ICAEW THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

BUILDING BUSINESS CONFIDENCE

FINANCIAL STATEMENTS 2007

FINANCIAL STATEMENTS

2007 was pivotal to the development of our strategy. Our challenge has been to match ambition with resource so that we can represent and support our members seamlessly across the world.

Our most important partnership is with our members, whose expertise has shaped our thinking and ensured that we remain relevant to the changing needs of our profession.

Our aim is to focus on premium positioning, delivered through partnerships and international growth – which is critical to our success. While our home market will remain our priority we must be active across the globe if we are to shape opinion and ensure that our members provide the highest technical and ethical standards for all financial decision making.

Because of us, people can do business with confidence.

These financial statements should be read in conjunction with the Institute's annual review 2007

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2007

The financial statements for 2007 include the four charitable trusts associated with the Institute 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

The outcome for the year was a net deficit after taxation of £1,639k (2006: £3,762k surplus). The net surplus for the year before funding of the Joint Disciplinary Scheme (JDS) was £1,750k (2006: £5,433k).

	2007 £'000	2006 £'000
Net result before JDS	**1,750**	**5,433**
Funding of JDS	(3,389)	(1,671)
Net result after taxation	**(1,639)**	**3,762**

It was apparent by mid-year that the costs of funding the JDS in 2007 were going to be far higher than expected. The primary reason for the increase in funding of the JDS over the prior year was that in 2006, income was received for cost recoveries and fines, which was not the case in 2007. Furthermore, two of the remaining six cases still being worked on by the JDS, took significantly longer than had originally been anticipated, both at the investigation and tribunal stages.

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. The JDS is wholly funded by the Institute and the Institute of Chartered Accountants of Scotland based on their respective memberships.

The consolidated outcome for the year, including the results of the Institute's charitable trusts, was a deficit after tax of £1,909k (2006: £4,785k surplus).

Membership and student numbers

Membership grew by 1.4% to 130,243. This was driven by Hong Kong membership growth of 599 (2006: 178), as well as the increasing student intake of recent years flowing through to membership. Growth in membership was further helped by an increase in readmissions to 618 (2006: 312), and a decrease of 34.1% in resignations and ceased memberships to 1,299 (2006: 1,971). Student growth continued with a student intake of 5,057 in 2007, the largest in 16 years, leading to a 13.8% increase in total students to 15,422 (2006: 13,551).

Income

The main source of revenue was from members' fees and subscriptions, which made up 45.8% (2006: 48.0%) of total revenue. Subscription and fee income rose by 3.4% to £31,610k (2006: £30,566k) – this is less than the 4% increase in subscription rate because more members became eligible for lower and non-UK subscription rates.

Individual membership of faculties increased by 4.0% to 31,005. This, along with other corporate scheme and sponsorship income resulted in an increase in total faculty revenues by 8.2% to £3,233k (2006: £2,988k). Special interest group membership increased by 34.3% to 8,170 (2006: 6,083) driving up income by 46.3% to £335k (2006: £229k). This illustrates the growing breadth of member and non-member contact with the Institute through these activities.

While the Institute's focus is on growing the membership base, increasing revenues from non-subscription and exam based activity provided a significant contribution to revenue. Income in areas outside of core fees and subscriptions grew by 13.6%, resulting in a corresponding fall of 2.2% in the proportion of overall income that comes from subscriptions and fees.

Income from subscription based services, sponsorship of Institute events and publications, commercial activities and consultancy work increased by 29.6% to £5,086k (2006: £3,923k). This included increasing the Institute's international footprint through projects on EU implementation of International Financial Reporting Standards (IFRS), and with the World Bank on promoting best practice and raising standards with the accountancy profession in Bangladesh. Revenues more than doubled from sponsorship of events and publications to £1,059k (2006: £511k). Income from education, including ACA, IFRS, Corporate Finance and the Charities Diploma rose by 29.2% to £10,522k (2006: £8,142k). Investment 23.7% to £3,368k (2006: £2,722k) as a result of higher average cash holdings and interest rates.

Expenditure

The increase in income allowed key strategic areas of activity to be developed. Direct international expenditure across all areas of the Institute increased by 68.5% to £2,136k (2006: £1,268k). Activities were mainly focused in China (including Hong Kong), Malaysia, Pakistan and Russia, particularly on student training and conferences. This contributed to increased student intake and the enhancement of the Institute's reputation in those markets. The increase in international student intake is illustrated by the fact that students outside the UK made up 7.2% of total students in 2007 compared to 5.9% in 2006.

Expenditure increased in technical strategy by 26%, driven by the launch of the Financial Services Faculty. Marketing expenditure increased by 25% as a result of the successful launch of the new ACA. Communications expenditure increased by 71%, including the provision of *Accountancy* magazine to all members and students. A substantial part of the Institute's expenditure was as a result of investment in people, with headcount increasing by 9.8% to 594.

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The tax charge of £487k (2006: £195k) increased because the Institute reduced its donations under gift aid to its charitable trusts, principally the Institute's library.

Balance sheet and cash flow

The balance sheet remained strong with net assets of £29,514k, an increase of £6,861k from last year. The most significant movement on the balance sheet was the reduction in the pension deficit to £15,934k (2006: £25,218k). During 2007 the market value of the Institute's investments, which comprise an equity portfolio and certificates of deposit, rose by 5.8% to £26,099k.

In March 2007 a pre-lease agreement was signed to enter a 15 year lease on new premises in central Milton Keynes, to be occupied in 2008. As a result, the freehold property, Gloucester House, Milton Keynes, was reclassified as a non-current asset held for sale. Contracts were exchanged on 8 January 2008 for a value of £3,050k, with completion expected in April 2008.

Net cash outflow was £4,232k. The most significant items of expenditure in addition to the items of investment already referred to above, were the fit-out costs of the new offices in Milton Keynes and the funding of the JDS. The Institute's cash profile follows an annual cycle. The 2007 peak at the end of February was £35,739k. The low point at the end of November was £5,708k.

Inventories were £916k (2006: £631k) reflecting the increase in the number of subjects under the new ACA and the timing of production and sales at year end. Trade and other receivables were down by £4,917k to £8,628k matched with a related reduction in trade and other payables. This reflects a change in the annual billing process for regulatory levies, which affects how these items are accounted for.

The Institute provided £1,434k for JDS costs, representing the Institute's share of expected future case costs at 31 December 2007. Any potential income from future cost recoveries and fines that may be received is uncertain as to timing and value, and is not assumed in the provision.

Capital expenditure and property assets

Cash spent on capital projects was £3,117k (2006: £2,208k), principally reflecting increased expenditure on Metropolitan House, the new office in Milton Keynes. Further estimated expenditure of £2,500k is planned to be spent on Metropolitan House in 2008, as well as investment in the members' business centre at Chartered Accountants' Hall. Gloucester House was valued at £2,971k (2006: £3,000k) and Chartered Accountants' Hall at £11,700k (2006: £11,750k).

Pensions

The Institute's defined benefits pension scheme was closed to new members in 2000. Following the full actuarial valuation at April 2007, the Institute has agreed with the trustees to provide further deficit funding of £125k per month from January 2008, plus contributions of £2,000k each in the January of 2008, 2009 and 2010. In addition, the Institute has agreed to ring-fence a sum of £5,000k, secured against freehold property. The trustee of the scheme may call upon this in the event that the Institute's financial position deteriorates materially vis à vis the pension scheme between 1 January 2008 and the conclusion of the next triennial valuation of the scheme in 2010.

The IAS 19 deficit reduced to £15,934k (2006: £25,218k) as at 31 December 2007. The scheme's trustee continued to follow an investment policy weighted towards equities. However, given the fact that it is a closed scheme, the weighting of bonds to equities has increased over the three years since the last full valuation to 35%/65%. This investment policy, together with the effect of deficit funding from the Institute of £1,470k during 2007, contributed to a 13.9% increase in fund assets to £98,827k. Fund liabilities increased by 2.1% in the year to £115,390k. This reflected the impact of a further change in mortality assumptions in line with the April 2007 full actuarial valuation, offset by the impact of a significant improvement in bond yields at the year end.

