



# 2017



***Our year in review***

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# Financial review

ICAEW's financial statements for 2017 include the charitable trusts associated with ICAEW together with our international subsidiaries. The commentary below relates primarily to the operational activities of ICAEW, which include the costs of our international subsidiaries which are managed as a single entity with ICAEW. Except where stated, the commentary below excludes Financial Reporting Council (FRC) fines and cost recoveries arising in the year.

## RESULTS

ICAEW's operational income was £105.2m, an increase of £5.2m compared with 2016. Our operational deficit was £(0.3)m (2016: £0.8m surplus).

ICAEW received £14.6m in fines and £2.8m of cost recoveries from FRC disciplinary cases, reflecting the culmination of investigations conducted over a number of years that have been funded by ICAEW. Since its inception, cumulative charges to the income statement in respect of case costs to the end of 2017 are £50.4m, funded in part by levies on member firms; fines and cost recoveries total £40.2m over the 13-year period. This return of sanctions is altering materially for most new cases as noted below.

Including these fines and cost recoveries, total income was £119.8m, £13.1m higher than in 2016 and the retained surplus after tax for the year was £17.1m (2016: £11.3m).

ICAEW is developing a range of projects which will use some of these additional reserves; these projects are intended to address public interest matters, support member development and enhance professional interests. More information can be found in the *Annual Review 2017*.

Membership income growth was £1.2m and was supplemented by growth in our student-related income, driven by the rising trend in our student base, and our commercial activities, enabling us to continue to invest in our strategy in the UK and internationally.

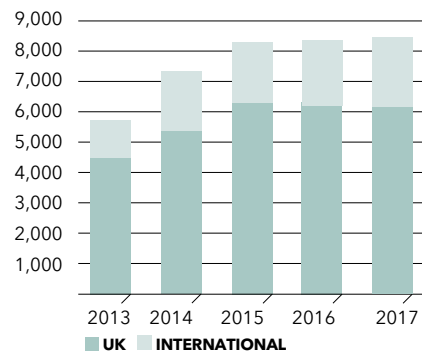
Net assets at 31 December 2017 were £74.1m, an increase of £27.4m over the 2016 net assets of £46.7m. Cash and cash equivalents ended the year at £16.5m, reflecting a net cash inflow of £4.6m in the year, after £1.6m contributions to reduce the pension scheme deficit and £5.0m cash contributions to FRC case costs. Total cash and investments stood at £59.2m at the end of the year, an increase of £7.0m on 2016.

The consolidated outcome for the year, including the results of ICAEW's charitable trusts, was a surplus after tax of £16.7m (2016: £11.4m).

## STUDENT AND MEMBERSHIP GROWTH

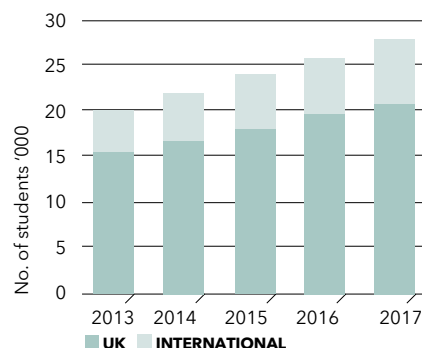
2017 saw another record ACA student intake of 8,437 – an increase of 118 over our previous record intake of 8,319 in 2016.

### STUDENT INTAKE



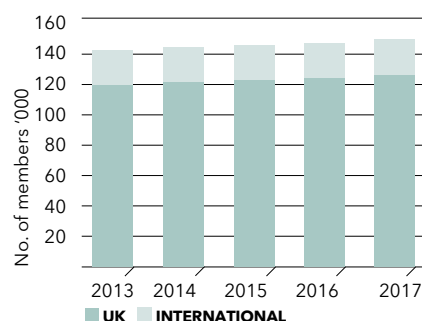
Total ACA student numbers at the end of 2017 stood at 27,866 (2016: 25,822). In addition 5,538 students signed up for our foundation level Certificate in Finance, Accounting and Business (CFAB) and University Scholarship Schemes.

### STUDENT GROWTH



In the year, membership grew to 149,298, from admissions of newly-qualified students to membership, together with reciprocal and similar arrangements with members of other institutes.

### MEMBERSHIP GROWTH



**INCOME**

Revenue from members' fees and subscriptions rose by 2.6% to £47.2m, reflecting the continued growth in membership and a modest increase in membership fees. Income from our qualifications (learning and professional development income) increased by £0.7m, reflecting the record ACA and CFAB intakes in the past three years.

Our regulatory (professional standards) income rose by £1.7m, reflecting the changes in the number and mix of registered firms and fee increases to cover the cost of regulation together with improved income from our capacity building projects. Our commercial income increased to £11.8m (up £0.2m on 2016) with improved results from both our leadership programmes and our portfolio of Academy events.

**EXPENDITURE**

Operating expenditure increased to £105.5m, excluding cost recoveries from concluded FRC cases.

The increase in student numbers and the successful roll-out of computer-based exams resulted in an increase in student-related direct costs.

Costs of regulatory activities continued to increase but 2017 also saw a further increase in our investment in member services and digital services. We also saw an increase in depreciation and asset write offs as a direct consequence of the completion of the refurbishment of Chartered Accountants' Hall and investment in our business systems.

**FRC CONDUCT COMMITTEE CASE COSTS**

The FRC Conduct Committee 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 or where required under the Audit Enforcement Procedure.

During 2017 we charged costs of £6.0m to the income statement for new charges arising from obligations in relation to FRC Conduct Committee cases. These charges are for new cases taken on and extensions of work on existing cases over and above those foreseen in the provision at the end of 2016. These were partly offset by levies on member firms of £4.5m.

In 2018 we expect to pay to the FRC in the region of £5.0m in respect of current and new obligations. We also expect to make charges for new obligations of £5.0m and receive levies by way of contribution to these new obligations of £4.5m.

We received the proceeds from fines of £14.6m (2016: £6.7m) and cost recoveries of £2.8m (2016: £3.8m) imposed by FRC tribunals in a number of cases. These cases have been conducted over many years with costs incurred by ICAEW and proceeds returned to ICAEW.

The FRC has been redesignated as a public body; cases investigated under the Audit Enforcement Procedure (established June 2016) within this new status are likely to mean that bodies such as ICAEW will no longer receive any fines levied in cases which they have funded. This will materially alter the manner in which case costs are determined by the FRC and provided by ICAEW. For now the costs continue to be provided in the absence of any sanctions retained by the FRC. Existing cases instigated under the Accountancy Scheme are not affected by this change.

**TAX**

The net corporation tax charge for the year was £nil (2016: £nil). As a mutual membership organisation, much of our income is exempt from corporation tax.

**PENSIONS**

The IAS 19 valuation at 31 December 2017 was a whole scheme surplus of £5.7m (2016: £1.2m). The pension asset is recognised as ICAEW considers that any surplus arising would be recoverable, assuming the gradual settlement of scheme liabilities over time. The significant movement is a result of asset growth which offsets the small reduction in the yields on corporate bonds used to determine the discount rate for IAS 19 purposes.

ICAEW's defined benefits pension scheme was closed to further member benefit accrual in 2010. The latest triennial actuarial valuation showed a deficit of £19.8m at 31 March 2016. The trustee and ICAEW agreed deficit funding arrangements comprising annual payments of £1.6m from 1 January 2017 until the deficit is eliminated. With our support, the trustee has developed an investment strategy intended to make the scheme entirely self-sufficient by around 2026.

A charge remains over Chartered Accountants' Hall and the scheme has an interest in up to £10.0m of our investment portfolio.

The scheme valuation has again been subject to the volatility in the financial markets. A desktop valuation of the technical funding position at 31 December 2017 estimated the scheme deficit at £10.6m.

Further details are given in note 28 to the financial statements, including details of the different bases for the actuarial valuation and IAS 19 valuation.

**FINANCIAL POSITION**

Net assets at 31 December 2017 were £74.1m - an increase of £27.4m on the 2016 position.

During 2017, the market value of our long-term investments rose to £42.7m from £40.3m in 2016.

Trade and other payables were £47.9m (2016: £50.7m). Trade and other receivables were £24.0m (2016: £22.2m).

We have provided £13.0m (2016: £12.0m) of costs relating to the FRC Conduct Committee at 31 December 2017, reflecting their current case load. Case costs are forecast on the basis of the available information on cases and their current stage of progress. The accuracy of this forecast depends on assumptions made about the progress of individual cases and is subject to a significant degree of judgement. We do not take account of any potential future income from fines or cost recoveries from FRC Conduct Committee cases.

