
Volunteer members				
Arthur Bailey	Elected by the council	17 June		3/6
John Butler	Appointed as a non-voting member under reciprocal arrangements with CIPFA	17 June		3/6
Ian Cherry	re-elected by the council			10/11
Richard Dyson	President and Chairman		4 June	5/5
David Furst	Deputy-President to 4 June; President and Chairman from 4 June			11/11
Caroline Gardner	Appointed as a non-voting member under reciprocal arrangements with CIPFA	1 January	17 June	0/5
Bill Graham	elected by the council		17 June	4/5
Martin Hagen	Vice-President to 4 June; Deputy-President from 4 June			9/11
Richard Harwood	Chairman, Professional Standards Board			10/11
Clive Parritt	Chairman, Member Services Board			11/11
Andrew Ratcliffe	Chairman, Technical Strategy Board			5/11
Gerald Russell	Vice-President	4 June		4/6
Michael Sherry	Treasurer			8/11
Jan Weber	Chairman, Learning & Professional Development Board			7/11
Staff members				
Robin Fieth	Executive Director, Finance and Operations			11/11
Robert Hodgkinson	Executive Director, Technical Strategy			10/11
Michael Izza	Chief Executive			11/11
Raymond Madden	Executive Director, Learning & Professional Development			8/11
Vernon Soare	Executive Director, Professional Standards			9/11

Audit committee

The Audit Committee is responsible, on behalf of the council, for ensuring that all significant activities of the Institute are subject to independent review and audit, for monitoring the Institute's relationship with its auditors, for reviewing internal controls and for assessing risk. The committee has delegated responsibility for considering the appointment and assessing the independence of the external auditor, ensuring that key partners are rotated at appropriate intervals and satisfying itself that the independence of the auditors is not compromised by any appointment or election to the council of a partner or employee of the firm concerned.

Its terms of reference reflect the requirements of the Code so far as is practical and appropriate. The chairman of the committee must be a member of the council and at least one member must be a non-council member. It meets at least three times a year. The treasurer attends its meetings. Both the internal and external auditors attend its meetings and have direct access to its chairman. The external auditors attend at least one meeting per year, or part thereof, without the Institute management being present. The appointment of the external auditors was last tendered in 2005, in line with the Institute's tendering policy for such contracts. In order to ensure appropriate levels of independence, no partner or employee of the firm concerned is able to be appointed to council during the period of tenure. Grant Thornton UK LLP was appointed in 2006 following the tender exercise. The current lead partner has been responsible for the audit for a period of two years. The Audit Committee reviews and considers the quality, effectiveness and independence of the auditors, on an annual basis. This includes a review of safeguards in place in relation to non-audit services, and a review of partners and directors of the firm who sit on Institute committees. The review is carried out prior to the formal re-appointment of the auditors at the Annual Meeting.

CORPORATE GOVERNANCE STATEMENT
(continued)

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 the Institute;
- reviewed the effectiveness of the Institute'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;
- agreed the work plan of internal audit and reviewed the resultant output from that plan.

The audit committee reviews annually the independence of the external audit firm and the individuals carrying out the audit by receiving assurances from the audit firm and reviewing the partners and directors of the firm who sit on Institute committees. The committee seeks to balance the benefits of continuity of audit personnel and the need to assure independence through change of audit personnel by agreeing with the audit firm staff rotation policies in relation to the Institute's audit. In addition, a policy in respect of non-audit work by the audit firm is in place, the general principle being that the audit firm should not be requested to carry out non-audit services where they may, in the future, be required to give an audit opinion. The Institute has, however, recognised that taxation advice is an acceptable derogation from this principle.

The committee has helped the board to assess the adequacy of the internal audit resourcing 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. A review was also held of the effectiveness of the Audit Committee during the year. It was considered 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 by enquiry of them) the independence of the external auditors.

The members of the Audit Committee during 2008 were:

		Appointed	Retired	Attendance
Brian Boswell	non-council member			4/4
John Cain	non-council member			3/4
Ian Cherry	council member			2/4
Bruce Gray	non-council member			4/4
Neeraj Kapur	council member	4 June		2/3
Sheilagh Moffat	council member		4 June	1/1
Michael Pavia	council member and Chairman			4/4

The treasurer also attends, but is not a member of, the Audit Committee.

The chairman of the Audit Committee reports annually to the council. The Audit Committee makes the minutes of its meetings available to the board.

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

The members of the Remuneration Committee during 2008 were:

		Appointed	Retired	Attendance
John Collier	council member			3/3
Maurice Ede	council member and Chairman			3/3
Martin Hagen	council member			3/3
Peter Jenkins	council member			2/3
Clive Parritt	council member			3/3
Michael Sherry	council member and Treasurer			3/3

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 the Institute. The committee also has direct responsibility for all other appointments and for succession planning. Appointments to committees are normally for terms of two years and are reviewed annually (except appointments to the quasi judicial committees in the professional standards area, where appointments are for fixed terms of three years). The committee makes recommendations and appointments on the basis of the best person for the job and against agreed profiles.

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

The members of the Nominating Committee during 2008 were:

	Position	Appointed	Retired	Attendance
Richard Dyson	President and Chairman to 4 June; past President from 4 June			4/5
David Furst	Deputy-President to 4 June; President and Chairman from 4 June			5/5
Martin Hagen	Vice-President to 4 June; Deputy-President from 4 June			5/5
Sheilagh Moffat	elected by the council			5/5
Ian Morris	past President			4/5
Gerald Russell	Vice-President	4 June		1/2
Paul Wagstaff	elected by the council			3/5
Peter Wyman	past President		4 June	1/3

CORPORATE GOVERNANCE STATEMENT

(continued)

Senior staff appointments committee

The Senior Staff Appointments Committee has responsibility for all matters relating to the recruitment and appointment of the chief executive and executive directors. Its membership comprises (for the appointment of the chief executive) the president or one other office-holder (chairman), the chairman of council and three members of the council appointed by the Nominating Committee; and (for the appointment of an executive director) the president or one other office-holder (chairman), the chairman of council, one member of the council appointed by the Nominating Committee, the chairman of the relevant department board (or treasurer in the case of the executive director, finance and operations) and the chief executive.

A special committee (comprising the volunteer members of the board and the chairman, remuneration committee) is convened in the event that the removal of a senior staff member is required.

Departmental boards

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

Employees

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

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

Staff skills are maintained on an ongoing basis and there is an opportunity for all staff to discuss their training and development needs on an annual basis. The Institute is committed to the core values of integrity, vitality, increasing members' value, compelling, most influential, highest standards and inspiring confidence.

Financial responsibilities of the council

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

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

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

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

Directors' confirmation

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Institute's auditors are unaware
- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Institute's auditors are aware of that information.

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

FIVE YEAR SUMMARY

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Income statement					
Operating income	73,561	69,052	63,615	60,862	53,470
Subscription based services	(52,828)	(48,182)	(39,359)	(38,444)	(35,134)
Self-financing activities	(16,229)	(15,689)	(14,578)	(13,796)	(12,709)
Funding of external bodies	(3,109)	(5,533)	(4,341)	(3,336)	(2,878)
Gift aid and library funding	(1,200)	(800)	(1,380)	(2,475)	(1,910)
Result before taxation	**195**	**(1,152)**	**3,957**	**2,811**	**839**
Taxation	47	(487)	(195)	8	(344)
Net result after taxation	**242**	**(1,639)**	**3,762**	**2,819**	**495**
Analysis of net result after taxation					
Net result before Joint Disciplinary Scheme	**356**	**1,750**	**5,433**	**3,964**	**1,573**
Funding of Joint Disciplinary Scheme	(114)	(3,389)	(1,671)	(1,145)	(1,078)
Net result after Joint Disciplinary Scheme	**242**	**(1,639)**	**3,762**	**2,819**	**495**
Net assets					
Non-current assets	49,831	54,443	52,580	47,806	46,847
Current assets	18,173	18,803	27,667	20,878	15,948
Current liabilities	(29,081)	(25,000)	(30,194)	(22,820)	(16,604)
Non-current liabilities	(10,135)	(18,732)	(27,400)	(26,194)	(27,886)
Total net assets	**28,788**	**29,514**	**22,653**	**19,670**	**18,305**
Reserves	22,666	25,090	20,994	16,981	16,197
Reserves retained by self-financing activities	6,122	4,424	1,659	2,689	2,108
	28,788	**29,514**	**22,653**	**19,670**	**18,305**

	2008	2007	2006	2005	2004
Member and student numbers					
Members	132,411	130,243	128,416	127,826	126,490
Students	16,165	15,422	13,551	12,311	11,286
	148,576	**145,665**	**141,967**	**140,137**	**137,776**

INDEPENDENT AUDITORS' REPORT

to the members of The Institute of Chartered Accountants in England and Wales for the year ended 31 December 2008

We have audited the group and Institute financial statements (the financial statements) which comprise the group income statement, Institute income statement, statements of recognised income and expense, balance sheets, cash flow statements and the related notes on pages 14 to 44. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the council and auditors

The council's responsibilities for preparing the annual report and the financial statements in accordance with applicable law and IFRS as adopted for use in the EU are set out in the statement of financial responsibilities of the council.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and *International Standards on Auditing (UK and Ireland)*.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the annual review and corporate governance statement are consistent with the financial statements, if the Institute has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the EU, of the state of affairs of the group and the Institute as at 31 December 2008 and of the result of the group and the Institute for the year then ended; and
- the information given in the annual review and corporate governance statement is consistent with the financial statements.