Charitable donations

During the year the Institute made donations under gift aid of £800k (2006: £1,380k), to CATER, the charitable trust which principally funds the Institute's library. The Institute's charitable trusts approved grants in the year of £296k (2006: £84k).

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 2007 were 14 days (2006: 14 days).

Going concern

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

Internal control

The council is responsible for the Institute's system of internal control and for reviewing its effectiveness. 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 and compliance, and risk management.

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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 2007 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 council. Any changes in risks and key risk highlights are reported to the board each month 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.*

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.

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
Detailed business plans and budgets are prepared by the staff for approval by the board and the council. Key performance targets have been agreed and monthly monitoring of achievement against these is undertaken. Actual results are compared to approved budgets on a monthly basis and reported to each meeting of the board and the council. Revised annual forecasts are also prepared and reported three times a year. A summary of the monthly results and forecast reviews is posted on the council members' website.

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. 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 2007. 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.

INSTITUTE FIVE YEAR SUMMARY

	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000
Income statement					
Operating income	48,415	53,470	60,862	63,615	69,052
Subscription based services	(32,335)	(35,134)	(38,444)	(39,359)	(48,182)
Self-financing activities and charitable trusts	(10,171)	(12,709)	(13,796)	(14,578)	(15,689)
Funding of external bodies	(3,469)	(2,878)	(3,336)	(4,341)	(5,533)
Gift aid and library funding	(2,073)	(1,910)	(2,475)	(1,380)	(800)
Result before taxation	**367**	**839**	**2,811**	**3,957**	**(1,152)**
Taxation	77	(344)	8	(195)	(487)
Net result after taxation	**444**	**495**	**2,819**	**3,762**	**(1,639)**
Analysis of net result after taxation					
Net result before Joint Disciplinary Scheme	**1,881**	**1,573**	**3,964**	**5,433**	**1,750**
Funding of Joint Disciplinary Scheme	(1,437)	(1,078)	(1,145)	(1,671)	(3,389)
Net result after Joint Disciplinary Scheme	**444**	**495**	**2,819**	**3,762**	**(1,639)**
Net assets					
Non-current assets	37,705	46,847	47,806	52,580	54,443
Current assets	20,208	15,948	20,878	27,667	18,803
Current liabilities	(13,180)	(16,604)	(22,820)	(30,194)	(25,000)
Non-current liabilities	(7,781)	(27,886)	(26,194)	(27,400)	(18,732)
Total net assets	**36,952**	**18,305**	**19,670**	**22,653**	**29,514**
Reserves	30,564	16,197	16,981	20,994	25,090
Reserves retained by self-financing activities	6,388	2,108	2,689	1,659	4,424
	36,952	**18,305**	**19,670**	**22,653**	**29,514**

Results from 2004 onwards are on an IFRS basis, reflecting the inclusion of the IAS 19 pension deficit. Prior year results and reserves have been restated to reflect the amalgamation of the student learning & professional development reserve into the accumulated fund.

	2003	2004	2005	2006	2007
Member and student numbers					
Members	125,655	126,490	127,826	128,416	130,243
Students	11,306	11,286	12,311	13,551	15,422
	136,961	**137,776**	**140,137**	**141,967**	**145,665**

GROUP INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 restated[1] Income £'000	2006 restated[1] Expenditure £'000	2006 restated[1] Net £'000
Subscriptions and other income							
Subscriptions and fees		31,610	–	31,610	30,566	–	30,566
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		33,460	–	33,460	32,416	–	32,416
Subscription based services							
Learning & professional development	1	10,522	(13,866)	(3,344)	8,278	(11,413)	(3,135)
Professional standards	2	1,033	(3,865)	(2,832)	1,201	(3,579)	(2,378)
Member services	3	3,154	(6,429)	(3,275)	2,335	(4,391)	(2,056)
Regional services	4	174	(4,344)	(4,170)	334	(4,241)	(3,907)
Technical strategy	5	447	(6,977)	(6,530)	19	(5,290)	(5,271)
Central activities	6	1,311	(13,156)	(11,845)	1,347	(10,881)	(9,534)
		16,641	(48,637)	(31,996)	13,514	(39,795)	(26,281)
Self-financing activities and charitable trusts							
Practice regulation	7	12,327	(11,913)	414	11,618	(11,300)	318
Faculties	8	3,233	(3,776)	(543)	2,988	(3,278)	(290)
Charitable trusts	9	336	(1,391)	(1,055)	58	(1,091)	(1,033)
		15,896	(17,080)	(1,184)	14,664	(15,669)	(1,005)
Funding of external bodies							
Funding of external bodies – excluding Joint Disciplinary Scheme	10	23	(2,144)	(2,121)	26	(2,091)	(2,065)
Funding of Joint Disciplinary Scheme	11	–	(3,389)	(3,389)	579	(2,250)	(1,671)
		23	(5,533)	(5,510)	605	(4,341)	(3,736)
Operating result	13	**66,020**	**(71,250)**	**(5,230)**	**61,199**	**(59,805)**	**1,394**
Investment income	14	3,811	–	3,811	3,592	–	3,592
Group share of associates' results after tax	18	–	(3)	(3)	–	(6)	(6)
Result before taxation		**69,831**	**(71,253)**	**(1,422)**	**64,791**	**(59,811)**	**4,980**
Taxation	15			(487)			(195)
Analysis of net result after taxation							
Net result before funding of Joint Disciplinary Scheme			1,480			6,456	
Funding of Joint Disciplinary Scheme			(3,389)			(1,671)	
Net result after taxation	31			**(1,909)**			**4,785**

[1] From 2007 the results of learning & professional development are reported as a whole, and no longer split between students and members areas. The 2006 results have been restated to reflect this internal re-presentation, and the former student learning & professional development reserve has been amalgamated into the accumulated fund.

INSTITUTE INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 restated[1] Income £'000	2006 restated[1] Expenditure £'000	2006 restated[1] Net £'000
Subscriptions and other income							
Subscriptions and fees		31,610	–	31,610	30,566	–	30,566
Licence and data access fees		1,850	–	1,850	1,850	–	1,850
		33,460	–	33,460	32,416	–	32,416
Subscription based services							
Learning & professional development	1	10,522	(13,866)	(3,344)	8,142	(11,413)	(3,271)
Professional standards	2	1,033	(3,865)	(2,832)	1,201	(3,579)	(2,378)
Member services	3	3,154	(6,429)	(3,275)	2,335	(4,391)	(2,056)
Regional services	4	174	(4,344)	(4,170)	334	(4,241)	(3,907)
Technical strategy	5	447	(6,977)	(6,530)	(93)	(5,290)	(5,383)
Central activities	6	1,311	(12,701)	(11,390)	1,347	(10,445)	(9,098)
		16,641	(48,182)	(31,541)	13,266	(39,359)	(26,093)
Self-financing activities							
Practice regulation	7	12,327	(11,913)	414	11,618	(11,300)	318
Faculties	8	3,233	(3,776)	(543)	2,988	(3,278)	(290)
		15,560	(15,689)	(129)	14,606	(14,578)	28
Funding of external bodies							
Funding of external bodies – excluding Joint Disciplinary Scheme	10	23	(2,144)	(2,121)	26	(2,091)	(2,065)
Funding of Joint Disciplinary Scheme	11	–	(3,389)	(3,389)	579	(2,250)	(1,671)
		23	(5,533)	(5,510)	605	(4,341)	(3,736)
Gift aid and library funding	12	–	(800)	(800)	–	(1,380)	(1,380)
Operating result	13	**65,684**	**(70,204)**	**(4,520)**	**60,893**	**(59,658)**	**1,235**
Investment income	14	3,368	–	3,368	2,722	–	2,722
Result before taxation		**69,052**	**(70,204)**	**(1,152)**	**63,615**	**(59,658)**	**3,957**
Taxation	15			(487)			(195)
Analysis of net result after taxation							
Net result before funding of Joint Disciplinary Scheme			1,750			5,433	
Funding of Joint Disciplinary Scheme			(3,389)			(1,671)	
Net result after taxation	31			**(1,639)**			**3,762**