We carried out a professional valuation of Chartered Accountants' Hall at year end, following completion of the major refurbishment project, which enhanced both the public and office space. This led to a revaluation increase of £6.8m reflecting both the work done, and the local property market. Chartered Accountants' Hall was last revalued in December 2014.

Other changes in net assets arose from the movements in the IAS 19 pension asset and a net cash inflow.

**CASH FLOW**

Cash balances at 31 December 2017 were £16.5m. Net cash inflow was £4.6m compared to £1.6m in 2016. Our current cash profile fluctuates on an annual cycle, this year peaking at £50.6m in February and bottoming out at £8.3m in December.

Funding of the FRC Conduct Committee case costs saw a cash outflow of £5.0m (2016: £5.4m).

ICAEW paid £1.6m (2016: £1.8m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £12.2m (2016: £12.4m) reflecting the completion of our Chartered Accountants' Hall refurbishment programme and the expansion of our business systems review. We expect to incur £9.1m of capital expenditure in 2018, reflecting the continued investment in these major projects, together with the development of our qualifications programme.

**RESERVES POLICIES**

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

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

We are managing our capital investment programme, our pension commitments and our financial position in order to maintain these reserve needs and mitigate any impact on members and member services.

**CHARITABLE TRUSTS**

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

During the year we made donations under gift aid to our charitable trusts amounting to £0.6m (2016: £1.0m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.2m (2016: £0.3m).

The main element of the difference in net assets included in the consolidated position relates to the investments held by the charitable trusts.

**POLITICAL EXPENDITURE**

During the year, as part of its policy engagement, ICAEW supported a number of activities with political and politically affiliated organisations. This included a small number of events for political parties and a number of business and party conference events including hosting roundtables. Costs associated with these activities totalled £59,000.

**OUR SUSTAINABILITY COMMITMENT**

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

There are three main ways in which we implement this.

- Economy - the provision of accurate, trusted information is central to the success of an economic system and this is what the profession does. We bring people together to share their views, are involved in research, and produce guidance for the wider business community to deliver long-term sustainable economic value.
- Society - we recognise the impact we make on society. We believe that financial capability, social mobility and fundraising are essential to long-term economic success and engage in various activities and programmes which support this aim.
- Environment - we recognise that business has a significant impact on the environment, and although ICAEW does not operate in a business sector which causes significant pollution, we aim to promote and follow good environmental practices and reduce the negative impacts of our activities. On an international scale, we convene the debate on natural capital policy in government forums and financial institutions. This includes hosting the Natural Capital Coalition project.

## GOING CONCERN AND LONG-TERM VIABILITY

The financial statements have been prepared on a going concern basis.

In addition to the shorter-term going concern review, council has assessed the viability of ICAEW over a three-year period. Council receives and approves a three-year operational plan each year, which comprises forecast income statements, cash flow summaries, statements of financial position and key non-financial indicators. The operational plan includes both medium and long-term planning (including our reserves strategy which looks forward for c20 years at a high level). However, the focus is on the three-year planning horizon which carries a greater confidence level.

Income visibility is relatively strong as a result of the long-term nature of membership and the time taken for students to qualify and enter membership. Cash and investment reserves are held to provide protection against unexpected significant changes in the operating environment.

The plan is prepared by management and reviewed by board and council, taking into account our latest risk assessment, key sensitivities and strategic priorities. This plan forms the basis of the monthly management accounts, the quarterly forecasts and the quarterly strategic reports which are reviewed by board and council.

ICAEW's business activities, together with the factors likely to affect its future development, performance and position are set out above, as well as in our *Annual Review 2017*. Principal risks which may affect future development are set out below. The financial position of ICAEW, its cash flows and liquidity position are described in the financial review above. In addition the accounting policies include ICAEW's objectives, policies and processes for managing its reserves, its financial risk management objectives, details of its hedging activities and its exposure to liquidity risk.

Council believes that ICAEW has adequate financial resources and is well placed to manage its business risks successfully given the current economic outlook and market conditions and possible short-term funding needs, such as FRC Conduct Committee case costs. As a result, the going concern basis is considered appropriate. Council also has a reasonable expectation that ICAEW has adequate resources to be able to continue in operation and meet its liabilities as they fall due for the three years to 31 December 2020.

## INTERNAL CONTROL

Council is responsible for ICAEW's system of internal control and for reviewing its effectiveness. The audit committee reviews information and regular reports provided by management, internal audit and the external auditors on behalf of council; a summary of their work is noted in the report of the audit committee on pages 14-15. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable, but not absolute, assurance against material misstatement or loss. It includes financial, operational, compliance and risk management controls.

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

## RISK MANAGEMENT

The council, through the board, audit committee, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the significant risks faced by ICAEW. This process has been in place for the whole of 2017 and has continued up to the date on which this document was approved.

Each department identifies and reviews the risks faced by ICAEW, assessing both the controls in place and key actions required to manage the significant risks. These assessments are reported regularly to the audit committee, board and council. Directors also report regularly to the board on any changes in risks and key risk highlights. The board considers at each meeting any issues arising in respect of the principal risks, any emerging or new reputational risks, and the velocity of any current or new risks and issues.

The assessment of risk is linked with the evolving ICAEW strategy in compliance with the *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* (September 2014).

Annually in March, council undertakes a review to consider:

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

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

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>Our relevance to firms and demand for future skills</b></p> <p>The risk that a key firm (or combination of firms) move away from business models that are resourced by a core set of ACA-trained accountants, or that they develop an externally recognised qualification.</p> <p>The scope of this risk could include: regulatory changes; such as responses to the Apprenticeship Levy; competitors’ actions or market changes.</p>	High	<p>Our activity to mitigate this risk includes:</p> <ul style="list-style-type: none"> <li>• active stakeholder management; intelligence and insight with firms, regulators, competitors and the market;</li> <li>• working with firms to develop training solutions that ensure we are the professional body of choice across their international networks;</li> <li>• contributing to the UK Government steering group and working party on Level 7 Apprenticeships;</li> <li>• listening carefully to feedback from firms and employers including through our Strategic Relationship Programme (SRP);</li> <li>• focusing our brand work and our films to engage key stakeholder groups and reinforcing our relevance; and</li> <li>• seeking to maintain our relevance to firms’ changing business models by increasing our regulatory scope to include legal services.</li> </ul>	Medium	<ul style="list-style-type: none"> <li>• Further development of qualifications, syllabus and designations to meet market demand.</li> <li>• Enhanced regular contact with firms via the SRP programme.</li> </ul>
<p><b>The changing nature of the global competitive environment</b></p> <p>The risk that external changes result in professional bodies losing relevance or ICAEW falling behind in the marketplace and being unable to execute strategy in the public interest.</p> <p>The scope of this risk includes: the impact of technology, legislative and regulatory changes (including legal services); our products and partnerships; competitors’ mergers and innovations.</p>	High	<p>Our activity to mitigate this risk includes:</p> <ul style="list-style-type: none"> <li>• actively influencing the debate about the future of the finance industry, developing a wider regulatory offering and further services for firms and members;</li> <li>• developing our regulatory governance, close engagement with the FRC, BEIS, Ministry of Justice and dialogue with the Legal Services Board;</li> <li>• developing robust arguments in support of the role of ICAEW as a regulator in the public interest;</li> <li>• developing alliances in support of the ICAEW position;</li> <li>• maintaining close relationships with partner and competitor bodies via GAA/CAW, particularly in the light of recent merger/partnership activity within the sector; and</li> <li>• evolving our products and services, for example, our Licensed Practitioner Scheme.</li> </ul>	Medium	<p>Our strategy includes an ambition to be leaders in technology. Cyber and data analytics will be included both within CFAB and the ACA.</p> <p>Our Future Professionals will have a digital understanding at a conceptual level. There will be an enhanced data analytics theme running through our Academy proposition.</p> <p>Working with CAW as part of any competitive response to future market changes.</p>

RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>The loss of public trust</b></p> <p>The risk that a global financial crash, debt crisis or financial scandal causes the public to lose trust in the profession and finance institutions, reducing our ability to support members, undermining our disciplinary and regulatory roles and hampering our ability to act in the public interest. The scope of this risk includes: high profile disciplinary cases; technical and public interest issues such as tax avoidance and audit quality.</p> <p>The knock-on effect of high profile corporate governance failures and subsequent criticism of the profession, will cause significant reputational damage and loss of trust. Failure to maintain leadership in this area will erode our influence.</p>	High	<p>The promotion of ethics and good corporate behaviour generally is undoubtedly a positive, and one with which ICAEW is synonymous. We cannot prevent the next financial crisis or big corporate failure. The possibility of corporate failure and the business cycle are features of the capitalist economy. Our actions are focused on encouraging continual improvement, through for example our support of developments in international financial reporting and auditing standards.</p> <ul style="list-style-type: none"> <li>• We have a crisis management communication plan in place.</li> <li>• We have ongoing and direct engagement with organisations such as the PRA, FRC and firms, and monitoring media, complaints and regulatory activities.</li> <li>• We continue to promote the Audit Quality Forum which brings together a range of stakeholders to tackle issues that are relevant to audit quality and confidence in business.</li> <li>• We respond to the UK government's previous corporate governance proposals and making representations to the prime minister</li> </ul>	Medium	<p>In 2018 we plan to launch a number of relevant projects in this area, including:</p> <ul style="list-style-type: none"> <li>• <b>Artificial intelligence and root cause analysis</b> - to explore whether AI tools can analyse audit findings and inform the debate about failings</li> <li>• <b>Independent review of audit</b> - review of the purpose and scope of audit, how it meets society's and investors' needs and the role of technology in enabling change</li> <li>• <b>Disruptive technology</b> - identify member resources and training with partner organisations to help members understand and deal with technological development in finance.</li> </ul>
<p><b>The impact of Brexit</b></p> <p>The uncertainties relating to the UK's decision to leave the EU, following the EU Referendum.</p> <p>The scope of this risk could include: legislative and regulatory changes (including legal services); our products and partnerships; competitors' mergers and innovations; our relevance in the EU.</p>	High	<p>We are monitoring the developments of the post-Brexit discussions.</p> <p>We are reviewing options open to us with regard to enhancing our European footprint, post Brexit. This depends on a number of factors including the interpretation of whatever the final EU position is on 'substantive operations', the final deal relating to qualifications, audit and training and what the priorities of our members, their firms and ICAEW will be, post Brexit.</p>	Medium	<ul style="list-style-type: none"> <li>• Dialogue with ministers, senior civil servants and regulators as the UK government position develops.</li> <li>• Authoring a paper for the Accountancy Sub-group of the Mutual Market Access Working Group of the PBSC.</li> <li>• Continuing dialogue with EU officials through our Europe office.</li> </ul>



RISK	GROSS RISK	CURRENT RISK MANAGEMENT ACTIVITY	NET CURRENT RISK	PLANNED RISK MANAGEMENT ACTIVITY
<p><b>Cyber and data security</b></p> <p>The risk that there is a failure or breach of physical or cyber security systems (for example, as a result of a cyber attack), or of data mismanagement events such as the handling of client/student data, or breakdown of ACA assessment process or procedure, or use of data relating to elections.</p> <p>The resulting damage could be to our reputation, operations or both. The likelihood and potential impact of this risk grows as we expand internationally.</p> <p>The scope of this risk could include: failure or breach of system security leading to unauthorised access to ICAEW; fraud or human error; technical failure relating to data systems or a breakdown in the assessment processes and procedures.</p>	High	<p>Our activity to mitigate this risk includes:</p> <ul style="list-style-type: none"> <li>reviews to ensure staff have the appropriate application security access; system penetration tests undertaken by a specialist organisation; PCI compliance testing; intensive test programmes and spot checks for systems and processes. We also actively monitor exam pass rates.</li> <li>Information security assessment is mandatory in the process for new supplier and contract approval.</li> <li>Cyber security will be a core component of our GDPR training for staff; we tested our cyber response plan in 2017.</li> </ul>	Medium	<ul style="list-style-type: none"> <li>Reviewing and improving our security policy for internal applications through our business systems transformation project.</li> <li>The data management and data classification project is under way to embed best practice in the organisation.</li> <li>Planned cyber attack/breach scenario exercise.</li> <li>Automated log analysis system in place.</li> </ul>

Principal risks are owned by executive directors and delivery of mitigating actions is built into our strategy and operational plan. They are reviewed by the board at every board meeting. The board's assessment of the impact of risk management is shown in the *Annual Review*. We confirm that there have been no significant failings or weaknesses in our internal controls in 2017.

# Corporate governance statement

## OUR APPROACH TO GOVERNANCE

ICAEW is a chartered body and operates under the terms of its Royal Charter, bye-laws and regulations. We are committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code as revised by the FRC in April 2016.

ICAEW complies with the UK Corporate Governance Code on a 'comply or explain' basis, recognising that parts of the Code do not relate exactly to the governance of a professional body. We operate within regulatory oversight of the FRC, as a recognised supervisory body, a recognised qualifying body, a designated professional body, and as a licenser of insolvency practitioners. We are also regulated for reserved legal activities by the Legal Services Board.

## OUR STRUCTURE

Our governance structure is designed to safeguard our future, enhance its prosperity and ensure its integrity. Council delegates to the board and committees through a series of delegated authorities and assurance mechanisms, while ensuring that the views of the profession are heard. Council continues to regularly review the roles, responsibilities and effectiveness of council, the board and committees to ensure they remain fit for purpose.

## AGM AND MEMBER MEETINGS

The Charter and bye-laws reserve certain matters for members. This includes consideration of the annual review and the financial statements with the report of the auditor.

## ICAEW COUNCIL

The powers of council are set by the Charter. Council is ultimately responsible for ensuring that ICAEW meets the objects set out in the Charter. It carries out this responsibility through the review and approval of strategy, operational plans and budgets proposed by the board. Council delegates many of its functions to the board, departmental boards and committees, to speed up the administration of governance processes and enable council to operate at a strategic level. Many committees have specialist knowledge and skills to ensure operational activity and policy development is managed effectively, in a timely fashion with appropriate depth of scrutiny of key decisions.

In 2017, council met five times. The majority of council members are directly elected by ICAEW members, with the remainder co-opted or ex-officio. Council elects its chair annually from among its members. A list of council members, including their status and record of attendance at council meetings in 2017 is available online. As at 31 December 2017, council comprised 93 members.

## THE OFFICE-HOLDERS

	To 6 June	From 7 June
President	Hilary Lindsay	Nick Parker
Deputy-President	Nick Parker	Paul Aplin
Vice-President	Paul Aplin	Fiona Wilkinson

The office-holders have no formal powers other than the procedural matters specified in the principal bye-laws. They have an ambassadorial role, meeting members and stakeholders and promoting ICAEW. They represent the views of council and the wider accountancy profession and ensure that these are taken into account in the development of ICAEW strategy and policies. They counsel and advise the chief executive. The president chairs the annual and special meetings of members and the ICAEW board. All office-holders (and council members) act in a non-executive capacity.

### **COUNCIL, BOARD AND COMMITTEE INDUCTION**

All new council and board members attend an induction which informs them about the structure and strategy of ICAEW, their role as council or board members and the key issues affecting the profession. Separate training and induction sessions are held by committees for their members on key areas within the remit of their committee.

### **COUNCIL MEMBER INTERESTS**

Council members do not receive remuneration. They are reimbursed for travel and subsistence costs incurred in undertaking ICAEW business. They may receive other payments, on a normal commercial basis, particularly in connection with lecturing and writing. Council members are required to provide a declaration of interests that might lead to conflict, which is updated annually. Members of council, board and committees are also invited to identify and declare any potential conflicts of interest at each meeting.

### **THE BOARD**

Our board acts under delegated authority from council, and is responsible for all matters relating to the development and implementation of ICAEW strategy (including review of risk), policy, operational plans and all matters relating to ICAEW resources. The board reports on its activities at each council meeting. The chief executive reports monthly to the board on principal risks and on key activities, and quarterly to the board and council on implementation of the operational plan. The board evaluates its performance in-house annually and at least every three years by external review, last undertaken in 2015. The results from the 2017 board evaluation found the board to be high-performing with a friendly but effective culture, with all members regularly contributing and providing constructive challenge.

The board comprises 17 members, principally council members ex-officio, two independent non-executives (non-chartered accountants) and senior ICAEW executives. Council also elects three of its members directly to the board for a two-year term.

The board met eight times in 2017.