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors

17 March 2009

GROUP INCOME STATEMENT

for the year ended 31 December 2008

	Note	Income £'000	Expenditure £'000	2008 Net £'000	Income £'000	Expenditure £'000	2007 Net £'000
Subscriptions and other income							
Subscriptions and fees		33,136	–	33,136	31,610	–	31,610
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		34,986	–	34,986	33,460	–	33,460
Subscription based services							
Learning & professional development	1	11,810	(15,765)	(3,955)	10,522	(13,866)	(3,344)
Professional standards	2	2,222	(4,708)	(2,486)	1,033	(3,865)	(2,832)
Member services	3	3,425	(8,484)	(5,059)	3,154	(6,429)	(3,275)
Regional services	4	171	(4,683)	(4,512)	174	(4,344)	(4,170)
Technical strategy	5	30	(6,795)	(6,765)	447	(6,977)	(6,530)
Central activities	6	1,024	(12,863)	(11,839)	1,311	(13,156)	(11,845)
		18,682	(53,298)	(34,616)	16,641	(48,637)	(31,996)
Self-financing activities and charitable trusts							
Practice regulation	7	12,783	(12,384)	399	12,327	(11,913)	414
Faculties	8	3,556	(3,845)	(289)	3,233	(3,776)	(543)
Charitable trusts	9	213	(1,347)	(1,134)	336	(1,391)	(1,055)
		16,552	(17,576)	(1,024)	15,896	(17,080)	(1,184)
Funding of external bodies							
Funding of external bodies – excluding Joint Disciplinary Scheme	10	37	(2,487)	(2,450)	23	(2,144)	(2,121)
Funding of Joint Disciplinary Scheme	11	508	(622)	(114)	–	(3,389)	(3,389)
		545	(3,109)	(2,564)	23	(5,533)	(5,510)
Operating result	13	**70,765**	**(73,983)**	**(3,218)**	**66,020**	**(71,250)**	**(5,230)**
Investment income	14	3,401	–	3,401	3,811	–	3,811
Group share of associates' results after tax	18	–	(4)	(4)	–	(3)	(3)
Result before taxation		**74,166**	**(73,987)**	**179**	**69,831**	**(71,253)**	**(1,422)**
Taxation	15			47			(487)
Analysis of net result after taxation							
Net result before funding of Joint Disciplinary Scheme			340			1,480	
Funding of Joint Disciplinary Scheme			(114)			(3,389)	
Net result after taxation	31			**226**			**(1,909)**

INSTITUTE INCOME STATEMENT

for the year ended 31 December 2008

	Note	2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
Subscriptions and other income							
Subscriptions and fees		33,136	–	33,136	31,610	–	31,610
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		34,986	–	34,986	33,460	–	33,460
Subscription based services							
Learning & professional development	1	11,810	(15,765)	(3,955)	10,522	(13,866)	(3,344)
Professional standards	2	2,222	(4,708)	(2,486)	1,033	(3,865)	(2,832)
Member services	3	3,425	(8,484)	(5,059)	3,154	(6,429)	(3,275)
Regional services	4	171	(4,683)	(4,512)	174	(4,344)	(4,170)
Technical strategy	5	30	(6,795)	(6,765)	447	(6,977)	(6,530)
Central activities	6	1,024	(12,393)	(11,369)	1,311	(12,701)	(11,390)
		18,682	(52,828)	(34,146)	16,641	(48,182)	(31,541)
Self-financing activities							
Practice regulation	7	12,783	(12,384)	399	12,327	(11,913)	414
Faculties	8	3,556	(3,845)	(289)	3,233	(3,776)	(543)
		16,339	(16,229)	110	15,560	(15,689)	(129)
Funding of external bodies							
Funding of external bodies – excluding Joint Disciplinary Scheme	10	37	(2,487)	(2,450)	23	(2,144)	(2,121)
Funding of Joint Disciplinary Scheme	11	508	(622)	(114)	–	(3,389)	(3,389)
		545	(3,109)	(2,564)	23	(5,533)	(5,510)
Gift aid and library funding	12	–	(1,200)	(1,200)	–	(800)	(800)
Operating result	13	**70,552**	**(73,366)**	**(2,814)**	**65,684**	**(70,204)**	**(4,520)**
Investment income	14	3,009	–	3,009	3,368	–	3,368
Result before taxation		**73,561**	**(73,366)**	**195**	**69,052**	**(70,204)**	**(1,152)**
Taxation	15			47			(487)
Analysis of net result after taxation							
Net result before funding of Joint Disciplinary Scheme			356			1,750	
Funding of Joint Disciplinary Scheme			(114)			(3,389)	
Net result after taxation	31			**242**			**(1,639)**

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2008

		Group		Institute	
	Note	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Net result after taxation recognised in the income statement in the year		226	(1,909)	242	(1,639)
Revaluation of property, plant and equipment – valuation (losses)/gains	16	(4,280)	302	(4,280)	302
Available for sale investments – valuation (losses)/gains	19	(3,102)	174	(1,250)	(63)
Actuarial gains recognised in year	30	4,213	8,815	4,138	8,570
Deferred tax	21	424	(309)	424	(309)
Net (losses)/gains not recognised in the income statement in the year		(2,745)	8,982	(968)	8,500
Total recognised (expense)/income in the year	**31**	**(2,519)**	**7,073**	**(726)**	**6,861**

BALANCE SHEETS

as at 31 December 2008

	Note	Group 2008 £'000	Group 2007 £'000	Institute 2008 £'000	Institute 2007 £'000
Assets					
Non-current assets					
Property, plant and equipment	16	18,205	18,401	18,180	18,400
Intangible assets	17	2,580	2,789	2,580	2,789
Investments in subsidiaries and associates	18	51	55	3	3
Financial assets:					
Restricted available for sale investments	19	5,000	–	5,000	–
Available for sale investments	19	29,832	36,854	21,073	26,099
Other receivables	20	2,500	3,500	2,500	3,500
Deferred tax asset	21	495	681	495	681
		58,663	**62,280**	**49,831**	**51,472**
Current assets					
Inventories	22	814	916	814	916
Trade and other receivables	23	8,689	8,740	8,689	8,628
Cash and cash equivalents	24	8,939	9,312	8,670	9,259
		18,442	**18,968**	**18,173**	**18,803**
Non-current asset held for sale	25	–	**2,971**	–	**2,971**
Total assets		**77,105**	**84,219**	**68,004**	**73,246**
Liabilities					
Current liabilities					
Trade and other payables	26	(24,406)	(21,307)	(24,009)	(20,996)
Current tax liabilities		(205)	(686)	(205)	(686)
Joint Disciplinary Scheme provision	27	(1,777)	(1,434)	(1,777)	(1,434)
Accountancy and Actuarial Discipline Board provision	28	(3,090)	(1,884)	(3,090)	(1,884)
		(29,478)	**(25,311)**	**(29,081)**	**(25,000)**
Non-current liabilities					
Trade and other payables	29	(17)	(50)	–	–
Staff pensions fund liability	30	(8,976)	(16,438)	(8,604)	(15,934)
Accountancy and Actuarial Discipline Board provision	28	(1,358)	(2,072)	(1,358)	(2,072)
Deferred tax liability	21	(173)	(726)	(173)	(726)
		(10,524)	**(19,286)**	**(10,135)**	**(18,732)**
Total liabilities		**(40,002)**	**(44,597)**	**(39,216)**	**(43,732)**
Total net assets		**37,103**	**39,622**	**28,788**	**29,514**
Reserves					
Revaluation reserve	31	5,865	11,330	5,865	11,330
Investment revaluation reserve	31	(132)	762	(132)	762
Accumulated fund	31	16,987	13,050	16,939	12,998
		22,720	**25,142**	**22,672**	**25,090**
Reserves retained by self-financing activities and charitable trusts					
Practice regulation		2,647	982	2,647	982
Faculties		459	551	459	551
Chartered Accountants' Compensation Scheme		3,010	2,891	3,010	2,891
Charitable trust endowment funds		5,954	6,995	–	–
Charitable trust unrestricted funds		2,313	3,061	–	–
		14,383	**14,480**	**6,116**	**4,424**
	31	**37,103**	**39,622**	**28,788**	**29,514**