[1] From 2007 the results of learning & professional development are reported as a whole, and no longer split between students and members areas. The 2006 results have been restated to reflect this internal re-presentation, and the former student learning & professional development reserve has been amalgamated into the accumulated fund.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2007

		Group		Institute	
	Note	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Net result after taxation recognised in the income statement in the year		(1,909)	4,785	(1,639)	3,762
Revaluation of property, plant and equipment – valuation gain	16	302	3,795	302	3,795
Available for sale investments – valuation gains/(losses)	19	174	482	(63)	235
Actuarial gains/(losses) recognised in year	30	8,815	(4,990)	8,570	(4,808)
Deferred tax	21	(309)	(1)	(309)	(1)
Net gains/(losses) not recognised in the income statement in the year		8,982	(714)	8,500	(779)
Total recognised income in the year	31	**7,073**	**4,071**	**6,861**	**2,983**

BALANCE SHEETS
as at 31 December 2007

	Note	Group 2007 £'000	Group 2006 restated[1] £'000	Institute 2007 £'000	Institute 2006 restated[1] £'000
Assets					
Non-current assets					
Property, plant and equipment	16	18,401	19,753	18,400	19,744
Intangible assets	17	2,789	2,646	2,789	2,646
Investments in subsidiaries and associates	18	55	58	3	3
Financial assets: Available for sale investments	19	36,854	35,381	26,099	24,659
Other receivables	20	3,500	4,500	3,500	4,500
Deferred tax asset	21	681	1,028	681	1,028
		62,280	**63,366**	**51,472**	**52,580**
Current assets					
Inventories	22	916	631	916	631
Trade and other receivables	23	8,740	13,616	8,628	13,545
Cash and cash equivalents	24	9,312	13,617	9,259	13,491
		18,968	**27,864**	**18,803**	**27,667**
Non-current asset held for sale	25	**2,971**	–	**2,971**	–
Total assets		**84,219**	**91,230**	**73,246**	**80,247**
Liabilities					
Current liabilities					
Trade and other payables	26	(21,307)	(25,873)	(20,996)	(25,622)
Current tax liabilities		(686)	(662)	(686)	(662)
Joint Disciplinary Scheme provision	27	(1,434)	(2,047)	(1,434)	(2,047)
Accountancy and Actuarial Discipline Board provision	28	(1,884)	(1,863)	(1,884)	(1,863)
		(25,311)	**(30,445)**	**(25,000)**	**(30,194)**
Non-current liabilities					
Trade and other payables	29	(50)	(4)	–	–
Staff pensions fund liability	30	(16,438)	(26,050)	(15,934)	(25,218)
Joint Disciplinary Scheme provision	27	–	(186)	–	(186)
Accountancy and Actuarial Discipline Board provision	28	(2,072)	(1,300)	(2,072)	(1,300)
Deferred tax liability	21	(726)	(696)	(726)	(696)
		(19,286)	**(28,236)**	**(18,732)**	**(27,400)**
Total liabilities		**(44,597)**	**(58,681)**	**(43,732)**	**(57,594)**
Total net assets		**39,622**	**32,549**	**29,514**	**22,653**
Reserves					
Revaluation reserve	31	11,330	11,090	11,330	11,090
Investment revaluation reserve	31	762	793	762	793
Accumulated fund	31	13,050	9,166	12,998	9,111
		25,142	**21,049**	**25,090**	**20,994**
Reserves retained by self-financing activities and charitable trusts					
Practice regulation		982	(2,020)	982	(2,020)
Faculties		551	801	551	801
Chartered Accountants' Compensation Scheme		2,891	2,878	2,891	2,878
Charitable trust endowment funds		6,995	6,702	–	–
Charitable trust unrestricted funds		3,061	3,139	–	–
		14,480	**11,500**	**4,424**	**1,659**
	31	**39,622**	**32,549**	**29,514**	**22,653**

Approved on behalf of the council

Richard Dyson, President
18 March 2008

Michael Izza, Chief Executive

[1] From 2007 the results of learning & professional development are reported as a whole, and no longer split between students and members areas. The 2006 results have been restated to reflect this internal re-presentation, and the former student learning & professional development reserve has been amalgamated into the accumulated fund. In addition, JDS and AADB provisions have been split between current and non-current.

CASH FLOW STATEMENTS

for the year ended 31 December 2007

		Group		Institute	
	Note	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash flows from operating activities					
Result before taxation		(1,422)	4,980	(1,152)	3,957
Adjustments for:					
Depreciation and amortisation		1,905	1,764	1,897	1,751
Losses on disposal of property, plant and equipment		7	4	7	4
Investment income	14	(3,811)	(3,592)	(3,368)	(2,722)
Non-cash movement in provisions		5,780	5,842	5,863	5,903
Cash flows from operating activities before movements in working capital		2,459	8,998	3,247	8,893
Movements in working capital					
Increase in inventories		(285)	(328)	(285)	(328)
Decrease/(increase) in other receivables		4,897	(2,130)	4,938	(1,823)
(Decrease)/increase in other payables		(4,772)	2,784	(4,881)	2,860
Cash generated from operating activities		2,299	9,324	3,019	9,602
Income taxes (paid)/received		(416)	356	(416)	356
Cash outflow on staff pensions fund liability		(1,760)	(1,665)	(1,760)	(1,665)
Cash outflow on Joint Disciplinary Scheme and Accountancy and Actuarial Discipline Board		(4,823)	(4,055)	(4,823)	(4,055)
Net cash (used by)/generated from operating activities		(4,700)	3,960	(3,980)	4,238
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,930)	(908)	(1,930)	(908)
Purchase of intangible assets		(1,187)	(1,300)	(1,187)	(1,300)
Deferred consideration received		1,000	1,000	1,000	1,000
Purchase of available for sale investments		(110,249)	(62,455)	(82,577)	(49,911)
Disposal of available for sale investments		110,318	62,374	82,405	49,900
Investment income received		2,443	2,010	2,037	1,619
Net cash from investing activities		395	721	(252)	400
Net (decrease)/increase in cash and cash equivalents in the year		(4,305)	4,681	(4,232)	4,638
Net cash and cash equivalents at 1 January		13,617	8,936	13,491	8,853
Net cash and cash equivalents at 31 December	24	9,312	13,617	9,259	13,491

ACCOUNTING POLICIES

I Basis of preparation

The Institute is a body incorporated by Royal Charter. The financial statements have been prepared in accordance with IFRS as adopted for use in the European Union, 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. 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.

The Institute has adopted all relevant standards effective for accounting periods beginning on or after 1 January 2007, including for the first time IFRS 7 – Financial Instruments: Disclosures. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The first-time application of IFRS 7, however, has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

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
IAS 27 Consolidated and Separate Financial Statements (revised 2008)	1 July 2009
Amendment to IFRS 2 Share-based Payment	1 January 2009
IFRS 3 Business Combinations (revised 2008)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, minimum funding requirements and their interaction	1 January 2008

It is considered that, with the exception of IFRS 8 Operating Segments, which affects disclosures only and does not affect the financial information or accounting policies, these do not apply to the Institute.

II Critical estimates and judgements

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 and income in association with professional conduct, Joint Disciplinary Scheme (JDS) and Accountancy and Actuarial Discipline Board (AADB) is recognised when receivable.

IV 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 10 years.

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

V Non-current assets held for sale
Non-current assets held for sale comprise assets 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.

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

VII Investments
Interest-bearing investments, equities and unit trusts held for the purposes of generating long-term investment income are treated as non-current available for sale investments and are included at bid price market value at the 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.