**ICAEW BOARD**

The members of the board (for whom you can find brief biographical details on the ICAEW website at About ICAEW/Who we are/Governance/ICAEW Board) during 2017 were:

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin*	Deputy-President (from 7 June) Vice-President (to 6 June) Partner, A C Mole & Sons			8/8
Carl Bayley*	elected by council Owner, Bayley Miller Limited			8/8
William Brooks*	elected by council (re-elected 29 June) Managing Director, Eximus Capital Limited			8/8
Howard Gross*	Chair, Members and Commercial Board Chief Executive, Gross Klein		6 June	3/4
Sharron Gunn	Executive Director, Members, Commercial and Shared Services			8/8
Robert Hodgkinson	Executive Director, Technical Strategy			8/8
Michael Izza	Chief Executive			8/8
Hilary Lindsay*	President and Chair Researcher, The Open University		6 June	4/4
David Matthews*	Chair, Technical Strategy Board Head of Quality and Risk Management, KPMG LLP			5/8
Jill May	ICAEW Independent Non-Executive Director Panel Member, Competition and Markets Authority			7/8
Nick Parker*	President and Chair (from 7 June) Deputy-President (to 6 June) Tax Partner, RSM Tax & Advisory Services LLP			8/8
Julia Penny*	elected by council Technical Director, SWAT UK Ltd	29 June		4/4
Mark Protherough	Executive Director, Learning and Professional Development			8/8
Samantha Russell*	Chair, Learning and Professional Development Board Partner, Mazars			8/8
Vernon Soare	Chief Operating Officer			7/8
Clive Stevens*	Chair, Members and Commercial Board Chair and Head of International Kreston Reeves	6 June		4/4
Michael Stewart	ICAEW Independent Non-Executive Director Global Vice Chair, Edelman			7/8
Duncan Wiggetts	Executive Director, Professional Standards			6/8
Fiona Wilkinson*	Vice-President (from 7 June) elected by council (to 6 June) External Audit Consultant			8/8

\* council member

**THE CHIEF EXECUTIVE**

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

The chief executive and executive directors are appointed on permanent contracts following appointment by a senior staff appointments committee comprising senior council members and advisers. They are not subject to regular election by members. Nonetheless, their performance is reviewed annually by the remuneration committee, which reports to the board accordingly.

**DEPARTMENTAL BOARDS**

Three departmental boards report into the board and steer the development of policy for ICAEW's key activities, in the areas of learning and professional development; members, commercial and shared services; and technical strategy.

**REGULATORY GOVERNANCE**

Council has delegated the regulatory and disciplinary functions of ICAEW to the ICAEW Regulatory Board (IRB), to separate them from the other activities of ICAEW. The IRB operates with regard to the objectives of the profession as set out in ICAEW's Royal Charter, subject to a primary consideration of the public interest.

**AUDIT COMMITTEE**

The audit committee acts under delegated authority from council, and is responsible for ensuring effective oversight, assessment and review of external audit, financial reporting, internal controls and risk management, and internal audit. The audit committee reports annually to council on how it has discharged its responsibilities including:

- providing an opinion to council on whether the systems of internal controls and risk management are adequate;
- significant issues considered by the committee in relation to the financial statements and how these were addressed; and
- the committee's assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor.

The audit committee met four times in 2017. Both the internal and external auditors attend its meetings and have direct access to its chair. The external auditors attend at least one meeting (or part of a meeting) each year without ICAEW management present. The board receives the minutes of the audit committee on a quarterly basis and council receives an annual report on its activities.

For members of the audit committee during 2017, see below.

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Richard Bint	Retired Audit Partner			3/4
Stuart Bridges	Group CFO, NEX Group plc		6 June	1/1
Kathryn Britten*	Chair Managing Director, Alixpartners		6 June	1/1
David Canning-Jones	Chair (from 6 June) Audit Partner, EY LLP			4/4
Nick Parker*	Tax Partner, RSM Tax & Advisory Services LLP Deputy-President		6 June	1/1
George Quigley*	Partner, KPMG LLP			4/4
Alison Smith	Internal Audit Director, Barclays plc			3/4
Alison W Smith	Group Audit and Risk Management Director, Kingfisher plc			4/4
Fiona Wilkinson*	Vice-President and Non-Executive Member of the Board External Audit Consultant	6 June		3/3

\* council member

During the year, the audit committee has:

- reviewed the financial statements, having received a report from the external auditors on their review and audit;
- considered the output of the procedures used to manage risk within ICAEW;
- reviewed the effectiveness of our internal audit function;
- considered the management letter from the external auditors on their review of the effectiveness of internal controls;
- agreed the fees and terms of appointment of the external auditors, including their quality and effectiveness;
- agreed the work plan of internal audit and reviewed the resulting output from that plan;
- considered an annual report on our whistleblowing arrangements and complied with the Whistleblowing Commission's Code of Practice;
- continued to focus on cyber security risks;
- reviewed the impact and discussed ICAEW's preparedness for the General Data Protection Regulations (GDPR); and
- considered the outputs from the Control Risk Self-Assessment Framework.

The committee has received reports on the work carried out by internal audit and the results of their investigations including management responses, their adequacy and timeliness.

Significant areas of review by the audit committee in the year included 'deep dives' into principal risks and mission-critical projects, such as the business systems transformation, GDPR, ICAEW pension scheme and cyber security. The committee also carried out a review of the internal audit function.

## AUDITORS

ICAEW's appointed external auditors are haysmacintyre. Current policy is to tender the external audit at least every 10 years.

The audit committee annually reviews and considers the quality, effectiveness and independence of the external auditors. This includes a review of safeguards in place in relation to non-audit services, and a review of the partners and directors of the audit firm who sit on our committees. To ensure appropriate levels of independence, a firm cannot be our auditor if any partner or employee of the firm is a member of council during the period of tenure. We also have a policy regarding non-audit work by the audit firm. The general principle is that the audit firm should not be asked to carry out non-audit services where it may, in the future, be required to give an audit opinion. Audit committee approval is required for such services.

To assess the effectiveness of the auditors the committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- the auditor's report of major issues arising during the course of the audit; and
- the auditor's most recent transparency report and AQR report.

## MONITORING OF FINANCIAL CONTROLS

Over the course of the year the audit committee considered many components of business performance to ensure it has a full understanding of the operations of ICAEW, recognising that not all of its members are also on the council or board.

Examples of processes it uses include:

- review of the processes undertaken in determining the position adopted in key judgement areas including FRC costs and pension provisions;
- 'deep dives' into risk areas;
- receipt of regular strategy reports from the chief executive; and
- requesting members of management attend audit committee meetings to provide updates on strategic and key operational matters.

Through these processes and its monitoring of the effectiveness of controls, internal audit and risk management, the audit committee is able to maintain a good understanding of business performance, key areas of judgement and decision-making processes within the organisation, and the consequences for financial reporting.

## REVIEW OF FINANCIAL STATEMENTS

Through discussion with management and the external auditor, the audit committee determined that the key judgements with risk of misstatement in our financial statements related to provisions for FRC disciplinary case costs and management override of controls.

These issues were discussed with management during the year and with the auditor when reviewing and agreeing the audit plan, and also at the conclusion of the audit of the financial statements.

The committee has reviewed the basis for monitoring and forecasting FRC case costs, assessed the sources of information available to management (including historic data and forecasts from the FRC) and considered the review processes performed by management and the external auditor. This recognised the confidential nature of such information but the committee was able to obtain the necessary understanding and assurance.

The committee also reviewed key judgements made in the previous financial year relating to pension scheme assumptions and confirmed that those judgements remain valid for the 2017 financial year also.

After reviewing the presentations and reports from management and consulting with the auditors, the audit committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both for the amounts reported and the disclosures. The committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as it can) the independence of the external auditors.

**NOMINATING COMMITTEE**

The nominating committee acts under delegated authority from council, dealing with all matters relating to committee and other appointments to ensure the composition of our governance bodies is representative of our membership and reflects the diversity, knowledge and skillset of the profession.

The nominating committee has delegated the annual review of committee memberships to the committee review working party. The nominating committee reports to council on recommendations for appointments and also on the committee review process.

The nominating committee met six times in 2017.

The members of the nominating committee during 2017 were:

<b>NAME</b>	<b>POSITION</b>	<b>APPOINTED</b>	<b>RETIRED</b>	<b>ATTENDANCE</b>
Paul Aplin*	Deputy-President (from 7 June) Vice-President (to 6 June) Partner, A C Mole & Sons			6/6
Arthur Bailey*	Past President Consultant - Begbies Traynor Group, Kingston Smith LLP Non-Executive Director		6 June	2/3
Derek Blair*	elected by council Partner, Pinkham Blair			6/6
Graeme Gordon*	elected by council Executive Director/CEO, Praxity-Global Alliance Limited		1 November	3/4
Michael Izza	Chief Executive			3/6
Hilary Lindsay*	Chair (from 7 June) President (to 6 June), Past President (from 7 June) Researcher, The Open University			5/6
Sheilagh Moffat*	elected by council Partner, Moffat Gilbert			6/6
Nick Parker*	President (from 7 June) Deputy-President (to 6 June) Tax Partner, RSM Tax & Advisory Services LLP			6/6
Andrew Ratcliffe*	Past President			6/6
Jeffrey Unerman*	elected by council Professor, Royal Holloway University of London	1 November		1/2
Fiona Wilkinson*	Vice-President (from 7 June) External Audit Consultant	7 June		3/3

\* council member

## REMUNERATION COMMITTEE

The remuneration committee keeps under review, on behalf of the board, the elements of the remuneration package provided for ICAEW staff, including the chief executive and executive directors. Staff are remunerated with reference to their annual performance rating and benchmark market salaries. The committee also monitors office-holder expenses.