Approved on behalf of the council

David Furst
President

Michael Izza
Chief Executive

17 March 2009

CASH FLOW STATEMENTS

for the year ended 31 December 2008

	Note	Group 2008 £'000	Group 2007 £'000	Institute 2008 £'000	Institute 2007 £'000
Cash flows from operating activities					
Result before taxation		179	(1,422)	195	(1,152)
Adjustments for:					
Depreciation and amortisation		2,571	1,905	2,566	1,897
Losses on disposal of property, plant and equipment		33	7	33	7
Investment income	14	(3,401)	(3,811)	(3,009)	(3,368)
Non-cash movement in provisions		3,663	5,780	3,720	5,863
Cash flows from operating activities before movements in working capital		3,045	2,459	3,505	3,247
Movements in working capital					
Decrease/(increase) in inventories		102	(285)	102	(285)
Decrease/(increase) in trade and other receivables		51	4,897	(61)	4,938
Increase/(decrease) in trade and other payables		4,227	(4,772)	4,170	(4,881)
Cash generated from operating activities		7,425	2,299	7,716	3,019
Income taxes paid		(377)	(416)	(377)	(416)
Cash outflow on staff pensions fund liability		(3,685)	(1,760)	(3,685)	(1,760)
Cash outflow on Joint Disciplinary Scheme and Accountancy and Actuarial Discipline Board		(2,392)	(4,823)	(2,392)	(4,823)
Net cash generated from/(used by) operating activities		971	(4,700)	1,262	(3,980)
Cash flows from investing activities					
Purchase of property, plant and equipment		(6,542)	(1,930)	(6,513)	(1,930)
Purchase of intangible assets		(1,181)	(1,187)	(1,181)	(1,187)
Sale of property, plant and equipment		3,057	–	3,057	–
Deferred consideration received		1,000	1,000	1,000	1,000
Purchase of available for sale investments		(95,659)	(110,249)	(79,786)	(82,577)
Disposal of available for sale investments		95,748	110,318	79,731	82,405
Investment income received		2,233	2,443	1,841	2,037
Net cash (outflow)/inflow from investing activities		(1,344)	395	(1,851)	(252)
Net decrease in cash and cash equivalents in the year		(373)	(4,305)	(589)	(4,232)
Net cash and cash equivalents at 1 January		9,312	13,617	9,259	13,491
Net cash and cash equivalents at 31 December	24	8,939	9,312	8,670	9,259

ACCOUNTING POLICIES

I Basis of preparation

The Institute is a body incorporated by Royal Charter. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 the Institute and all its subsidiary undertakings.

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

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
IAS 1 *Presentation of Financial Statements* (revised 2007)	1 January 2009
IAS 23 *Borrowing Costs* (revised 2007)	1 January 2009
Amendment to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*	1 January 2009
IAS 27 *Consolidated and Separate Financial Statements* (revised 2008)	1 July 2009
Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*	1 January 2009
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 January 2009
Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	1 July 2009
IFRS 3 *Business Combinations* (revised 2008)	1 July 2009
IFRS 8 *Operating Segments*	1 January 2009
IFRIC 15 *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	1 October 2008
IFRIC 17 *Distributions of Non-cash Assets to Owners*	1 July 2009

It is considered that, with the exception of IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*, which affect disclosure and not the financial information or accounting policies, these do not apply to the Institute.

II Critical accounting judgements and key sources of estimation

To be able to prepare financial statements according to generally accepted accounting principles, management and 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 provisions and pensions. These estimates are based on historical experience and various other assumptions that management and the board believe 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.

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.

Other income, including licence fees, examination fees and income in association with professional conduct, Joint Disciplinary Scheme (JDS) and Accountancy and Actuarial Discipline Board (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 prior to the balance sheet date. No account is taken of any potential fines or cost recoveries due to the Institute, 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 balance sheet 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

The Institute's collections of silver, rare books, period furniture, pictures and sculptures are revalued annually and are stated at estimated open market values. In view of the nature of these assets, in that 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 made where necessary.

VI Non-current assets held for sale

Non-current assets held for sale comprise assets which the Institute intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amount immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation.

VII 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 (between 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 made where necessary.

VIII 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 balance sheet date. Gains and losses on re-measurement are taken to the investment revaluation reserve initially. On disposal, the cumulative gain or loss previously recognised in reserves is transferred to the income statement.

At each balance sheet date, an assessment is made 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.

IX 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.

X 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 balance sheet date, the Institute makes judgements based on experience on the level of provision required to account for potential unsaleable inventories.

ACCOUNTING POLICIES

(continued)

XI Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value. Using information available at the balance sheet date, provision against trade receivables is made when there is objective evidence that the Institute 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.

XII Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards relating to ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset, or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability. All other leases are regarded as operating leases. Costs are charged to the income statement on a straight line basis over the period of the relevant agreement.

XIII Grants

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

XIV 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 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. Actuarial gains and losses are recognised in full in the statement of recognised income and expense as they arise.

The quantification of the pension deficit is based on actuarial assumptions made by senior management, in conjunction with the scheme's actuaries, relating to rate of increase in salaries, discount rate, expected return on the plans' assets, inflation and future price increases. These assumptions, the details of which for the current financial year are included in note 30, 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 balance sheet 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 indexed-linked government bonds.
- The rate of salary increases is consistent with that used by the board for long-term budgeting purposes.
- 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 through the statement of recognised income and expense. 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.

XV Taxation

Current tax

Current tax is the tax currently payable based on the taxable surplus for the year.

Deferred tax

Deferred tax is recognised on all taxable temporary differences. In addition, a deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that a taxable surplus will be available against which the deductible temporary difference can be utilised. 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. In addition, measurement is 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 charged or credited directly to reserves, in which case the related deferred tax is also credited or charged to reserves.

ACCOUNTING POLICIES
(continued)

XVI Financial risk management
Senior management directly control day-to-day policies and operations. Board members are updated on any significant issues relating to financial risk management. The major financial risks to which the Institute is exposed are summarised below.

Currency risk
The majority of the Institute's transactions are carried out in sterling. Forward contracts are used selectively to cover known short-term foreign currency exposures. In addition, the Institute holds a US dollar account and euro account. Where possible, the Institute 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. Financial risk management issues are covered by the Institute's risk management process as set out in the financial review section.

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 are banks with a high quality external credit rating of at least AA- and/or which have been judged to be too systematically important for a government to allow to enter administration. In respect of trade and other receivables, the Institute is not exposed to any significant credit risk to any single customer or group of customers. The majority of the Institute's customers are members or member firms. The Institute continuously monitors defaults of customers and incorporates this information into its credit risk controls relating to non-member customers.

The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of financial instruments.

Liquidity and interest rate risk
The Institute's policy is to maintain a strong balance sheet with cash or cash equivalent balances and therefore it does not have significant exposure to liquidity risk. The Institute 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, the Institute 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.

XVII Reserves
Reserves comprise the following:

Revaluation reserve
This represents gains and losses arising from the revaluation of certain property, plant and equipment.

Investment revaluation reserve
This represents gains and losses arising from the revaluation of certain financial assets.

Accumulated fund
This represents the retained result of the non-self-financing activities.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

1 Learning & professional development

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
Examinations and assessment	11,311	(8,430)	2,881	10,055	(7,793)	2,262
Business development	7	(3,861)	(3,854)	24	(3,277)	(3,253)
Innovations and technical development	316	(1,802)	(1,486)	341	(1,353)	(1,012)
Executive	176	(1,672)	(1,496)	102	(1,443)	(1,341)
	11,810	(15,765)	(3,955)	10,522	(13,866)	(3,344)

2 Professional standards

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
Disciplinary	872	(3,717)	(2,845)	730	(3,865)	(3,135)
Practice regulation	442	–	442	303	–	303
Commercial consultancy	908	(991)	(83)	–	–	–
	2,222	(4,708)	(2,486)	1,033	(3,865)	(2,832)

3 Member services

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
Commercial	2,371	(3,712)	(1,341)	2,349	(2,615)	(266)
Member services	956	(1,645)	(689)	726	(1,851)	(1,125)
Advisory and other member services	98	(1,876)	(1,778)	79	(1,278)	(1,199)
Web communications	–	(696)	(696)	–	(280)	(280)
Administration	–	(555)	(555)	–	(405)	(405)
	3,425	(8,484)	(5,059)	3,154	(6,429)	(3,275)

4 Regional services

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
UK and international regions	171	(4,683)	(4,512)	174	(4,344)	(4,170)