VIII Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, balances with banks and investments in money market instruments representing short-term, highly liquid investments that are readily convertible to known amounts of cash.

IX Inventories
Inventories are stated at the lower of cost, using the first in first out formula, and net realisable value.

X Trade and other receivables
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.

XI Operating 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.

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

XIII Pensions
Defined benefit scheme
Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit method by qualified actuaries, 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.

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

XIV Taxation
Current tax
Current tax is the tax currently payable based on taxable profit for the year.

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 taxable profit 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

ACCOUNTING POLICIES

(continued)

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.

XV Professional Conduct, Joint Disciplinary Scheme and Accountancy and Actuarial Discipline Board

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

XVI Financial risk management

Currency risk

Most of the Institute's transactions are carried out in sterling. Forward contracts are used selectively to cover known short-term foreign currency exposures.

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. Interest-bearing investments are with approved issuing banks with at least an A rating, for appropriate periods to ensure acceptable levels of liquidity. Financial risk management issues are covered by the Institute's risk management process as set out in the finance review section.

The credit risk for cash and cash equivalents is considered negligible, since counterparties are reputable banks with high quality external credit ratings. In respect of trade and other receivables, the Institute is not exposed to any significant credit risk from 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 assets including financial instruments.

Liquidity and interest rate risk

The Institute policy is to maintain a strong balance sheet with cash or cash equivalent balances and therefore does not have significant exposure to interest rate fluctuations or 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.

XVII Reserves

Reserves comprise the following:

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

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

Accumulated fund – represents the retained results 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 2007

1 Learning & professional development

			Group			Group
	2007	2007	2007	2006	2006	2006 restated
	Income £'000	Expenditure £'000	Net £'000	Income £'000	Expenditure £'000	Net £'000
Operations	10,055	(7,793)	2,262	7,579	(8,219)	(640)
Marketing	24	(3,277)	(3,253)	–	(2,173)	(2,173)
Development	341	(1,353)	(1,012)	699	(809)	(110)
Executive	102	(1,443)	(1,341)	–	(212)	(212)
	10,522	(13,866)	(3,344)	8,278	(11,413)	(3,135)

			Institute			Institute
	2007	2007	2007	2006	2006	2006 restated
	Income £'000	Expenditure £'000	Net £'000	Income £'000	Expenditure £'000	Net £'000
Operations	10,055	(7,793)	2,262	7,467	(8,219)	(752)
Marketing	24	(3,277)	(3,253)	–	(2,173)	(2,173)
Development	341	(1,353)	(1,012)	675	(809)	(134)
Executive	102	(1,443)	(1,341)	–	(212)	(212)
	10,522	(13,866)	(3,344)	8,142	(11,413)	(3,271)

In 2005, learning & professional development received grants from the Chartered Accountants' Trust for Education and Research (CATER). As at 31 December 2005, the final instalment was accrued (£136,000); however, following a change in legislation in 2006, this payment was not made. No further grants have been awarded subsequently. Therefore, for 2007 all net costs relate to both the Institute and Group.

From 2007, the results of learning & professional development are reported as a whole, and no longer split between the students and members areas, as approved by the council in December 2006. The 2006 results have been restated to reflect this internal re-presentation, and the former student learning & professional development reserve has been amalgamated into the accumulated fund.

2 Professional standards

			Group and Institute			Group and Institute
	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000
Disciplinary	730	(3,865)	(3,135)	979	(3,579)	(2,600)
Practice regulation	303	–	303	222	–	222
	1,033	(3,865)	(2,832)	1,201	(3,579)	(2,378)

3 Member services

			Group and Institute			Group and Institute
	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000
Product sales and development	2,016	(3,291)	(1,275)	1,744	(2,601)	(857)
Sponsorship	1,059	(1,175)	(116)	511	(486)	25
Advisory and other member services	79	(1,278)	(1,199)	80	(1,123)	(1,043)
Web communications	–	(280)	(280)	–	–	–
Administration	–	(405)	(405)	–	(181)	(181)
	3,154	(6,429)	(3,275)	2,335	(4,391)	(2,056)

4 Regional services

			Group and Institute			Group and Institute
	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000
Regional services	174	(4,344)	(4,170)	334	(4,241)	(3,907)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

5 Technical strategy

	2007 Income £'000	2007 Expenditure £'000	Group 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000
International	407	(1,524)	(1,117)	–	(477)	(477)
Institute-funded faculty activities	–	(1,872)	(1,872)	–	(1,417)	(1,417)
Technical departments	40	(2,964)	(2,924)	19	(2,974)	(2,955)
Administration	–	(617)	(617)	–	(422)	(422)
	447	(6,977)	(6,530)	19	(5,290)	(5,271)

	2007 Income £'000	2007 Expenditure £'000	Institute 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Institute 2006 Net £'000
International	407	(1,524)	(1,117)	–	(477)	(477)
Institute-funded faculty activities	–	(1,872)	(1,872)	–	(1,417)	(1,417)
Technical departments	40	(2,964)	(2,924)	(93)	(2,974)	(3,067)
Administration	–	(617)	(617)	–	(422)	(422)
	447	(6,977)	(6,530)	(93)	(5,290)	(5,383)

In 2005, technical strategy received grants from CATER. As at 31 December 2005, the final instalment of £112,000 was accrued; however, following a change in legislation in 2006, this payment was not made. No further grants have been awarded subsequently, and therefore for 2007 all net costs relate to both the Institute and Group.

6 Central activities

	2007 Income £'000	2007 Expenditure £'000	Group 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000
Members' facilities	1,192	(2,331)	(1,139)	1,240	(2,578)	(1,338)
Accommodation	44	(2,169)	(2,125)	24	(2,433)	(2,409)
Common office services	–	(3,564)	(3,564)	–	(3,163)	(3,163)
Membership records	27	(1,138)	(1,111)	15	(972)	(957)
Communications	–	(4,212)	(4,212)	39	(2,456)	(2,417)
Marketing	–	(3,558)	(3,558)	–	(2,841)	(2,841)
Information technology	17	(4,802)	(4,785)	–	(4,889)	(4,889)
Finance and accounting	–	(1,410)	(1,410)	–	(958)	(958)
Council	–	(279)	(279)	–	(220)	(220)
Executive and administration	31	(2,029)	(1,998)	29	(1,875)	(1,846)
	1,311	(25,492)	(24,181)	1,347	(22,385)	(21,038)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £798,000 (2006: £746,000))	–	12,336	12,336	–	11,504	11,504
	1,311	(13,156)	(11,845)	1,347	(10,881)	(9,534)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

6 Central activities (continued)

	2007 Income £'000	2007 Expenditure £'000	Institute 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Institute 2006 Net £'000
Members' facilities	1,192	(2,331)	(1,139)	1,240	(2,578)	(1,338)
Accommodation	44	(2,169)	(2,125)	24	(2,433)	(2,409)
Common office services	–	(3,564)	(3,564)	–	(3,163)	(3,163)
Membership records	27	(1,138)	(1,111)	15	(972)	(957)
Communications	–	(4,212)	(4,212)	39	(2,456)	(2,417)
Marketing	–	(3,558)	(3,558)	–	(2,841)	(2,841)
Information technology	17	(4,802)	(4,785)	–	(4,889)	(4,889)
Finance and accounting	–	(1,410)	(1,410)	–	(958)	(958)
Council	–	(279)	(279)	–	(220)	(220)
Executive and administration	31	(2,029)	(1,998)	29	(1,875)	(1,846)
	1,311	(25,492)	(24,181)	1,347	(22,385)	(21,038)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £798,000 (2006: £746,000))	–	12,791	12,791	–	11,940	11,940
	1,311	(12,701)	(11,390)	1,347	(10,445)	(9,098)

7 Practice regulation – self-financing

	2007 Income £'000	2007 Expenditure £'000	Group and Institute 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Group and Institute 2006 Net £'000
Authorisation of investment business	1,712	(1,966)	(254)	1,653	(1,780)	(127)
Practice regulation and assurance	10,615	(9,947)	668	9,965	(9,520)	445
Net operating result	12,327	(11,913)	414	11,618	(11,300)	318

Included within investment business is £12,000 (2006: £55,000) net expenditure relating to the Chartered Accountants' Compensation Scheme.