The remuneration committee met three times in 2017.

The members of the remuneration committee during 2017 were:

NAME	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin*	Deputy-President (from 7 June) Vice-President (to 6 June) Partner, A C Mole & Sons			3/3
Noel Clehane*	Global Head of Regulatory & Public Policy Affairs, BDO	6 June		1/1
Ian Davies*	Chair Deputy Chair, BMT Group Limited Senior Independent Director, Harvey Nash plc		6 June	2/2
Nicki Demby	Partner, Executive Compensation Consulting, Deloitte			3/3
Richard Harwood*	Principal, Harwoods		6 June	2/2
David Mellor*	Chair (from 7 June) Chief Executive, Crowe Clark			3/3
Marcus Peaker	Partner, Executive Compensation Lead, PwC	17 July		1/1

\* council member

The chair of the remuneration committee or their nominee reports at least annually to the board.

## SENIOR STAFF APPOINTMENTS COMMITTEE

The senior staff appointments committee is responsible for all matters relating to the recruitment and appointment of the chief executive and executive directors.

## DIVERSITY

ICAEW is an international professional body with multiple routes to entry. Diversity is embedded in our thinking and our aim is that we represent the profession as a whole and that our governance bodies are as diverse as our membership. We have a wide range of diversity initiatives such as the digitalisation of BASE, ICAEW 100 and Access Accountancy to name a few.

All members are eligible to stand for election to council or get involved with an advisory committee, faculty, community or local district society committed to the principles of equality and diversity with the aim of representing the profession as a whole.

The nominating committee ensures that council, board and committees have an appropriate balance of skills, experience, independence and knowledge to enable them to discharge their duties effectively, while ensuring engagement of the best person for the role.

A diversity advisory group comprising a diverse range of members from across the profession looks at best practice and global trends within different industry sectors, giving a global perspective on diversity, making recommendations to the board.

In compliance with government regulations for gender pay gap reporting, which came into effect in April 2017, a report outlining the mean and median gender pay gap in ICAEW is available on our website.

## MODERN SLAVERY

Our Modern Slavery Policy is published on our website, in compliance with the Modern Slavery Act 2016. ICAEW council and senior management is committed to ensuring it will not support or deal with any business knowingly involved in slavery or human trafficking, and will provide training and communication throughout ICAEW to ensure, as far as is reasonable, slavery and human trafficking do not occur in our supply chain or operations.



**GENERAL DATA PROTECTION REGULATION (GDPR)**

ICAEW is working on developing and updating systems, agreements, policies and processes to meet the requirements of the regulation that comes into effect on 25 May 2018. It has also issued guidance on preparing for GDPR with a particular focus on advice for those in the accountancy profession.

**EMPLOYEES**

ICAEW aims to create a working environment that is based on a number of key principles including fairness, equality of opportunity, respect and dignity, flexibility, transparency and work-life balance. We believe that these key principles enable staff to enjoy work, develop as individuals and provide the best possible service to members, clients and the public, which contributes to the continued success of the organisation.

ICAEW is committed to the values of initiative, insight and integrity. It is our policy to treat all staff fairly and equally regardless of age, race, sex or sexual orientation, gender (including transgender), disability, marital status (including civil partnership), pregnancy and maternity, social or educational backgrounds or family or carer responsibility. Should existing staff suffer a disability, we will do all we can to accommodate this and to help the member of staff to continue their career in their existing role where possible, or in an alternative position in the organisation.

ICAEW regularly carries out a staff survey to ensure staff are engaged with our strategy and has a well-established performance management process and training and development policy. Staff can discuss their development needs at 'one-to-ones' with their manager or as part of the annual performance management process. We hold regular strategy updates for all staff and have dedicated communications channels, including an intranet and weekly email updates.

**FINANCIAL RESPONSIBILITIES OF COUNCIL**

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

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

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

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

**DIRECTORS' CONFIRMATION**

As far as each of the directors is aware:

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

For the purposes of this declaration, all members of the board are deemed to be directors by council.

# ICAEW

## *five-year summary*

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Operating income	<b>105.2</b>	100.0	96.9	90.5	86.8
ICAEW services	<b>(95.5)</b>	(89.7)	(85.0)	(80.5)	(75.3)
Funding of regulatory and other professional associations	<b>(9.4)</b>	(8.6)	(10.1)	(8.5)	(8.8)
Gift aid and library funding and taxation	<b>(0.6)</b>	(0.9)	(1.5)	(1.5)	(1.8)
FRC fines and cost recoveries	<b>17.4</b>	10.5	6.6	2.4	1.3
<b>Net result after taxation</b>	<b>17.1</b>	<b>11.3</b>	<b>6.9</b>	<b>2.4</b>	<b>2.2</b>
<b>Statement of financial position</b>					
Non-current assets excluding Staff Pensions Fund	<b>93.2</b>	76.9	64.4	59.9	55.7
Current assets	<b>41.4</b>	34.8	21.4	14.7	13.9
Current liabilities	<b>(52.9)</b>	(55.7)	(41.8)	(38.4)	(38.7)
Non-current liabilities	<b>(13.3)</b>	(10.8)	(10.1)	(7.0)	(5.6)
Non-current assets - Staff Pensions Fund asset	<b>5.7</b>	1.5	9.3	3.1	2.1
<b>Total net assets</b>	<b>74.1</b>	<b>46.7</b>	<b>43.2</b>	<b>32.3</b>	<b>27.4</b>
<b>Member and student numbers</b>					
Members	<b>149,298</b>	147,538	145,746	144,167	142,334
ACA students	<b>27,866</b>	25,822	24,149	22,001	20,121
	<b>177,164</b>	<b>173,360</b>	<b>169,895</b>	<b>166,168</b>	<b>162,455</b>

# *Independent auditor's report to the members of ICAEW for the year ended 31 December 2017*

## **OUR OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT**

### **1. OPINION**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of ICAEW's affairs as at 31 December 2017 and of the group's and ICAEW's result for the year then ended; and
- the group and ICAEW financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

### **WHAT WE HAVE AUDITED**

We have audited the financial statements of ICAEW for the year ended 31 December 2017, which comprise:

- the group and ICAEW income statements;
- the group and ICAEW statements of comprehensive income;
- the group and ICAEW statements of changes to reserves;
- the group and ICAEW statements of financial position;
- the group and ICAEW statements of cash flows;
- the basis of preparation and accounting policies; and
- the notes to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU.

### **2. BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Our responsibilities under ISAs (UK) are further described in section 11 of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to enable us to express an audit opinion on the financial statements of ICAEW and the group for the year ended 31 December 2017.

### **3. WHO WE ARE REPORTING TO**

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

### **4. CONCLUSIONS RELATING TO GOING CONCERN**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- council have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ICAEW's or the group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### **5. OUR APPROACH TO PLANNING OUR AUDIT**

#### **UNDERSTANDING ICAEW**

We obtained an understanding of ICAEW as an organisation and of its wider group, including the key elements of its strategy and operating model as well as the environment in which it operates. This understanding was obtained through our discussions with senior management and those charged with governance and review, enquiry, analytical procedures, observation and inspection.

#### **IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT**

We perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement, including those identified as significant risks.

## DETERMINING MATERIALITY AND PERFORMANCE MATERIALITY

When establishing our overall audit strategy, we determine materiality for the financial statements as a whole. We have detailed in section 7 of this report the basis of the judgements we have made about the size of misstatements that will be considered material.

## DETERMINE THE SCOPE OF OUR AUDIT

Our scope is tailored to the particular circumstances of our audit of ICAEW and the group and is influenced by our assessed risks of material misstatement and determination of materiality.

## 6. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on our overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### FRC CONDUCT COMMITTEE PROVISION

**The risk:** ICAEW is obliged to fund the costs incurred by the FRC Conduct Committee in undertaking investigations for disciplinary cases. The provision recognised in the financial statements is based on an estimate of costs initially supplied by the FRC and then subject to scrutiny and challenge by ICAEW. Due to the magnitude and degree of estimation and judgement required there is a significant risk of material misstatement in the financial statements.