5 Technical strategy

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
International	1	(1,179)	(1,178)	407	(1,524)	(1,117)
Institute-funded faculty activities	14	(2,682)	(2,668)	–	(1,872)	(1,872)
Technical departments	15	(2,429)	(2,414)	40	(2,964)	(2,924)
Administration	–	(505)	(505)	–	(617)	(617)
	30	(6,795)	(6,765)	447	(6,977)	(6,530)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

6 Central activities

	2008 Income £'000	2008 Expenditure £'000	Group 2008 Net £'000	2007 Income £'000	2007 Expenditure £'000	Group 2007 Net £'000
Members' facilities	968	(2,429)	(1,461)	1,192	(2,331)	(1,139)
Accommodation	19	(2,058)	(2,039)	44	(2,169)	(2,125)
Common office services	–	(4,439)	(4,439)	–	(3,564)	(3,564)
Membership records	3	(640)	(637)	27	(1,138)	(1,111)
Communications	–	(4,196)	(4,196)	–	(4,212)	(4,212)
Marketing	–	(3,371)	(3,371)	–	(3,558)	(3,558)
Information technology	34	(5,004)	(4,970)	17	(4,802)	(4,785)
Finance and accounting	–	(1,216)	(1,216)	–	(1,410)	(1,410)
Council	–	(271)	(271)	–	(279)	(279)
Executive and administration	–	(2,246)	(2,246)	31	(2,029)	(1,998)
	1,024	(25,870)	(24,846)	1,311	(25,492)	(24,181)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1,015,000 (2007: £798,000))	–	13,007	13,007	–	12,336	12,336
	1,024	(12,863)	(11,839)	1,311	(13,156)	(11,845)

	2008 Income £'000	2008 Expenditure £'000	Institute 2008 Net £'000	2007 Income £'000	2007 Expenditure £'000	Institute 2007 Net £'000
Members' facilities	968	(2,429)	(1,461)	1,192	(2,331)	(1,139)
Accommodation	19	(2,058)	(2,039)	44	(2,169)	(2,125)
Common office services	–	(4,439)	(4,439)	–	(3,564)	(3,564)
Membership records	3	(640)	(637)	27	(1,138)	(1,111)
Communications	–	(4,196)	(4,196)	–	(4,212)	(4,212)
Marketing	–	(3,371)	(3,371)	–	(3,558)	(3,558)
Information technology	34	(5,004)	(4,970)	17	(4,802)	(4,785)
Finance and accounting	–	(1,216)	(1,216)	–	(1,410)	(1,410)
Council	–	(271)	(271)	–	(279)	(279)
Executive and administration	–	(2,246)	(2,246)	31	(2,029)	(1,998)
	1,024	(25,870)	(24,846)	1,311	(25,492)	(24,181)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1,015,000 (2007: £798,000))	–	13,477	13,477	–	12,791	12,791
	1,024	(12,393)	(11,369)	1,311	(12,701)	(11,390)

7 Practice regulation – self-financing

	2008 Income £'000	2008 Expenditure £'000	Group and Institute 2008 Net £'000	2007 Income £'000	2007 Expenditure £'000	Group and Institute 2007 Net £'000
Authorisation of investment business	1,680	(1,768)	(88)	1,712	(1,966)	(254)
Practice regulation and assurance	11,103	(10,616)	487	10,615	(9,947)	668
Net operating result	12,783	(12,384)	399	12,327	(11,913)	414

Included within investment business is £119,000 (2007: £12,000) net income relating to the Chartered Accountants' Compensation Scheme.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

8 Faculties – self-financing

	Group and Institute 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group and Institute 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
Audit and Assurance Faculty	933	(766)	167	838	(717)	121
Corporate Finance Faculty	718	(640)	78	610	(681)	(71)
Finance and Management Faculty	711	(671)	40	661	(647)	14
Financial Reporting Faculty	–	(97)	(97)	–	–	–
Financial Services Faculty	168	(584)	(416)	127	(660)	(533)
Information Technology Faculty	371	(402)	(31)	362	(416)	(54)
Tax Faculty	655	(685)	(30)	635	(655)	(20)
Net operating result	3,556	(3,845)	(289)	3,233	(3,776)	(543)

2008 costs relate to the pre-launch expenditure of the Financial Reporting Faculty.

9 Charitable trusts

	Group 2008 Income £'000	2008 Expenditure £'000	2008 Net £'000	Group 2007 Income £'000	2007 Expenditure £'000	2007 Net £'000
External research grants	–	(216)	(216)	–	(296)	(296)
Library income and expenditure	28	(1,097)	(1,069)	27	(1,039)	(1,012)
Other income and expenditure	185	(34)	151	309	(56)	253
	213	(1,347)	(1,134)	336	(1,391)	(1,055)

10 Funding of external bodies excluding Joint Disciplinary Scheme

	Group and Institute Income 2008 £'000	Total expenditure 2008 £'000	Expenditure borne by self-financing activities 2008 £'000	Net expenditure 2008 £'000	Net 2008 £'000	Group and Institute Income 2007 £'000	Net expenditure 2007 £'000	Net 2007 £'000
Financial Reporting Council	–	(1,027)	–	(1,027)	(1,027)	–	(890)	(890)
Consultative Committee of Accountancy Bodies	37	(440)	–	(440)	(403)	23	(437)	(414)
International Federation of Accountants	–	(375)	–	(375)	(375)	–	(386)	(386)
Accountancy and Actuarial Discipline Board	–	(1,500)	900	(600)	(600)	–	(400)	(400)
Irish Auditing and Accounting Supervisory Authority	–	(15)	–	(15)	(15)	–	(5)	(5)
Global Accounting Alliance	–	(30)	–	(30)	(30)	–	(26)	(26)
	37	(3,387)	900	(2,487)	(2,450)	23	(2,144)	(2,121)

11 Funding of Joint Disciplinary Scheme

	Group and Institute Income 2008 £'000	Net expenditure 2008 £'000	Net 2008 £'000	Group and Institute Income 2007 £'000	Net expenditure 2007 £'000	Net 2007 £'000
Costs	–	(1,727)	(1,727)	–	(3,389)	(3,389)
Cost recoveries	–	1,105	1,105	–	–	–
Fines	508	–	508	–	–	–
	508	(622)	(114)	–	(3,389)	(3,389)

Total Institute cash receipts in respect of fines and cost recoveries were £1,613,000 (2007: £nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

12 Gift aid and library funding

Payments of £1,200,000 (2007: £800,000) were made by the Institute in the year under gift aid to the Chartered Accountants' Trust for Education and Research (CATER), which funds the Institute library and education in the field of accountancy and related subjects.

13 Operating result

The group and Institute operating result is stated after crediting/charging:

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Staff costs	34,645	31,524	33,832	30,772
Depreciation on owned property, plant and equipment	920	785	915	777
Amortisation of intangible assets	1,158	1,120	1,158	1,120
Cost of inventories recognised as an expense	921	1,010	921	1,010
Loss on disposal of property, plant and equipment	33	7	33	7
Amounts payable under operating leases:				
Plant and machinery	213	217	213	217
Other	931	428	931	428
Exchange (gains)/losses	(99)	1	(99)	1
Audit fees	67	62	61	57
Fees payable to the Institute's auditor for other services:				
Consultancy work	17	15	17	15
Taxation services	29	14	29	14

The group and Institute operating result includes reimbursement of expenses by members on Institute activities and payments on a normal commercial basis to members and member firms for services, in particular in connection with lecturing and writing. In 2008 these payments in aggregate amounted to £2,162,000 (2007: £2,370,000). Of this, £55,000 (2007: £245,000) 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 £18,000 (2007: £19,000) in total.

14 Net investment income

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Bank interest receivable	342	577	339	575
Interest receivable from investment deposits	2,333	2,028	1,944	1,767
Other financial income	613	515	613	515
Dividend income	136	273	136	130
Realised (losses)/gains from equities	(23)	418	(23)	381
	3,401	3,811	3,009	3,368
Allocated to self-financing activities and charitable trusts	(788)	(826)	(396)	(383)
Net investment gains and income	2,613	2,985	2,613	2,985

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

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

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Practice regulation	294	294	294	294
Faculties	102	89	102	89
Charitable trusts	392	443	–	–
	788	826	396	383

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

15 Taxation

	Group and Institute	
	2008	2007
	£'000	£'000
Current tax		
On income for the year	(155)	(626)
Adjustment for previous periods	259	207
	104	(419)
Deferred tax		
Effect of tax rate changes	–	(16)
Origination and reversal of temporary differences	(57)	(52)
Tax on operating result	47	(487)

The Institute is chargeable to corporation tax on investment income and gains and on net surpluses arising from certain services to the extent that they relate to transactions with non-members. The liability has been reduced by payments made under gift aid to CATER, which funds education in the field of accountancy and related subjects, including the administration of the library. The charitable trusts fall outside the scope of corporation tax and accordingly there is no liability in respect of their activities. Following a successful application to have elements of investment income reclassified as trading income, the net corporation tax credit for the year was £47,000 (2007: £487,000 tax charge).