8 Faculties – self-financing

	2007 Income £'000	2007 Expenditure £'000	Group and Institute 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Group and Institute 2006 Net £'000
Tax Faculty	635	(655)	(20)	678	(839)	(161)
Information Technology Faculty	362	(416)	(54)	373	(479)	(106)
Finance and Management Faculty	661	(647)	14	628	(623)	5
Audit and Assurance Faculty	838	(717)	121	729	(749)	(20)
Corporate Finance Faculty	610	(681)	(71)	580	(588)	(8)
Financial Services Faculty	127	(660)	(533)	–	–	–
Net operating result	3,233	(3,776)	(543)	2,988	(3,278)	(290)

The Financial Services Faculty was launched during 2007.

9 Charitable trusts

	2007 Income £'000	2007 Expenditure £'000	Group 2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	Group 2006 Net £'000
External research grants	–	(296)	(296)	–	(84)	(84)
Library income and expenditure	27	(1,039)	(1,012)	32	(924)	(892)
Other income and expenditure	309	(56)	253	26	(83)	(57)
	336	(1,391)	(1,055)	58	(1,091)	(1,033)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

10 Funding of external bodies excluding Joint Disciplinary Scheme

	Group and Institute					Group and Institute		
	Income 2007 £'000	Total expenditure 2007 £'000	Expenditure borne by self-financing activities 2007 £'000	Net expenditure 2007 £'000	Net 2007 £'000	Income 2006 £'000	Net expenditure 2006 £'000	Net 2006 £'000
Financial Reporting Council	–	(890)	–	(890)	(890)	–	(722)	(722)
Consultative Committee of Accountancy Bodies	23	(437)	–	(437)	(414)	26	(379)	(353)
International Federation of Accountants	–	(386)	–	(386)	(386)	–	(370)	(370)
Accountancy and Actuarial Discipline Board	–	(1,417)	1,017	(400)	(400)	–	(600)	(600)
Irish Auditing and Accounting Supervisory Authority	–	(5)	–	(5)	(5)	–	(20)	(20)
Global Accounting Alliance	–	(26)	–	(26)	(26)	–	–	–
	23	(3,161)	1,017	(2,144)	(2,121)	26	(2,091)	(2,065)

11 Funding of Joint Disciplinary Scheme

	Group and Institute			Group and Institute		
	2007 Income £'000	2007 Expenditure £'000	2007 Net £'000	2006 Income £'000	2006 Expenditure £'000	2006 Net £'000
Costs	–	(3,389)	(3,389)	–	(3,395)	(3,395)
Cost recoveries	–	–	–	–	1,145	1,145
Fines	–	–	–	579	–	579
	–	(3,389)	(3,389)	579	(2,250)	(1,671)

12 Gift aid and library funding

Payments of £800,000 (2006: £1,370,000) were made by the Institute in the year under gift aid to CATER, which funds the Institute library and education in the field of accountancy and related subjects. £nil (2006: £10,000) was paid by way of gift aid to the ICAEW Foundation (formerly General Charitable Trust).

13 Operating result

The group and Institute operating result is stated after charging:

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Staff costs	31,524	28,527	30,772	27,855
Depreciation on owned property, plant and equipment	785	841	777	828
Amortisation of intangible assets	1,120	923	1,120	923
Cost of inventories recognised as an expense	1,010	671	1,010	671
Loss on disposal of property, plant and equipment	7	4	7	4
Amounts payable under operating leases:				
Plant and machinery	217	225	217	225
Other	428	488	428	488
Audit fees	62	54	57	51
Fees payable to the Institute's auditor for other services:				
Risk management workshop	–	5	–	5
Consultancy work	15	2	15	2
Taxation services	14	–	14	–

The group and Institute operating results include 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 2007 these payments in aggregate amounted to £2,370,000 (2006: £1,589,000). Of this, £245,000 (2006: £73,000) 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 £19,000 (2006: £65,000) in total.

14 Net investment income

	Group		Institute	
	2007	2006 restated	2007	2006 restated
	£'000	£'000	£'000	£'000
Bank interest receivable	577	65	575	65
Interest receivable from investment deposits	2,028	1,937	1,767	1,781
Other financial income	515	430	515	430
Dividend income	273	405	130	170
Realised gains from equities	418	755	381	276
	3,811	3,592	3,368	2,722
Allocated to self-financing activities and charitable trusts	(826)	(1,191)	(383)	(321)
Net investment gains and income	2,985	2,401	2,985	2,401

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

	Group		Institute	
	2007	2006 restated	2007	2006 restated
	£'000	£'000	£'000	£'000
Practice regulation	294	250	294	250
Faculties	89	71	89	71
Charitable trusts	443	870	–	–
	826	1,191	383	321

From 2007 the results of learning & professional development are reported as a whole, and no longer split between students (formerly self-financing) and member areas. The 2006 results have been restated to reflect this internal re-presentation.

15 Taxation

	Group and Institute 2007 £'000	Group and Institute 2006 £'000
Current tax:		
On income for the year	(626)	(450)
Adjustment for previous periods	207	300
	(419)	(150)
Deferred tax:		
Effect of tax rate changes	(16)	–
Origination and reversal of timing differences	(52)	(45)
Tax on operating result	(487)	(195)

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.

Factors affecting the tax charge for the year:	Group 2007 £'000	Group 2006 £'000	Institute 2007 £'000	Institute 2006 £'000
Net result before taxation	(1,422)	4,980	(1,152)	3,957
Add back: result on transactions with members	3,508	(3,567)	3,238	(2,544)
Net result before taxation on transactions with non-members	2,086	1,413	2,086	1,413

	Group and Institute 2007 £'000	Group and Institute 2006 £'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%	(626)	(424)
Effects of:		
Inflationary element of deferred consideration on disposal of ABG Professional Information	(68)	(45)
Net expenses not chargeable for tax purposes	(40)	(27)
Franked investment income not taxable	40	50
Other adjustments, including marginal relief	–	(1)
Adjustments in respect of prior years	207	252
	(487)	(195)

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 2007 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 2007 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 2007 resulted in a valuation surplus of £302,000 (2006: surplus £3,795,000).

At 31 December 2007 contracts for capital expenditure not provided for in these financial statements had a value of £997,000 in respect of costs of the new premises in Milton Keynes (2006: £nil).

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

						Group
	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	7,572	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 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
On an historical cost basis the comparable amounts for tangible fixed assets are:						
Cost		8,289	1,413	161	7,313	17,176
Accumulated depreciation		3,538	284	–	5,755	9,577
Net historical cost at 31 December 2007		4,751	1,129	161	1,558	7,599

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (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
On an historical cost basis the comparable amounts for tangible fixed assets are:						
Cost		8,289	1,413	161	7,117	16,980
Accumulated depreciation		3,538	284	–	5,560	9,382
Net historical cost at 31 December 2007		4,751	1,129	161	1,557	7,598

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 2006	11,091	284	3,581	7,319	22,275
Additions at cost	351	–	1	630	982
Disposals at cost or valuation	–	–	–	(377)	(377)
Surplus on revaluation	3,636	–	63	–	3,699
At 31 December 2006	15,078	284	3,645	7,572	26,579
At valuation	15,078	–	3,645	–	18,723
At cost	–	284	–	7,572	7,856
	15,078	284	3,645	7,572	26,579
Accumulated depreciation					
At 1 January 2006	191	249	–	6,014	6,454
Depreciation for the year	233	17	–	591	841
Depreciation on disposals	–	–	–	(373)	(373)
Adjustment on revaluation	(96)	–	–	–	(96)
At 31 December 2006	328	266	–	6,232	6,826
Net book amount at 31 December 2006	14,750	18	3,645	1,340	19,753