**Our response:** We followed the progress of each case and ICAEW's estimate of the costs to complete each stage, and obtained a breakdown of the provision.

We reviewed the key elements of the methodology employed by management in challenging the reasonableness of the cost estimates recognised. We agreed the reasonableness of these estimates by comparing the accuracy of previous cost estimates recognised to the final costs incurred on similar investigation cases. We also considered the key facts relating to particular cases. We considered the impact on future case costs from changes arising in the disciplinary environment.

### What we reported to the audit committee:

We have reviewed and confirmed our agreement to the methodology employed in calculating the appropriate provision and the disclosures included in the financial statements in respect of the uncertainties faced by management in estimating an appropriate provision.

From the audit work undertaken we have concluded that the provision carried at the balance sheet date is not materially misstated.

### REVENUE RECOGNITION

**The risk:** While the majority of ICAEW's income relates to fees directly collected from members for services which are centrally managed and verifiable, ICAEW also collects material amounts from member firms which are not recognised in the ICAEW or group income statement where it considers such amounts to be collected on behalf of other organisations such as the FRC. Such arrangements have developed over a period of time as custom or practice rather than by way of legal agreement or obligation and therefore we continued to identify revenue recognition as a significant risk.

**Our response:** We undertook a number of audit procedures to verify the appropriateness of revenue recognition in the financial statements. This included, among others:

- detailed review and documentation of the processes and controls in place for each of ICAEW's key income streams;
- sampling substantive procedures in order to ensure income has been appropriately recorded; and
- non-sampling substantive procedures in relation to membership fee income including comparisons to budget and trends analysis.

### What we reported to the audit committee:

As a result of the audit work we undertook we do not consider revenue to be materially misstated.

### DEFINED BENEFIT PENSION SCHEME

**The risk:** The amounts reported and the impact on the financial statements for defined benefit pension schemes are significant and highly sensitive to the assumptions applied by the actuaries. We identified that this presented a significant risk of material misstatement due to the use of inappropriate actuarial assumptions or inappropriate accounting treatment in recognising any pension surplus as an asset in the financial statements.

**Our response:** We undertook audit procedures on the valuation of the pension scheme prepared by the scheme's actuaries in accordance with IAS 19 which form the basis of the accounting and disclosures included in the financial statements. These procedures included assessment of the actuary's competence, qualifications, expertise, experience, resources and objectivity and critical review of the key assumptions applied in preparing the valuation. We also reviewed the legal basis underpinning the recognition of the pension surplus as an asset in the financial statements.

**What we reported to the audit**

**committee:** We have previously obtained and reviewed advice from ICAEW's solicitors confirming that, in their opinion, there had been no material change to the governing documents of the ICAEW Staff Pension Fund that would (or could) affect the advice in relation to the scheme's rules which led to the full pension surplus being recognised as an asset to the accounts in accordance with IAS 19 and IFRIC 14. There have been no changes to legislation that have come into force in the period since the previous year that would affect the advice. On this basis we are satisfied that the recognition of the pension surplus remains appropriate.

We have reviewed the key assumptions applied by the actuary in preparing the valuation. We are satisfied that the impact on the financial statements and disclosures are in accordance with IFRSs and consistent with our expectations, having considered all relevant factors as at 31 December 2017.

**INTRODUCTION OF NEW ACCOUNTING SYSTEM**

**The risk:** ICAEW migrated to a new accounting system from 1 September 2017. Such changes mean that there are risks of material misstatement due to errors in the transfer of accounting data from the old system. There are also potential risks of misstatement due to changes in the reporting structure which could lead to inconsistencies and error in the financial statements and risk that ICAEW's key controls or accounting processes that act to prevent fraud or error have been impacted by the new accounting system.

**Our response:** We agreed opening balances to ensure that these were consistent with those in the 2016 audited financial statements.

We re-documented and updated our understanding of ICAEW's key controls and accounting systems to the change to the new accounting system. We undertook walkthrough testing to ensure that those controls we have identified as key are operating effectively.

We obtained and reviewed ICAEW's high-level reconciliation between the transactions recorded on the old accounting system which were subsequently transferred to the new accounting system to ensure that the financial information contained in both systems was consistent.

**What we reported to the audit**

**committee:** As a result of the audit work we undertook we have concluded that the financial statements are not materially misstated due to errors in the transfer of accounting data to the new accounting system.

**7. OUR APPLICATION OF MATERIALITY**

We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality both in planning our audit and in evaluating the results of our work. It is not possible for auditors to examine every transaction of the audited entity nor every balance in the financial statements. Therefore, in planning our audit work, we will give particular attention to those areas of the financial statements that we consider to be the most important in terms of materiality as defined above.

We determined materiality for the ICAEW and group financial statements to be £2m based on approximately 2% of revenue. We considered this appropriate as it represents a broad measure of activity at ICAEW. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Our evaluation of materiality required professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

Our judgement was that performance materiality (ie, our tolerance for misstatement in an individual account or balance) should be 75% of planning materiality, namely £1.5m. Our objective in setting this was to ensure that total uncorrected or undetected audit differences did not exceed our materiality level of £2m.

We agreed with the audit committee that we would report all audit differences in excess of £50,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report through the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**8. AN OVERVIEW OF THE SCOPE OF THE AUDIT AND APPLICATION OF MATERIALITY**

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the group financial statements as a whole, taking into account the legal and geographic structure of the group, the accounting processes and controls in operation and the mix of size and risk profile of its components.

Group entities and associates whose operations are based largely in the UK were audited directly by haysmacintyre alongside the audit of ICAEW. We determined materiality for each group entity based on the key drivers most appropriate and subject to a cap of the materiality levels determined for ICAEW as a whole.

ICAEW's international operations are not considered to be individually material to the group financial statements. For ICAEW's international operations, we carried out analytical review procedures and limited testing on key balances and transactions in order to form our opinion on the group financial statements.

## 9. REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the annual report other than the financial statements and our auditor's report thereon. Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to communicate whether we have identified any inconsistencies between our knowledge acquired during the audit and the council's statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee that we consider should have been disclosed.

In relation to those disclosures made by ICAEW in respect of its voluntary compliance with the Corporate Governance code we confirm that we do not have anything material to add or to draw attention to in relation to:

- the council's confirmation in the annual report that they have carried out an assessment of the principal risks facing the group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the council's statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the council's explanation in the annual report on how it has assessed the prospects of the group, over what period it has done so and why it considers that period to be appropriate, and its statement as to whether it has a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## 10. RESPONSIBILITIES OF COUNCIL FOR THE FINANCIAL STATEMENTS

As explained more fully in the financial responsibilities of the council statement set out on page 18, the council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## 11. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [frc.org.uk/auditorsresponsibilities](http://frc.org.uk/auditorsresponsibilities). The description forms part of our auditor's report.



**haysmacintyre**  
Statutory Auditor  
10 Queen Street Place  
London  
EC4R 1AG

14 March 2018

# Group income statement for the year ended 31 December 2017

	Note	2017			2016		
		Income	Expenditure	Net	Income	Expenditure	Net
		£m	£m	£m	£m	£m	£m
Subscriptions and fees		47.2	-	47.2	46.0	-	46.0
Learning and professional development	1	13.4	(20.3)	(6.9)	12.7	(19.2)	(6.5)
Professional standards	2	18.3	(18.0)	0.3	16.6	(16.4)	0.2
Commercial and shared services	3	11.8	(16.3)	(4.5)	11.6	(14.7)	(3.1)
Members	4	1.1	(17.0)	(15.9)	0.9	(16.5)	(15.6)
Technical strategy	5	4.6	(9.9)	(5.3)	4.8	(9.9)	(5.1)
Central activities	6	0.3	(14.0)	(13.7)	0.5	(13.3)	(12.8)
Charitable trusts	7	0.1	(0.8)	(0.7)	0.1	(1.0)	(0.9)
		<b>96.8</b>	<b>(96.3)</b>	<b>0.5</b>	<b>93.2</b>	<b>(91.0)</b>	<b>2.2</b>
FRC Conduct Committee	8	4.5	(6.0)	(1.5)	4.5	(5.5)	(1.0)
Other regulatory and professional associations	9	1.7	(3.4)	(1.7)	1.0	(3.1)	(2.1)
		<b>6.2</b>	<b>(9.4)</b>	<b>(3.2)</b>	<b>5.5</b>	<b>(8.6)</b>	<b>(3.1)</b>
<b>Operating result</b>	11	<b>103.0</b>	<b>(105.7)</b>	<b>(2.7)</b>	<b>98.7</b>	<b>(99.6)</b>	<b>(0.9)</b>
Investment income	12	2.1	-	2.1	1.8	-	1.8
<b>Result before taxation</b>		<b>105.1</b>	<b>(105.7)</b>	<b>(0.6)</b>	<b>100.5</b>	<b>(99.6)</b>	<b>0.9</b>
Taxation	16	-	(0.1)	(0.1)	-	-	-
<b>Net result from operations after taxation</b>		<b>105.1</b>	<b>(105.8)</b>	<b>(0.7)</b>	<b>100.5</b>	<b>(99.6)</b>	<b>0.9</b>
FRC fines and cost recoveries	8	14.6	2.8	17.4	6.7	3.8	10.5
<b>Net result after taxation</b>		<b>119.7</b>	<b>(103.0)</b>	<b>16.7</b>	<b>107.2</b>	<b>(95.8)</b>	<b>11.4</b>