Factors affecting the tax charge for the year:	Group		Institute	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Net result before taxation	179	(1,422)	195	(1,152)
Add back: result on transactions with members	207	3,508	191	3,238
Net result before taxation on transactions with non-members	386	2,086	386	2,086

	Group and Institute	
	2008	2007
	£'000	£'000
Net result attributable to investment gains and income and transactions with non-members multiplied by standard rate of corporation tax in the UK of 30% (for the period to the end of March 2008) and 28% (for the remaining period to the end of December)	(110)	(626)
Effects of:		
Net expenses not chargeable for tax purposes	(141)	(108)
Franked investment income not taxable	39	40
Adjustments in respect of prior years	259	207
	47	(487)

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

16 Property, plant and equipment

The freehold property, Chartered Accountants' Hall, London, was revalued by CB Richard Ellis Ltd, independent chartered surveyors at 31 December 2008 at open market value, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors.

The historical cost of the Institute's silver collection and antiques represents only the cost of items purchased by the Institute. The valuations in respect of these collections also include substantial donations and bequests received by the Institute. The Institute's historic collections were revalued at open market value at 31 December 2008 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 2008 resulted in a valuation reduction of £4,280,000 (2007: increase £302,000). Depreciation is provided on the plant and equipment elements within the freehold property.

At 31 December 2008 there were no contracts for capital expenditure not provided for in these financial statements (2007: £997,000 in respect of costs of the new premises in Milton Keynes).

As part of the agreed funding plan to eliminate the deficit on the Institute's defined benefit pension scheme, the Institute has ring-fenced a sum of £5,000,000, secured against freehold property. The trustee of the scheme may call upon this should the Institute's financial position deteriorate materially in relation to the pension scheme between 1 January 2008 and the conclusion of the next triennial valuation of the scheme in 2010.

					Group
	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computer hardware and equipment £'000	Total £'000
Cost or valuation					
At 1 January 2008	12,182	1,413	4,013	7,313	24,921
Additions at cost	1,497	1,190	12	2,406	5,105
Disposals at cost or valuation	(39)	(285)	–	(990)	(1,314)
Deficit on revaluation	(4,178)	–	(162)	–	(4,340)
At 31 December 2008	9,462	2,318	3,863	8,729	24,372
At valuation	9,462	–	3,863	–	13,325
At cost	–	2,318	–	8,729	11,047
	9,462	2,318	3,863	8,729	24,372
Accumulated depreciation					
At 1 January 2008	481	284	–	5,755	6,520
Depreciation for the year	209	127	–	565	901
Depreciation on disposals	(18)	(285)	–	(891)	(1,194)
Adjustment on revaluation	(60)	–	–	–	(60)
At 31 December 2008	612	126	–	5,429	6,167
Net book amount at 31 December 2008	8,850	2,192	3,863	3,300	18,205
On an historical cost basis the comparable amounts for property, plant and equipment are:					
Cost	9,964	2,318	173	8,729	21,184
Accumulated depreciation	3,804	126	–	5,429	9,359
Net historical cost at 31 December 2008	6,160	2,192	173	3,300	11,825

16 Property, plant and equipment (continued)

Institute

	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computer hardware and equipment £'000	Total £'000
Cost or valuation					
At 1 January 2008	12,182	1,413	4,013	7,117	24,725
Additions at cost	1,497	1,190	12	2,377	5,076
Disposals at cost or valuation	(39)	(285)	–	(794)	(1,118)
Deficit on revaluation	(4,178)	–	(162)	–	(4,340)
At 31 December 2008	9,462	2,318	3,863	8,700	24,343
At valuation	9,462	–	3,863	–	13,325
At cost	–	2,318	–	8,700	11,018
	9,462	2,318	3,863	8,700	24,343
Accumulated depreciation					
At 1 January 2008	481	284	–	5,560	6,325
Depreciation for the year	209	127	–	560	896
Depreciation on disposals	(18)	(285)	–	(695)	(998)
Adjustment on revaluation	(60)	–	–	–	(60)
At 31 December 2008	612	126	–	5,425	6,163
Net book amount at 31 December 2008	8,850	2,192	3,863	3,275	18,180
On an historical cost basis the comparable amounts for property, plant and equipment are:					
Cost	9,964	2,318	173	8,700	21,155
Accumulated depreciation	3,804	126	–	5,425	9,355
Net historical cost at 31 December 2008	6,160	2,192	173	3,275	11,800

Group

	Note	Freehold property £'000	Silver Short leasehold property £'000	Furniture, collection and antiques £'000	computer hardware and equipment £'000	Total £'000
Cost or valuation						
At 1 January 2007		15,078	284	3,645	7,572	26,579
Additions at cost		237	1,129	–	743	2,109
Disposals at cost or valuation		–	–	–	(1,002)	(1,002)
(Deficit)/surplus on revaluation		(162)	–	368	–	206
Reclassification as non-current asset held for sale	25	(2,971)	–	–	–	(2,971)
At 31 December 2007		12,182	1,413	4,013	7,313	24,921
At valuation		12,182	–	4,013	–	16,195
At cost		–	1,413	–	7,313	8,726
		12,182	1,413	4,013	7,313	24,921
Accumulated depreciation						
At 1 January 2007		328	266	–	6,232	6,826
Depreciation for the year		249	18	–	518	785
Depreciation on disposals		–	–	–	(995)	(995)
Adjustment on revaluation		(96)	–	–	–	(96)
At 31 December 2007		481	284	–	5,755	6,520
Net book amount at 31 December 2007		11,701	1,129	4,013	1,558	18,401

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

16 Property, plant and equipment (continued)

Institute

	Note	Freehold property £'000	Short leasehold property £'000	Silver collection and antiques £'000	Furniture, computer hardware and equipment £'000	Total £'000
Cost or valuation						
At 1 January 2007		15,078	284	3,645	7,376	26,383
Additions at cost		237	1,129	–	743	2,109
Disposals at cost or valuation		–	–	–	(1,002)	(1,002)
(Deficit)/surplus on revaluation		(162)	–	368	–	206
Reclassification as non-current asset held for sale	25	(2,971)	–	–	–	(2,971)
At 31 December 2007		12,182	1,413	4,013	7,117	24,725
At valuation		12,182	–	4,013	–	16,195
At cost		–	1,413	–	7,117	8,530
		12,182	1,413	4,013	7,117	24,725
Accumulated depreciation						
At 1 January 2007		328	266	–	6,045	6,639
Depreciation for the year		249	18	–	510	777
Depreciation on disposals		–	–	–	(995)	(995)
Adjustment on revaluation		(96)	–	–	–	(96)
At 31 December 2007		481	284	–	5,560	6,325
Net book amount at 31 December 2007		11,701	1,129	4,013	1,557	18,400

17 Intangible assets

Group and Institute

	Computer software 2008 £'000	Computer software 2007 £'000
Cost		
At 1 January	6,027	4,769
Additions	917	1,263
Disposals	–	(5)
At 31 December	6,944	6,027
Accumulated amortisation		
At 1 January	3,238	2,123
Amortisation for the year	1,126	1,120
Amortisation on disposals	–	(5)
At 31 December	4,364	3,238
Net book amount at 31 December	2,580	2,789

Amortisation charges are allocated to departments on the basis of usage of the Institute's systems.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

18 Investments in subsidiaries and associates

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

	Activity
ICAEW Foundation	Makes charitable donations of particular interest to the Institute
PD Leake Trust	Provides grants for accountancy research, conferences and publications
Chartered Accountants' Permanent Educational Trust	Provides examination prizes
Chartered Accountants' Trust for Education and Research	Owns and operates the Institute 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 the Institute holds all the shares in each entity:

	Shareholding %	2008 cost £'000	2007 cost £'000	Activity
ICAEW Malaysia Limited	100	–	–	Representative office for the Institute in Malaysia
ICAEW China Limited	100	–	–	Representative office for the Institute in China
ICAEW CIS Limited	100	–	–	Dormant company

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, the Institute has significant influence to participate in, but not govern, the financial and operating policies of the companies.