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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 2006	11,091	284	3,581	7,123	22,079
Additions at cost	351	–	1	630	982
Disposals at cost or valuation	–	–	–	(377)	(377)
Surplus on revaluation	3,636	–	63	–	3,699
At 31 December 2006	15,078	284	3,645	7,376	26,383
At valuation	15,078	–	3,645	–	18,723
At cost	–	284	–	7,376	7,660
	15,078	284	3,645	7,376	26,383
Accumulated depreciation					
At 1 January 2006	191	249	–	5,840	6,280
Depreciation for the year	233	17	–	578	828
Depreciation on disposals	–	–	–	(373)	(373)
Adjustment on revaluation	(96)	–	–	–	(96)
At 31 December 2006	328	266	–	6,045	6,639
Net book amount at 31 December 2006	14,750	18	3,645	1,331	19,744

17 Intangible assets

Group and Institute

	Computer software 2007 £'000	Computer software 2006 £'000
Cost		
At 1 January	4,769	3,444
Additions	1,263	1,325
Disposals	(5)	–
At 31 December	6,027	4,769
Accumulated amortisation		
At 1 January	2,123	1,200
Amortisation for the year	1,120	923
Amortisation on disposals	(5)	–
At 31 December	3,238	2,123
Net book amount at 31 December	2,789	2,646

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 2007 (continued)

18 Investments in subsidiaries and associates

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

	Activity
ICAEW Foundation	Provides bursaries, prizes, fellowships and grants towards library funding and the heritage of 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 principal related companies 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 %	2007 cost £'000	2006 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.

Financial information relating to the associates is summarised below:

	The Joint Insolvency Examination Board 2007 £'000	Fraud Advisory Panel 2007 £'000	CCAB Limited 2007 £'000	Chartered Accountants' Compensation Scheme Limited 2007 £'000	Total 2007 £'000	Total 2006 £'000
Assets	227	145	1,028	190	1,590	1,507
Liabilities	(100)	(40)	(1,027)	(189)	(1,356)	(1,249)
Net assets	127	105	1	1	234	258
Revenue	150	154	4,444	185	4,933	4,269
Net result	(12)	3	–	–	(9)	27
Balances due from associates as at 31 December	44	–	–	15	59	55
Balances due to associates as at 31 December	–	–	(469)	–	(469)	(754)
Group share of net assets as at 31 December	18	35	1	1	55	58
Group share of net result for the year ended 31 December	(3)	–	–	–	(3)	(6)

19 Financial assets: available for sale investments

Group

	Interest-bearing investments 2007 £'000	Equities and unit trusts 2007 £'000	Total 2007 £'000	Interest-bearing investments 2006 £'000	Equities and unit trusts 2006 £'000	Total 2006 £'000
Fair value						
At 1 January	23,195	12,186	35,381	22,222	11,015	33,237
Additions	102,032	8,217	110,249	58,154	4,301	62,455
Disposals	(102,137)	(8,181)	(110,318)	(58,007)	(4,367)	(62,374)
Gains on disposal	951	417	1,368	826	755	1,581
Change in market value of investments:						
Recognised in statement of recognised income and expense	–	174	174	–	482	482
At 31 December	24,041	12,813	36,854	23,195	12,186	35,381
On an historical cost basis the comparable amounts of investments are:						
At 31 December	24,041	11,489	35,530	23,195	9,664	32,859

Within group investments are charitable funds of £10,755,000 (2006: £10,722,000) which are maintained independently of the Institute, and for which investment policies are set, and performance monitored, by the trustee.

Institute

	Interest-bearing investments 2007 £'000	Equities and unit trusts 2007 £'000	Total 2007 £'000	Interest-bearing investments 2006 £'000	Equities and unit trusts 2006 £'000	Total 2006 £'000
Fair value						
At 1 January	19,151	5,508	24,659	18,309	5,002	23,311
Additions	81,131	1,446	82,577	48,292	1,619	49,911
Disposals	(80,948)	(1,457)	(82,405)	(48,276)	(1,624)	(49,900)
Gains on disposal	951	380	1,331	826	276	1,102
Change in market value of investments:						
Recognised in statement of recognised income and expense	–	(63)	(63)	–	235	235
At 31 December	20,285	5,814	26,099	19,151	5,508	24,659
On an historical cost basis the comparable amounts of investments are:						
At 31 December	20,285	4,728	25,013	19,151	4,390	23,541

Interest-bearing investments include cash investments of £80,000 (2006: £147,000).

20 Non-current financial assets – other receivables

	Group and Institute 2007 £'000	2006 £'000
Deferred consideration receivable	3,500	4,500

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

	2007 £'000	2006 £'000
Within one year (included within current assets)	1,000	1,000
Within two to five years	3,500	4,000
After more than five years	–	500
	4,500	5,500

Deferred consideration is receivable from Wolters Kluwer NV, a group with annual revenues for 2007 of €3,413m (2006: €3,693m) 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.

21 Deferred taxation

	Group and Institute 2007 £'000	2006 £'000
The provision for deferred taxation comprises:		
Revaluation of short-term investments	(304)	(336)
Revaluation of properties and historic collections	(422)	(360)
Deferred tax liability	(726)	(696)
Inflationary element of ABG Professional Information deferred consideration	171	239
Defined benefit pension scheme deficit	510	789
Deferred tax asset	681	1,028
Net deferred tax (liability)/asset	(45)	332

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

	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
					Group and Institute
(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)

21 Deferred taxation (continued)

	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	£'000
(Liability)/asset at 1 January 2006	(274)	(297)	284	665	378
Recognised in income statement	–	–	(45)	–	(45)
Recognised in the statement of recognised income and expense	(62)	(63)	–	124	(1)
(Liability)/asset at 31 December 2006	(336)	(360)	239	789	332

22 Inventories

	Group and Institute	
	2007 £'000	2006 £'000
Learning materials	854	604
Other products and sundry stocks	62	27
	916	631

During the year, a provision of £140,000 (2006: £nil) was recognised as an expense in respect of previous years' editions of learning material publications following the revision of the learning materials during 2007.

23 Trade and other receivables – current

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade and other receivables	5,393	10,404	5,316	10,302
Amounts owed by subsidiaries	–	–	66	31
Amounts owed by associates	59	55	59	55
Deferred consideration receivable	1,000	1,000	1,000	1,000
Prepayments	1,861	1,620	1,760	1,620
Accrued income	1,159	975	1,159	975
	9,472	14,054	9,360	13,983
Less: provision for impairment of trade and other receivables	(732)	(438)	(732)	(438)
	8,740	13,616	8,628	13,545

The principal component of trade and other receivables is amounts due from the Institute's members and member firms, which are short term. In the case of disciplinary fines and costs, amounts are also due from certain former members. 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 £732,000 (2006: £438,000) 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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Current	3,684	8,915	3,607	8,813
More than 1 month but not more than 3 months	814	525	814	525
More than 3 months	163	526	163	526
	4,661	9,966	4,584	9,864

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash at bank	4,787	5,696	4,734	5,570
Short-term investments	4,525	7,921	4,525	7,921
	9,312	13,617	9,259	13,491

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 on new premises in central Milton Keynes to be occupied in 2008. As a result, the freehold property, Gloucester House, Milton Keynes, was reclassified as a non-current asset held for sale as at 31 March 2007, being the date a pre-lease agreement on the new premises was signed. The property was revalued at its carrying amount at the date of reclassification, net of selling costs. Contracts were exchanged for the sale of Gloucester House on 8 January 2008 at a value of £3,050,000, with completion expected in April 2008.