# *ICAEW income statement for the year ended 31 December 2017*

	Note	2017			2016		
		Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		47.2	-	47.2	46.0	-	46.0
Learning and professional development	1	13.4	(20.3)	(6.9)	12.7	(19.2)	(6.5)
Professional standards	2	18.3	(18.0)	0.3	16.6	(16.4)	0.2
Commercial and shared services	3	11.8	(16.3)	(4.5)	11.6	(14.7)	(3.1)
Members	4	1.1	(17.4)	(16.3)	0.9	(16.5)	(15.6)
Technical strategy	5	4.6	(9.9)	(5.3)	4.8	(9.9)	(5.1)
Central activities	6	0.3	(13.6)	(13.3)	0.5	(13.0)	(12.5)
		<b>96.7</b>	<b>(95.5)</b>	<b>1.2</b>	<b>93.1</b>	<b>(89.7)</b>	<b>3.4</b>
FRC Conduct Committee	8	4.5	(6.0)	(1.5)	4.5	(5.5)	(1.0)
Other regulatory and professional associations	9	1.7	(3.4)	(1.7)	1.0	(3.1)	(2.1)
		<b>6.2</b>	<b>(9.4)</b>	<b>(3.2)</b>	<b>5.5</b>	<b>(8.6)</b>	<b>(3.1)</b>
Gift aid and library funding	10	-	(0.6)	(0.6)	-	(1.0)	(1.0)
<b>Operating result</b>	11	<b>102.9</b>	<b>(105.5)</b>	<b>(2.6)</b>	<b>98.6</b>	<b>(99.3)</b>	<b>(0.7)</b>
Investment income	12	2.3	-	2.3	1.4	-	1.4
<b>Result before taxation</b>		<b>105.2</b>	<b>(105.5)</b>	<b>(0.3)</b>	<b>100.0</b>	<b>(99.3)</b>	<b>0.7</b>
Taxation	16	-	-	-	-	0.1	0.1
<b>Net result from operations after taxation</b>		<b>105.2</b>	<b>(105.5)</b>	<b>(0.3)</b>	<b>100.0</b>	<b>(99.2)</b>	<b>0.8</b>
FRC fines and cost recoveries	8	14.6	2.8	17.4	6.7	3.8	10.5
<b>Net result after taxation</b>		<b>119.8</b>	<b>(102.7)</b>	<b>17.1</b>	<b>106.7</b>	<b>(95.4)</b>	<b>11.3</b>



## *Group and ICAEW statements of comprehensive income for the year ended 31 December 2017*

		<b>Group</b>		<b>ICAEW</b>	
		2017	2016	2017	2016
	Note	£m	£m	£m	£m
Net result after taxation recognised in the income statement in the year		16.7	11.4	17.1	11.3
Items that may be reclassified subsequently to profit or loss:					
Gains on revaluation of available for sale investments	21	1.3	3.3	0.7	1.8
Gains reclassified on disposal	21	0.5	0.6	0.5	0.6
Items that will not be reclassified subsequently to profit or loss:					
Gains on revaluation of property, plant and equipment	18	7.0	-	7.0	-
Actuarial gains/(losses) recognised in the year	28	2.8	(10.3)	2.6	(10.0)
Deferred tax	17	(0.5)	(0.2)	(0.5)	(0.2)
<b>Other comprehensive income/(expense) in the year</b>		<b>11.1</b>	<b>(6.6)</b>	<b>10.3</b>	<b>(7.8)</b>
<b>Total comprehensive income in the year</b>		<b>27.8</b>	<b>4.8</b>	<b>27.4</b>	<b>3.5</b>

## Group and ICAEW statements of changes to reserves for the year ended 31 December 2017

Group	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Other reserves	Charitable trusts	Total
	£m	£m	£m	£m	£m	£m
<b>Reserves at 1 January 2016</b>	<b>9.7</b>	<b>4.0</b>	<b>25.1</b>	<b>5.5</b>	<b>13.5</b>	<b>57.8</b>
Net result after taxation	-	-	11.9	(0.2)	(0.3)	11.4
Net change in market value of long-term investments over cost	-	2.4	-	-	1.5	3.9
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(9.8)	(0.2)	(0.3)	(10.3)
Deferred tax attributable to above	-	(0.4)	0.2	-	-	(0.2)
Total other comprehensive income/(expense) in the year	-	<b>2.0</b>	<b>(9.6)</b>	<b>(0.2)</b>	<b>1.2</b>	<b>(6.6)</b>
Total comprehensive income in the year	-	2.0	2.3	(0.4)	0.9	4.8
<b>Reserves at 1 January 2017</b>	<b>9.7</b>	<b>6.0</b>	<b>27.4</b>	<b>5.1</b>	<b>14.4</b>	<b>62.6</b>
Net result after taxation	-	-	16.4	0.2	0.1	16.7
Increase in valuation of property, plant and equipment	7.0	-	-	-	-	7.0
Net change in market value of long-term investments over cost	-	1.2	-	-	0.6	1.8
Actuarial gains recognised in year on defined benefit pension scheme	-	-	2.5	0.1	0.2	2.8
Deferred tax attributable to above	(0.3)	(0.1)	(0.1)	-	-	(0.5)
Total other comprehensive income in the year	<b>6.7</b>	<b>1.1</b>	<b>2.4</b>	<b>0.1</b>	<b>0.8</b>	<b>11.1</b>
Total comprehensive income in the year	6.7	1.1	18.8	0.3	0.9	27.8
<b>Reserves at 31 December 2017</b>	<b>16.4</b>	<b>7.1</b>	<b>46.2</b>	<b>5.4</b>	<b>15.3</b>	<b>90.4</b>

ICAEW	Revaluation reserve	Investment revaluation reserve	Accumulated fund	Other reserves	Total
	£m	£m	£m	£m	£m
<b>Reserves at 1 January 2016</b>	<b>9.7</b>	<b>4.0</b>	<b>24.0</b>	<b>5.5</b>	<b>43.2</b>
Net result after taxation	-	-	11.5	(0.2)	11.3
Net change in market value of long-term investments over cost	-	2.4	-	-	2.4
Actuarial losses recognised in year on defined benefit pension scheme	-	-	(9.8)	(0.2)	(10.0)
Deferred tax attributable to above	-	(0.4)	0.2	-	(0.2)
Total other comprehensive income/(expense) in the year	-	<b>2.0</b>	<b>(9.6)</b>	<b>(0.2)</b>	<b>(7.8)</b>
Total comprehensive income in the year	-	2.0	1.9	(0.4)	3.5
<b>Reserves at 1 January 2017</b>	<b>9.7</b>	<b>6.0</b>	<b>25.9</b>	<b>5.1</b>	<b>46.7</b>
Net result after taxation	-	-	16.9	0.2	17.1
Increase in valuation of property, plant and equipment	7.0	-	-	-	7.0
Net change in market value of long-term investments over cost	-	1.2	-	-	1.2
Actuarial gains recognised in year on defined benefit pension scheme	-	-	2.5	0.1	2.6
Deferred tax attributable to above	(0.3)	(0.1)	(0.1)	-	(0.5)
Total other comprehensive income in the year	<b>6.7</b>	<b>1.1</b>	<b>2.4</b>	<b>0.1</b>	<b>10.3</b>
Total comprehensive income in the year	6.7	1.1	19.3	0.3	27.4
<b>Reserves at 31 December 2017</b>	<b>16.4</b>	<b>7.1</b>	<b>45.2</b>	<b>5.4</b>	<b>74.1</b>