	Shareholding %	2008 cost £'000	2007 cost £'000	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. The Institute 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%	1	1	Undertakes activities of mutual interest to the six major accountancy bodies in the British Isles
Chartered Accountants' Compensation Scheme Limited	80.0%	1	1	Evaluates and administers claims for compensation arising from the Institute's obligations as a recognised professional body under the Financial Services Act 1986 and as a designated professional body under the Financial Services and Markets Act 2000
Dormant companies		1	1	
Total		3	3	

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

18 Investments in subsidiaries and associates (continued)

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board 2008 £'000	Fraud Advisory Panel 2008 £'000	CCAB Limited 2008 £'000	Chartered Accountants' Compensation Scheme Limited 2008 £'000	Total 2008 £'000	Total 2007 £'000
Assets	227	148	1,042	114	1,531	1,590
Liabilities	(111)	(49)	(1,041)	(113)	(1,314)	(1,356)
Net assets	116	99	1	1	217	234
Revenue	140	185	4,749	62	5,136	4,933
Net result	(23)	(6)	–	–	(29)	(9)
Balances due from associates as at 31 December	45	2	–	51	98	59
Balances due to associates as at 31 December	–	–	(459)	–	(459)	(469)
Group share of net assets as at 31 December	16	33	1	1	51	55
Group share of net result for the year ended 31 December	(2)	(2)	–	–	(4)	(3)

19 Financial assets: available for sale investments

Group	Interest-bearing investments 2008 £'000	Equities and unit trusts 2008 £'000	Total 2008 £'000	Interest-bearing investments 2007 £'000	Equities and unit trusts 2007 £'000	Total 2007 £'000
Fair value						
At 1 January	24,041	12,813	36,854	23,195	12,186	35,381
Additions	93,270	2,389	95,659	102,032	8,217	110,249
Disposals	(93,882)	(1,866)	(95,748)	(102,137)	(8,181)	(110,318)
Gains on disposal	1,191	(22)	1,169	951	417	1,368
Change in market value of investments:						
Recognised in statement of recognised income and expense	129	(3,231)	(3,102)	–	174	174
At 31 December	24,749	10,083	34,832	24,041	12,813	36,854
Held as						
Restricted available for sale investments	5,000	–	5,000	–	–	–
Unrestricted available for sale investments	19,749	10,083	29,832	24,041	12,813	36,854
	24,749	10,083	34,832	24,041	12,813	36,854
On an historical cost basis the comparable amounts of investments are						
At 31 December	24,620	12,010	36,630	24,041	11,489	35,530

Within group investments are charitable funds of £8,759,000 (2007: £10,755,000) which are maintained independently of the Institute, and for which investment policies are set, and performance monitored, by the trustee.

The Institute agreed to ring-fence a sum of £5,000,000, separately disclosed as restricted available for sale investments, which the trustee of the Staff Pensions Fund may call upon should the Institute's financial position deteriorate materially, in relation to the pension scheme as monitored by review of agreed covenants, between 1 January 2008 and the conclusion of the next triennial valuation of the scheme in 2010.

19 Financial assets: available for sale investments (continued)

	Interest-bearing investments 2008 £'000	Equities and unit trusts 2008 £'000	Total 2008 £'000	Interest-bearing investments 2007 £'000	Equities and unit trusts 2007 £'000	Institute Total 2007 £'000
Fair value						
At 1 January	20,285	5,814	26,099	19,151	5,508	24,659
Additions	77,880	1,906	79,786	81,131	1,446	82,577
Disposals	(77,865)	(1,866)	(79,731)	(80,948)	(1,457)	(82,405)
Gains on disposal	1,191	(22)	1,169	951	380	1,331
Change in market value of investments:						
Recognised in statement of recognised income and expense	129	(1,379)	(1,250)	–	(63)	(63)
At 31 December	21,620	4,453	26,073	20,285	5,814	26,099
Held as						
Restricted available for sale investments	5,000	–	5,000	–	–	–
Unrestricted available for sale investments	16,620	4,453	21,073	20,285	5,814	26,099
	21,620	4,453	26,073	20,285	5,814	26,099
On an historical cost basis the comparable amounts of investments are						
At 31 December	21,491	4,766	26,257	20,285	4,728	25,013

Interest-bearing investments include cash investments of £150,000 (2007: £80,000).

20 Non-current financial assets – other receivables

	Group and Institute 2008 £'000	2007 £'000
Deferred consideration receivable	2,500	3,500

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

	2008 £'000	2007 £'000
Within one year (included within current assets)	1,000	1,000
Within two to five years	2,500	3,500
	3,500	4,500

Deferred consideration is receivable from Wolters Kluwer NV, a group with annual revenues for 2008 of €3,374m (2007: €3,413m) 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 the Institute's risk management process.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

21 Deferred taxation

	Group and Institute	
	2008 £'000	2007 £'000
The provision for deferred taxation comprises:		
Revaluation of short-term investments	52	(304)
Revaluation of properties and historic collections	(225)	(422)
Deferred tax liability	(173)	(726)
Inflationary element of ABG Professional Information deferred consideration	114	171
Defined benefit pension scheme deficit	381	510
Deferred tax asset	495	681
Net deferred tax asset/(liability)	322	(45)

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

	Group and Institute				
	Revaluation of short-term investments £'000	Revaluation of properties and historic collections £'000	Inflationary element of deferred consideration £'000	Defined benefit pension scheme deficit £'000	Net £'000
(Liability)/asset at 1 January 2008	(304)	(422)	171	510	(45)
Movement in year					
Recognised in income statement	–	–	(57)	–	(57)
Recognised in statement of recognised income and expense	356	197	–	(129)	424
Asset/(liability) at 31 December 2008	52	(225)	114	381	322

	Group and Institute				
	Revaluation of short-term investments £'000	Revaluation of properties and historic collections £'000	Inflationary element of deferred consideration £'000	Defined benefit pension scheme deficit £'000	Net £'000
(Liability)/asset at 1 January 2007	(336)	(360)	239	789	332
Effect of tax rate changes					
Recognised in income statement	–	–	(16)	–	(16)
Recognised in statement of recognised income and expense	22	24	–	(52)	(6)
Movement in year					
Recognised in income statement	–	–	(52)	–	(52)
Recognised in statement of recognised income and expense	10	(86)	–	(227)	(303)
(Liability)/asset at 31 December 2007	(304)	(422)	171	510	(45)

22 Inventories

	Group and Institute	
	2008 £'000	2007 £'000
Learning materials	773	854
Other products and sundry stocks	41	62
	814	916

During the year, there was no provision in respect of learning material publications (2007: £140,000 provision recognised as an expense in respect of previous years' editions following the revision of the learning materials during 2007).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

23 Trade and other receivables – current

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade and other receivables	4,557	5,393	4,440	5,316
Amounts owed by subsidiaries	–	–	117	66
Amounts owed by associates	98	59	98	59
Deferred consideration receivable	1,000	1,000	1,000	1,000
Prepayments	1,712	1,861	1,712	1,760
Accrued income	1,971	1,159	1,971	1,159
	9,338	9,472	9,338	9,360
Less: provision for impairment of trade and other receivables	(649)	(732)	(649)	(732)
	8,689	8,740	8,689	8,628

The principal component of trade and other receivables is amounts due from the Institute'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.

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 £649,000 (2007: £732,000) has been made.

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

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
More than 1 month but not more than 3 months	760	814	760	814
More than 3 months	207	163	207	163
	967	977	967	977

24 Cash and cash equivalents

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. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash at bank	8,939	4,787	8,670	4,734
Short-term investments	–	4,525	–	4,525
	8,939	9,312	8,670	9,259

25 Non-current asset held for sale

During 2006 the Institute reviewed its property requirements in Milton Keynes and in December 2006, the council approved a proposal to enter a 15 year lease in central Milton Keynes; this was occupied in 2008. At the end of 2007, Gloucester House was revalued at its carrying amount net of selling costs. Contracts were exchanged for the sale of this property on 8 January 2008 at a value of £3,050,000, with completion on 15 April 2008.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

26 Trade and other payables

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Subscriptions and admission fees in advance	9,292	8,951	9,292	8,951
Amounts owed to subsidiaries	–	–	1	6
Amounts owed to associates	459	469	459	469
Other income in advance	3,602	2,111	3,602	2,111
Trade payables	4,275	2,838	4,275	2,838
Other payables	923	917	525	600
Income tax and social security payables	976	926	976	926
Accruals	4,879	5,095	4,879	5,095
	24,406	21,307	24,009	20,996

All the above trade payables are short term and are payable within one month. Subscriptions and admission fees in advance relate to income received during 2008 but relating to the 2009 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

27 Joint Disciplinary Scheme provision

	2008 £'000	2007 £'000
Balance at 1 January	1,434	2,233
Charge to income statement – subscription funded	1,727	3,400
Amounts paid	(1,384)	(4,199)
Balance at 31 December	1,777	1,434

The JDS is funded by two participant bodies: the Institute and The Institute of Chartered Accountants of Scotland on the basis of their respective memberships at the end of the previous financial year. The amount provided is based on the estimated cost to the Institute of investigations by the JDS in respect of cases arising from events up to 31 December 2008, and is expected to be utilised within one year.