26 Trade and other payables

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Subscriptions and admission fees in advance	8,951	8,749	8,951	8,749
Amounts owed to subsidiaries	–	–	6	–
Amounts owed to associates	469	754	469	754
Other income in advance	2,111	5,007	2,111	5,007
Trade payables	2,838	2,627	2,838	2,627
Other payables	917	2,611	600	2,360
Income tax and social security payables	926	994	926	994
Accruals	5,095	5,131	5,095	5,131
	21,307	25,873	20,996	25,622

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 2007 but relating to the 2008 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.

27 Joint Disciplinary Scheme provision

	2007 £'000	2006 £'000
Balance at 1 January	2,233	2,206
Charge to income statement – subscription funded	3,400	3,394
Amounts paid	(4,199)	(3,367)
Balance at 31 December	1,434	2,233
Provision expected to be utilised within one year	1,434	2,047
Provision expected to be utilised after more than one year	–	186
	1,434	2,233

The JDS is funded by two participant bodies: the Institute and The Institute of Chartered Accountants of Scotland. The amount provided is based on the estimated cost to the Institute of investigations by the JDS in respect of cases arising from events up to 31 December 2007. The provision is expected to be utilised by the end of 2008.

28 Accountancy and Actuarial Discipline Board provision

	2007 £'000	2006 £'000
Balance at 1 January	3,163	2,209
Charge to income statement – subscription funded	400	600
Charge to income statement – practice regulation funded	1,017	1,042
Amounts paid	(624)	(688)
Balance at 31 December	3,956	3,163
Provision expected to be utilised within one year	1,884	1,863
Provision expected to be utilised after more than one year	2,072	1,300
	3,956	3,163

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 review 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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade and other payables – charitable grant commitments	50	4	–	–

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 valuations the agreed rate of employer's contributions ranged from 13.5% to 20.6% of pensionable earnings for participating employees until 31 December 2007 and from 22.1% to 31.8% for the period from 1 January 2008. 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 £290,000 (2006: £250,000). The Institute made further monthly payments during 2007 in respect of past service deficits totalling £1,470,000 (2006: £1,415,000), and has agreed, going forward, to make three contributions of £2,000,000 each in the January of 2008, 2009 and 2010 together with continuing monthly payments, adjusted for inflationary increases, so as to eliminate the deficit in the scheme over the period to 31 March 2016. In addition, the Institute has agreed to ring-fence a sum of £5,000,000, secured against freehold property. The trustee of the scheme may call upon this in the event that the Institute's financial position deteriorates materially, vis à vis the pension scheme, between 1 January 2008 and the conclusion of the next triennial valuation of the scheme in 2010.

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:

	2007	2006	2005
Discount rate	5.75%	5.00%	4.75%
Expected return on scheme assets	6.28%	6.17%	5.97%
Future salary increases	5.00%	4.50%	4.25%
Future increases in pensionable earnings	3.50%	3.00%	2.75%

30 Staff pensions fund liability (continued)

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 have been updated since the 2006 IAS 19 valuation to reflect the increasing life expectancy of fund members (to the medium cohort), and 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 2007 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 9.5%	11,000
Rate of inflation	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 9.0%	10,500
Real rate of increase in salaries	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 2.0%	2,500
Longevity	Increase by 1 year	Increase by 2.6%	3,000

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

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Present value of funded obligations	(115,390)	(113,063)	(115,390)	(113,063)
Fair value of plan assets	98,827	86,772	98,827	86,772
Whole scheme deficit	(16,563)	(26,291)	(16,563)	(26,291)
Less: relating to other employers	125	241	629	1,073
Scheme deficit relating to the Institute	(16,438)	(26,050)	(15,934)	(25,218)

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

	2007 £'000	2006 £'000
Opening defined benefit obligation	113,063	102,165
Current service cost	1,991	2,137
Interest on obligation	5,648	4,846
Contributions by plan participants	767	781
Actuarial (gain)/loss in year	(3,098)	6,323
Benefits paid	(2,981)	(3,189)
Closing defined benefit obligation	115,390	113,063

Reconciliation of fair value of plan assets – whole scheme

	2007 £'000	2006 £'000
Opening fair value of plan assets	86,772	80,034
Expected return on assets	5,380	4,797
Contributions by plan participants	767	781
Contributions by the employer	3,081	3,061
Actuarial gain in year	5,808	1,288
Benefits paid	(2,981)	(3,189)
Closing fair value of plan assets	98,827	86,772
Actual return on assets	11,188	6,085

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

30 Staff pensions fund liability (continued)

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

	2007	2006
Equities	63%	69%
Government bonds	32%	26%
Cash	4%	5%
Corporate bonds	1%	–
	100%	100%

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

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Current service cost	(1,991)	(2,137)	(1,991)	(2,137)
Expected return on pension scheme assets	5,380	4,797	5,380	4,797
Interest on pension scheme liabilities	(5,648)	(4,846)	(5,648)	(4,846)
	(2,259)	(2,186)	(2,259)	(2,186)
Less: relating to other employers within the scheme	23	20	85	98
	(2,236)	(2,166)	(2,174)	(2,088)

Amounts recognised in the statement of recognised income and expense:

	Group		Institute	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Actuarial gains on plan assets	5,808	1,288	5,808	1,288
Actuarial gains/(losses) on obligation	3,098	(6,323)	3,098	(6,323)
Actuarial gain/(loss) – whole scheme	8,906	(5,035)	8,906	(5,035)
Less: relating to other employers within the scheme	(91)	45	(336)	227
Actuarial gain/(loss) in statement of recognised income and expense	8,815	(4,990)	8,570	(4,808)

Amounts for the current and previous periods are as follows:

	2007 £'000	2006 £'000
Defined benefit obligation	(115,390)	(113,063)
Plan assets	98,827	86,772
Whole scheme deficit	(16,563)	(26,291)
Actuarial gains on plan assets	5,808	1,288
Actuarial gains/(losses) on obligation	3,098	(6,323)
Cumulative actuarial gain/(loss) since 1 January 2004	3,557	(5,349)

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 these schemes was £1,028,000 (2006: £823,000). There were no contributions payable to the scheme at the balance sheet date (2006: £nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

31 Reserves

Group

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Charitable funds £'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.

Group

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Charitable funds £'000	Total £'000
Reserves at 1 January 2006	7,358	620	6,787	4,966	8,747	28,478
Net result after taxation	–	–	976	2,780	1,029	4,785
Increase in valuation of property, plant and equipment	3,795	–	–	–	–	3,795
Net change in market value of long-term investments over cost	–	235	–	–	247	482
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(3,212)	(1,596)	(182)	(4,990)
Deferred tax attributable to above	(63)	(62)	124	–	–	(1)
	3,732	173	(2,112)	1,184	1,094	4,071
Reserves at 31 December 2006	11,090	793	4,675	6,150	9,841	32,549

31 Reserves (continued)

	Revaluation reserve £'000	Investment revaluation reserve £'000	Accumulated fund £'000	Self-financing reserves £'000	Institute Total £'000
Reserves at 1 January 2006	7,358	620	6,726	4,966	19,670
Net result after taxation	–	–	982	2,780	3,762
Increase in valuation of property, plant and equipment	3,795	–	–	–	3,795
Net change in market value of long-term investments over cost	–	235	–	–	235
Actuarial losses recognised in year on defined benefit pension scheme	–	–	(3,212)	(1,596)	(4,808)
Deferred tax attributable to above	(63)	(62)	124	–	(1)
	3,732	173	(2,106)	1,184	2,983
Reserves at 31 December 2006	11,090	793	4,620	6,150	22,653

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 £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 2007 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.