28 Accountancy and Actuarial Discipline Board provision

	2008 £'000	2007 £'000
Balance at 1 January	3,956	3,163
Charge to income statement – subscription funded	600	400
Charge to income statement – practice regulation funded	900	1,017
Amounts paid	(1,008)	(624)
Balance at 31 December	4,448	3,956
Provision expected to be utilised within one year	3,090	1,884
Provision expected to be utilised after more than one year	1,358	2,072
	4,448	3,956

The costs of investigations by the AADB are funded by the participating institutes, being the Institute, The Chartered Institute of Management Accountants, The Chartered Institute of Public Finance and Accountancy, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland and The Association of Chartered Certified Accountants. The provision is expected to be utilised over the next five years.

Management reviews the adequacy of both the JDS and AADB provisions on at least a quarterly basis, through review of past case cost estimates and discussions of current cases with relevant individuals.

29 Other non-current liabilities

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade and other payables – charitable grant commitments	17	50	–	–

30 Staff pensions fund liability

Defined benefit scheme

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

The level of contributions required to fund the scheme is assessed by a qualified actuary on a triennial basis using the projected unit method. The most recent valuation of the fund was carried out by Hymans Robertson as at 5 April 2007 on the projected unit method. At the valuation date, the market value of the assets of the fund 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.

On the basis of the most recent valuation the agreed rate of employer's contributions ranged from 22.1% to 31.8% of pensionable earnings for participating employees. Employee contributions ranged from 6% to 10%.

The Institute agreed to make additional employer contributions during the year in respect of back-dated benefits awarded to participating employees attaining 10 years' service with the Institute during that period of £140,000 (2007: £290,000). The Institute made further monthly and annual payments during 2008 in respect of past service deficits totalling £3,545,000 (2007: £1,470,000). Further contributions of £2,000,000 each in January of 2009 and 2010 together with continuing monthly payments, adjusted for inflationary increases, have been agreed so as to eliminate the deficit in the scheme over the period to 31 March 2016.

As part of the 2007 actuarial valuation of the Staff Pensions Fund, the trustee commissioned a review of the strength of the Institute'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 the Institute 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 £5,000,000 is required to be made by the Institute to the pension scheme and the recovery period would be shortened. To secure this arrangement, the Institute agreed to a charge being made over Chartered Accountants' Hall and to ring-fence £5,000,000 of available for sale investments, which the trustee of the scheme may call upon should the Institute's financial position deteriorate materially, in relation to the pension scheme as monitored by review of these covenants, between 1 January 2008 and the conclusion of the next triennial valuation of the scheme in 2010.

As part of the continued monitoring of the strength of the Institute's financial covenant, the actuaries have provided a desktop update on the actuarial deficit based on the position as at 31 December 2008. This review highlighted that the deficit, based on the actuarial funding basis in the triennial valuation, was £40.6m. As a result, one of the tier one covenant triggers, which compares cash balances to the actuarial deficit, has moved to amber. Management met with the trustee in early March 2009 and it was agreed that no further action would be taken at this stage.

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

	31 December 2008	5 April 2007
Pre-retirement discount rate	5.87%	6.60%
Inflation	3.05%	3.30%
Future salary increases	1.50%	1.50%
Life expectancy	Medium cohort	Medium cohort

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

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

	Change in assumption	Effect on value of liabilities %	Effect on value of liabilities £'000
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 3.0%	3,900
Rate of inflation	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 8.7%	11,400
Real rate of increase in salaries	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 2.0%	2,600
Longevity	Increase by 1 year	Increase by 3.0%	4,000

30 Staff pensions fund liability (continued)

The scheme's actuaries provide a separate report for IAS 19 *Employee Benefits* purposes at each year end.

The assumptions made at 31 December on the advice of the scheme's actuaries were:

	2008	2007	2006
Discount rate	6.35%	5.75%	5.00%
Expected return on scheme assets	5.49%	6.28%	6.17%
Future salary increases	4.20%	5.00%	4.50%
Future increases in pensionable earnings	3.20%	3.50%	3.00%
Rate of inflation	3.20%	3.50%	3.00%

Previously the Institute used the iBoxx over 15 year AA bond index to determine the discount rate, in line with IAS 19 guidance. However, the terms of the constituents of this index were considered to be somewhat shorter than appropriate for the scheme. With the gilt curve now downward sloping at the longer end, the use of the index yield was reviewed. Therefore, in consultation with the actuaries and the trustee a rate of 6.35% was used rather than the iBoxx rate of 6.70%. This reflected the yields available on UK Government bonds (where longer maturity yields are available), adjusted to reflect 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 62 of 24.7 years (men) and 27.6 years (women); and for current non-pensioners of 25.9 years (men) and 28.7 years (women). These assumptions are in line with the actuarial valuation as at 5 April 2007.

The actuaries have 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 2008 to certain key assumptions as follows:

		Effect on value of liabilities	
	Change in assumption	%	£'000
Discount rate	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 9.0%	9,500
Rate of inflation	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 10.0%	10,600
Real rate of increase in salaries	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 2.0%	2,000
Longevity	Increase by 1 year	Increase by 2.6%	2,700

The following table summarises the results of the updated valuation of the fund:

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Present value of funded obligations	(99,788)	(115,390)	(99,788)	(115,390)
Fair value of plan assets	90,728	98,827	90,728	98,827
Whole scheme deficit	(9,060)	(16,563)	(9,060)	(16,563)
Less: relating to other employers	84	125	456	629
Scheme deficit relating to the Institute	(8,976)	(16,438)	(8,604)	(15,934)

The scheme is a multi-employer scheme. The Institute is the main employer in the scheme. The assets and liabilities, and share of actuarial gains and losses are split based on active members in the scheme.

Reconciliation of defined benefit obligation – whole scheme

	2008 £'000	2007 £'000
Opening defined benefit obligation	115,390	113,063
Current service cost	2,216	1,991
Interest on obligation	6,599	5,648
Contributions by plan participants	754	767
Actuarial gain in year	(20,946)	(3,098)
Benefits paid	(4,225)	(2,981)
Closing defined benefit obligation	99,788	115,390

30 Staff pensions fund liability (continued)

Reconciliation of fair value of plan assets – whole scheme

	2008 £'000	2007 £'000
Opening fair value of plan assets	98,827	86,772
Expected return on assets	6,281	5,380
Contributions by plan participants	754	767
Contributions by the employer	5,795	3,081
Actuarial (loss)/gain in year	(16,704)	5,808
Benefits paid	(4,225)	(2,981)
Closing fair value of plan assets	90,728	98,827
Actual return on assets	(10,423)	11,188

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

	2008	2007
Equities	56%	63%
Government bonds	37%	32%
Cash	2%	4%
Corporate bonds	5%	1%
	100%	100%

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

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Current service cost	(2,216)	(1,991)	(2,216)	(1,991)
Expected return on pension scheme assets	6,281	5,380	6,281	5,380
Interest on pension scheme liabilities	(6,599)	(5,648)	(6,599)	(5,648)
	(2,534)	(2,259)	(2,534)	(2,259)
Less: relating to other employers within the scheme	17	23	96	85
	(2,517)	(2,236)	(2,438)	(2,174)

Amounts recognised in the statement of recognised income and expense:

	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Actuarial (losses)/gains on plan assets	(16,704)	5,808	(16,704)	5,808
Actuarial gains on obligation	20,946	3,098	20,946	3,098
Actuarial gain – whole scheme	4,242	8,906	4,242	8,906
Less: relating to other employers within the scheme	(29)	(91)	(104)	(336)
Actuarial gain in statement of recognised income and expense	4,213	8,815	4,138	8,570

Amounts for the current and previous periods are as follows:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	(99,788)	(115,390)	(113,063)	(102,165)	(87,043)
Plan assets	90,728	98,827	86,772	80,034	61,209
Whole scheme deficit	(9,060)	(16,563)	(26,291)	(22,131)	(25,834)
Actuarial (losses)/gains on plan assets	(16,704)	5,808	1,288	8,204	3,138
Actuarial gains/(losses) on obligation	20,946	3,098	(6,323)	(10,189)	(1,467)
Cumulative actuarial gain/(loss) since 1 January 2004	7,799	3,557	(5,349)	(314)	1,671

30 Staff pensions fund liability (continued)

Defined contribution scheme

The Institute also operates a stakeholder scheme for employees who are not entitled to participate in the defined benefit scheme. This provides benefits based upon contributions made and investment returns achieved. The scheme first received contributions in April 2006. The assets of the scheme are held in a separate trustee fund. The Institute contributes 9% of pensionable earnings for participating employees. The employees themselves contribute a minimum of 4%.