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 2007 £'000	Plant and machinery 2007 £'000	Land and buildings 2006 £'000	Plant and machinery 2006 £'000
Operating leases which expire:				
Within one year	140	20	279	24
In two to five years inclusive	426	361	514	313
After five years	132	–	138	–
	698	381	931	337

During 2006 the Institute reviewed its ongoing property requirements in Milton Keynes and in December 2006, the council approved a proposal to enter a 15 year lease on new premises in central Milton Keynes to be occupied in 2008. A pre-lease agreement was signed in March 2007, with the lease commencing on 15 January 2008 at a rental cost of £586,000 per annum following a 21 month rent free period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

33 Staff costs

Average number of staff employed during the year	Group 2007	Group 2006	Institute 2007	Institute 2006
Learning & professional development	72	73	72	73
Professional standards	133	128	133	128
Member services	52	38	52	38
Regional services	57	57	57	57
Technical strategy and faculties	80	68	80	68
Central activities	200	177	200	177
Charitable trusts	16	16	–	–
Total employees	610	557	594	541
Full time equivalents	579	541	563	525

Employment costs	Group 2007 £'000	Group 2006 £'000	Institute 2007 £'000	Institute 2006 £'000
Wages and salaries	25,600	23,120	25,080	22,620
Employer's social security costs	2,524	2,326	2,475	2,280
Employer's pension costs	3,400	3,081	3,217	2,955
	31,524	28,527	30,772	27,855

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2006: 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 2007 £'000	Bonus 2007 £'000	Total 2007 £'000	Total 2006 £'000
Robin Fieth (appointed 23 January 2007)	158	39	197	–
Robert Hodgkinson	218	44	262	252
Michael Izza	315	79	394	273
Raymond Madden	218	47	265	252
Vernon Soare	171	37	208	186
Former executive directors	–	–	–	432
	1,080	246	1,326	1,395

The executive directors are remunerated on a total-package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards Institute benefits such as pension scheme membership, health insurance or a car. Annual bonuses are payable to executive directors on the basis of performance and the recommendation of the remuneration committee. Michael Izza has commuted salary of £21,000 (2006: £21,000) during the year in return for a contribution to his personal pension plan. Robin Fieth has also commuted salary of £22,000 (2006: nil) in return for a contribution to his personal pension plan and health insurance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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.

Segment net assets

	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	Group 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

	Learning & professional development 2006 £'000	Professional standards 2006 £'000	Member services 2006 £'000	Regional services 2006 £'000	Technical strategy 2006 £'000	Central activities 2006 £'000	External bodies 2006 £'000	Charitable trusts 2006 £'000	Unallocated 2006 £'000	Group 2006 £'000
Assets	1,685	501	94	13	51	1,896	388	10,959	75,643	91,230
Liabilities	(1,340)	(6,801)	(440)	(77)	(1,220)	(2,824)	–	(1,118)	(44,861)	(58,681)
	345	(6,300)	(346)	(64)	(1,169)	(928)	388	9,841	30,782	32,549

Trust segment assets include property, plant and equipment, cash and other receivables owned by the trusts. 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 £1,000 (2006: £9,000), depreciation of £8,000 was charged in the year (2006: £13,000).

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.

37 Subsequent events

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 on new premises in central Milton Keynes to be occupied in 2008 and to sell the existing freehold property Gloucester House. In relation to the new property, a pre-lease agreement was signed in March 2007, with the lease commencing on 15 January 2008 at a rental cost of £586,000 per annum following a 21 month rent free period. Contracts were exchanged for the sale of Gloucester House on 8 January 2008 at a value of £3,050,000, with completion expected in April 2008.

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 Institute 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 reports at the annual meeting on achievements during the year and opens the meeting to questions from the floor on matters germane to the Institute or the profession.

The Institute council

The council ordinarily meets seven times a year and is responsible for the management of the affairs and business of the Institute in accordance with Charter clause 2(a). It considers, reviews and approves 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 2007, the council comprised 100 members as follows:

- 72 members elected by the membership from 23 constituencies (which have the same boundaries as the district societies), which for 2007 includes Scotland

- 18 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

- 10 members ex officio (the office-holders (president, deputy-president and vice-president), the immediate past president, the elected chairmen of the faculty committees and the chair of the national student council).

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 2007, appear in the annual review.

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 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.

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.

CORPORATE GOVERNANCE STATEMENT
(continued)

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 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 2008.

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'.

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 *Institute – 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 *Institute – governance and structure* section of the Institute's website at www.icaew.com) during 2007 were:

	Position	Appointed	Retired	Attendance
Volunteer members				
Ian Cherry	re-elected by the council			11/11
Richard Dyson	President and Chairman			10/11
David Furst	Deputy-President			10/11
Bill Graham	elected by the council	19 June		4/6
Martin Hagen	Vice-President			10/11
Richard Harwood	Chairman, professional standards board	6 June		6/6
Philip Hollins	Treasurer		5 June	3/5
Clive Parritt	elected by the council to 6 June; Chairman, member services board from 6 June			11/11
Andrew Ratcliffe	Chairman, technical strategy board			6/11
Michael Sherry	Treasurer	6 June		4/6
Mark Spofforth	Chairman, learning & professional development board		5 June	5/5
Jan Weber	Chairman, member services board to 6 June; Chairman, learning & professional development board from 6 June			10/11
Staff members				
Robin Fieth	Executive Director, Finance and Operations	23 January		10/10
Robert Hodgkinson	Executive Director, Technical Strategy			10/11
Michael Izza	Chief Executive			11/11
Raymond Madden	Executive Director, Learning & Professional Development			10/11
Vernon Soare	Executive Director, Professional Standards			10/11

Caroline Gardner was appointed to the board on 1 January 2008 under the reciprocal arrangements with CIPFA.

CORPORATE GOVERNANCE STATEMENT
(continued)

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

The members of the audit committee during 2007 were:

		Appointed	Retired	Attendance
Brian Boswell	council member to 5 June; non-council member from 6 June			3/4
Alun Bowen	non-council member		15 February	1/1
John Cain	non-council member	6 June		1/3
Ian Cherry	council member	6 June		3/3
Bruce Gray	council member to 5 June; non-council member from 6 June			2/4
Sheilagh Moffat	council member			4/4
Michael Pavia	council member and Chairman			4/4
Michael Sherry	council member		5 June	1/1

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 2007 were:

		Appointed	Retired	Attendance
John Collier	council member	6 June		1/1
Maurice Ede	council member and Chairman from 6 June			2/2
Martin Hagen	council member	22 January		2/2
Philip Hollins	council member and Treasurer		5 June	1/1
David Illingworth	non-council member		5 June	1/1
Peter Jenkins	council member	6 June		1/1
David McBride	council member and Chairman		5 June	1/1
Clive Parritt	council member			1/2
Michael Sherry	council member and Treasurer	6 June		1/1

CORPORATE GOVERNANCE STATEMENT

(continued)

Nominating committee

The nominating committee is responsible for making recommendations to the council for co-options, for the appointment of committee chairmen and for honorary membership of 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 2007 were:

	Position	Appointed	Retired	Attendance
Paul Druckman	past President		5 June	2/2
Richard Dyson	President and Chairman			4/4
David Furst	Deputy-President			4/4
Martin Hagen	Vice-President			4/4
Sheilagh Moffat	elected by the council			4/4
Ian Morris	past President			4/4
Paul Wagstaff	elected by the council	12 January		4/4
Peter Wyman	past President	6 June		1/2

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.

The committee met in early 2007 to consider the appointment of the executive director, finance and operations.

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. These boards also exercise a general oversight of the work programmes of the Institute's member-facing 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, openness, mutual respect and teamwork, and excellence and professionalism.

CORPORATE GOVERNANCE STATEMENT

(continued)

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 European Union
- 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.

INDEPENDENT AUDITORS' REPORT

to the members of The Institute of Chartered Accountants in England and Wales for the year ended 31 December 2007

We have audited the group and Institute financial statements (the financial statements) on pages 5 to 33. 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 council and auditors

The council's responsibilities for preparing the annual report and the financial statements in accordance with applicable law and IFRSs 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 not consistent with the financial statements, if the Institute has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read 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 IFRSs as adopted for use in the EU, of the state of affairs of the group and the Institute as at 31 December 2007 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

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18 March 2008

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