The amount charged to the income statement during the year in respect of the scheme was £1,171,000 (2007: £1,028,000). There were no contributions payable to the scheme at the balance sheet date (2007: £nil).

31 Reserves

Group

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Charitable trusts £'000	Total £'000
Reserves at 1 January 2008	11,330	762	13,050	4,424	10,056	39,622
Net result after taxation	–	–	(268)	506	(12)	226
Decrease in valuation of property, plant and equipment	(4,280)	–	–	–	–	(4,280)
Transfer on sale of revalued property	(1,382)	–	1,382	–	–	–
Net change in market value of long-term investments over cost	–	(1,250)	–	–	(1,852)	(3,102)
Actuarial gains recognised in year on defined benefit pension scheme	–	–	2,952	1,186	75	4,213
Deferred tax attributable to above	197	356	(129)	–	–	424
	(5,465)	(894)	3,937	1,692	(1,789)	(2,519)
Reserves at 31 December 2008	5,865	(132)	16,987	6,116	8,267	37,103

Institute

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Total £'000
Reserves at 1 January 2008	11,330	762	12,998	4,424	29,514
Net result after taxation	–	–	(264)	506	242
Decrease in valuation of property, plant and equipment	(4,280)	–	–	–	(4,280)
Transfer on sale of revalued property	(1,382)	–	1,382	–	–
Net change in market value of long-term investments over cost	–	(1,250)	–	–	(1,250)
Actuarial gains recognised in year on defined benefit pension scheme	–	–	2,952	1,186	4,138
Deferred tax attributable to above	197	356	(129)	–	424
	(5,465)	(894)	3,941	1,692	(726)
Reserves at 31 December 2008	5,865	(132)	16,939	6,116	28,788

31 Reserves (continued)

Group

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Charitable trusts £'000	Total £'000
Reserves at 1 January 2007	11,090	793	4,675	6,150	9,841	32,549
Prior year adjustment	–	–	4,491	(4,491)	–	–
Reserves at 1 January 2007 restated	11,090	793	9,166	1,659	9,841	32,549
Net result after taxation	–	–	(1,895)	253	(267)	(1,909)
Increase in valuation of property, plant and equipment	302	–	–	–	–	302
Net change in market value of long-term investments over cost	–	(63)	–	–	237	174
Actuarial gains recognised in year on defined benefit pension scheme	–	–	6,058	2,512	245	8,815
Deferred tax attributable to above	(62)	32	(279)	–	–	(309)
	240	(31)	3,884	2,765	215	7,073
Reserves at 31 December 2007	11,330	762	13,050	4,424	10,056	39,622

From 2007 the student learning & professional development reserve has been amalgamated into the accumulated fund – as a result, prior year reserves have been restated.

Institute

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Total £'000
Reserves at 1 January 2007	11,090	793	4,620	6,150	22,653
Prior year adjustment	–	–	4,491	(4,491)	–
Reserves at 1 January 2007 restated	11,090	793	9,111	1,659	22,653
Net result after taxation	–	–	(1,892)	253	(1,639)
Increase in valuation of property, plant and equipment	302	–	–	–	302
Net change in market value of long-term investments over cost	–	(63)	–	–	(63)
Actuarial gains recognised in year on defined benefit pension scheme	–	–	6,058	2,512	8,570
Deferred tax attributable to above	(62)	32	(279)	–	(309)
	240	(31)	3,887	2,765	6,861
Reserves at 31 December 2007	11,330	762	12,998	4,424	29,514

From 2007 the student learning & professional development reserve has been amalgamated into the accumulated fund – as a result, prior year reserves have been restated.

The revaluation reserve represents the excess of the open market valuation over the depreciated historical cost of the Institute's historic collections and properties, net of deferred taxation. The investment revaluation reserve represents the excess of unrealised gains and losses on available for sale investments over their historical cost.

Included within the self-financing reserves is £3,010,000 (2007: £2,891,000) relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations the Institute 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 and maintains a provision to meet anticipated future claims. The reserve is expected to be utilised over a period of approximately 10 years. A levy was made in 2008 in respect of licensed firms under the DPB regime. The Institute has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (continued)

32 Leasing commitments

Operating leases

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

	Group and Institute		Group and Institute	
	Land and buildings 2008 £'000	Plant and machinery 2008 £'000	Land and buildings 2007 £'000	Plant and machinery 2007 £'000
Operating leases which expire:				
Within one year	7	18	140	20
In two to five years inclusive	384	333	426	361
After five years	7,798	–	132	–
	8,189	351	698	381

During 2008 the Institute disposed of the freehold on Gloucester House, and entered a 15 year lease on new premises in Milton Keynes. The lease commenced on 15 January 2008 at a rental cost of £586,000 per annum following a 21 month rent free period.

33 Staff costs

	Group		Institute	
Average number of staff employed during the year	2008	2007	2008	2007
Learning & professional development	94	72	94	72
Professional standards	132	133	132	133
Member services	74	52	74	52
Regional services	57	57	57	57
Technical strategy and faculties	82	80	82	80
Central activities	197	200	197	200
Charitable trusts	17	16	–	–
Total employees	653	610	636	594
Full time equivalents	623	579	605	563

Employment costs	Group		Institute	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Wages and salaries	28,090	25,600	27,493	25,080
Employer's social security costs	2,798	2,524	2,750	2,475
Employer's pension costs	3,757	3,400	3,589	3,217
	34,645	31,524	33,832	30,772

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2007: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with the Institute.

34 Key management compensation – executive directors

	Salary 2008 £'000	Bonus 2008 £'000	Total 2008 £'000	Total 2007 £'000
Robin Fieth	175	38	213	197
Robert Hodgkinson	225	38	263	262
Michael Izza	340	85	425	394
Raymond Madden	225	34	259	265
Vernon Soare	178	37	215	208
	1,143	232	1,375	1,326

The executive directors are remunerated on a total-package basis. This means executive directors may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards Institute benefits such as pension scheme membership, health insurance or a car. Annual bonuses are payable to executive directors on the basis of performance and the recommendation of the remuneration committee. Michael Izza has commuted salary of £21,000 (2007: £21,000) during the year in return for a contribution to his personal pension plan. Robin Fieth has also commuted salary of £23,000 (2007: £22,000) in return for a contribution to his personal pension plan and health insurance.

35 Segment information

In the opinion of the council, the Institute's main departments are considered separate reportable business segments as a result of the nature of the products and services, regulatory environment and relevant risks and returns. There are no material geographic segments to report as operations are based substantially in the UK. Segment information relating to income and expenditure is included on the face of the income statement and in the notes to the financial statements.

Segment net assets

										Group
	Learning & professional development 2008 £'000	Professional standards 2008 £'000	Member services 2008 £'000	Regional services 2008 £'000	Technical strategy 2008 £'000	Central activities 2008 £'000	External bodies 2008 £'000	Charitable trusts 2008 £'000	Unallocated 2008 £'000	2008 £'000
Assets	3,065	154	225	70	355	908	419	9,170	62,739	77,105
Liabilities	(1,421)	(3,085)	(479)	(29)	(1,166)	(2,526)	–	(886)	(30,410)	(40,002)
	1,644	(2,931)	(254)	41	(811)	(1,618)	419	8,284	32,329	37,103

										Group
	Learning & professional development 2007 £'000	Professional standards 2007 £'000	Member services 2007 £'000	Regional services 2007 £'000	Technical strategy 2007 £'000	Central activities 2007 £'000	External bodies 2007 £'000	Charitable trusts 2007 £'000	Unallocated 2007 £'000	2007 £'000
Assets	2,122	857	108	68	62	858	381	10,987	68,776	84,219
Liabilities	(1,123)	(1,539)	(941)	(42)	(1,108)	(2,110)	–	(881)	(36,853)	(44,597)
	999	(682)	(833)	26	(1,046)	(1,252)	381	10,106	31,923	39,622

Related undertaking segment assets include property, plant and equipment, cash and other receivables owned by the charitable trusts and the two overseas subsidiaries. For the main departments, segment assets include inventories, other receivables and other payables directly attributable to these areas; the remaining assets and liabilities are classified as unallocated. Property and intangible asset purchases, related depreciation and amortisation, non-cash expenses and share of results of associates are not allocated to departments, with the exception of the charitable trusts. The charitable trusts own property with a net book value of £5,000 (2007: £1,000), depreciation of £1,000 was charged in the year (2007: £8,000). The overseas subsidiaries own property with a net book value of £20,000 (2007: £nil), depreciation of £4,000 was charged in the year (2007: £nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

36 Contingent liabilities and guarantees

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

During the year ended 31 December 2001 ABG Professional Information assigned the residue of a property lease to a third party. The Institute signed an authorised guarantee agreement in respect of rents due under the remainder of the lease. The current annual rental is £88,000 and the lease is due to expire in 2013.

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