# Group and ICAEW statements of financial position as at 31 December 2017

		Group		ICAEW	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	18	41.2	31.2	41.2	31.2
Intangible assets	19	9.3	5.4	9.3	5.4
Investments in subsidiaries and associates	20	0.1	0.1	-	-
Financial assets: available for sale investments	21	58.0	55.1	42.7	40.3
Pension asset	28	5.7	1.2	5.7	1.5
		<b>114.3</b>	<b>93.0</b>	<b>98.9</b>	<b>78.4</b>
<b>Current assets</b>					
Inventories	22	0.9	0.7	0.9	0.7
Trade and other receivables	23	24.8	23.4	24.0	22.2
Cash and cash equivalents	24	17.0	12.4	16.5	11.9
		<b>42.7</b>	<b>36.5</b>	<b>41.4</b>	<b>34.8</b>
<b>Total assets</b>		<b>157.0</b>	<b>129.5</b>	<b>140.3</b>	<b>113.2</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	25	(48.1)	(51.0)	(47.9)	(50.7)
Current tax liabilities		-	-	-	-
FRC Conduct Committee provision	26	(5.0)	(5.0)	(5.0)	(5.0)
		<b>(53.1)</b>	<b>(56.0)</b>	<b>(52.9)</b>	<b>(55.7)</b>
<b>Non-current liabilities</b>					
Grants payable		(0.2)	(0.1)	-	-
Other payables		(2.0)	(1.5)	(2.0)	(1.5)
Provisions	27	(1.1)	(0.6)	(1.1)	(0.6)
FRC Conduct Committee provision	26	(8.0)	(7.0)	(8.0)	(7.0)
Deferred tax liability	17	(2.2)	(1.7)	(2.2)	(1.7)
		<b>(13.5)</b>	<b>(10.9)</b>	<b>(13.3)</b>	<b>(10.8)</b>
<b>Total liabilities</b>		<b>(66.6)</b>	<b>(66.9)</b>	<b>(66.2)</b>	<b>(66.5)</b>
<b>Total net assets</b>		<b>90.4</b>	<b>62.6</b>	<b>74.1</b>	<b>46.7</b>
<b>Reserves</b>					
Revaluation reserve		16.4	9.7	16.4	9.7
Investment revaluation reserve		7.1	6.0	7.1	6.0
Accumulated fund		46.2	27.4	45.2	25.9
Other reserves		5.4	5.1	5.4	5.1
Charitable trust funds		15.3	14.4	-	-
		<b>90.4</b>	<b>62.6</b>	<b>74.1</b>	<b>46.7</b>

Approved on behalf of council and authorised for issue



Nick Parker  
President  
14 March 2018



Michael Izza  
Chief Executive  
14 March 2018

# Group and ICAEW statements of cash flows for the year ended 31 December 2017

		Group		ICAEW	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
<b>Cash flows from operating activities<sup>1</sup></b>					
<b>Result before taxation</b>		<b>16.8</b>	<b>11.4</b>	<b>17.1</b>	<b>11.2</b>
Adjustments for:					
Depreciation and amortisation		4.8	3.8	4.8	3.8
Investment income	12	(2.1)	(1.8)	(2.3)	(1.4)
Non-cash movement in provisions		6.2	5.5	6.5	5.2
<b>Cash flows from operating activities before movements in working capital</b>		<b>25.7</b>	<b>18.9</b>	<b>26.1</b>	<b>18.8</b>
<b>Movements in working capital</b>					
Increase in inventories		(0.2)	-	(0.2)	-
Increase in trade and other receivables		(1.0)	(11.7)	(1.3)	(11.8)
(Decrease)/increase in trade and other payables		(2.1)	13.3	(2.2)	14.0
Increase in long-term payables		0.6	-	0.5	-
<b>Cash generated from operating activities after movements in working capital</b>		<b>23.0</b>	<b>20.5</b>	<b>22.9</b>	<b>21.0</b>
<b>Cash flows on provisions</b>					
Tax paid		(0.1)	-	-	-
Cash outflow on pension liabilities		(1.6)	(1.8)	(1.6)	(1.8)
Cash outflow on FRC Conduct Committee provision		(5.0)	(5.4)	(5.0)	(5.4)
<b>Net cash generated from operating activities</b>		<b>16.3</b>	<b>13.3</b>	<b>16.3</b>	<b>13.8</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(6.3)	(9.4)	(6.3)	(9.4)
Purchase of intangible assets		(5.9)	(3.0)	(5.9)	(3.0)
Purchase of available for sale investments		(8.9)	(21.8)	(8.0)	(18.5)
Disposal of available for sale investments		8.4	21.3	7.2	17.8
Investment income received		1.0	1.2	1.3	0.9
<b>Net cash outflow from investing activities</b>		<b>(11.7)</b>	<b>(11.7)</b>	<b>(11.7)</b>	<b>(12.2)</b>
<b>Net increase in cash and cash equivalents in the year</b>		<b>4.6</b>	<b>1.6</b>	<b>4.6</b>	<b>1.6</b>
Net cash and cash equivalents at 1 January		12.4	10.8	11.9	10.3
<b>Net cash and cash equivalents at 31 December</b>	24	<b>17.0</b>	<b>12.4</b>	<b>16.5</b>	<b>11.9</b>

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

# *Notes to the financial statements for the year ended 31 December 2017*

## **BASIS OF PREPARATION**

ICAEW is a body incorporated by Royal Charter. The financial statements have been prepared in accordance with IFRS as adopted by the EU, and under the historical cost convention as modified by the revaluation of properties and available for sale investments.

### **Basis of consolidation**

Consolidated financial statements have been prepared which comprise ICAEW and all its subsidiary undertakings.

### **Subsidiaries**

Subsidiaries are all entities over which ICAEW is exposed to, or has rights to, variable returns from its involvement, and has the ability to affect those returns through its power over the subsidiary in accordance with IFRS 10 - Consolidated Financial Statements. All subsidiaries have a reporting date of 31 December. All transactions and balances between group entities are eliminated on consolidation.

### **Associates**

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

### **New and amended IFRS**

ICAEW has not adopted any new standards which have had an impact on the current period or any prior period or are likely to affect future periods.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue, but not yet effective:

Standard or interpretation	Effective from years commencing:
IFRS 9 - Financial Instruments	1 January 2018
IFRS 15 - Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leases	1 January 2019

The application of these accounting standards in the future may have a material impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed during 2018 across all revenue streams.

There are no other standards that are not yet effective and that would be expected to have a material impact on ICAEW in the current or future reporting periods and on foreseeable future transactions.

### **Foreign currencies**

Financial assets, including the financial statements of non-UK subsidiary undertakings, are translated at the rate of exchange at the reporting date. Income and expenses are translated at the average exchange rate for the period.

### **Accounting policies**

Fundamental accounting policies are included within the notes to the financial statements, and are set out before the financial information in the note itself within the highlighted boxes.

## CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

To be able to prepare financial statements according to generally accepted accounting principles, the board must make estimates and assumptions that affect the recorded asset and liability items as well as other information, such as that provided on FRC Conduct Committee provisions and pensions as well as valuations of our freehold property and historic collections and operational matters. These estimates are based on historical experience and various other assumptions that the board believes are reasonable under the circumstances. The results of these form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Further details in relation to specific areas are included below:

Valuations of property plant and equipment - note 18  
 Professional Conduct and FRC Conduct Committee - note 26  
 Retirement benefits and IFRIC 14 - note 28

## FINANCIAL RISK MANAGEMENT

### Financial risk factors

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

### Currency risk

The majority of ICAEW's transactions are carried out in sterling. In addition, ICAEW holds accounts in US dollars and euros. To the extent possible, ICAEW uses the income received from services provided in these currencies to hedge any exposures on payments made. ICAEW operates international regional offices and is exposed to foreign currency exchange risk on the transfer of foreign currency to its international offices. Where appropriate, forward purchases are used to hedge against currency movements on known foreign exchange requirements.

### Credit risk

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

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

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

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

### Liquidity and interest rate risk

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

### Going concern

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

**RESULT AND TAX**

This section contains the financial statement notes that relate to the results and performance of the group and ICAEW during the year, together with the related accounting policies.

**Accounting policies**

**Income**

Income as presented in the income statements is revenue as defined under IAS 18 – Revenue. The following accounting policies relate to our key income streams.

- Income from subscriptions and fees, including subscriptions from membership, communities and faculties, fees from practice regulation and assurance and authorisation of investment business, is recognised in the accounting period to which the services covered by those subscriptions relate, and is stated net of VAT where applicable.
- Income from levies on member firms is recognised in the same period as the regulatory fee to which it relates.
- Income from qualifications represents predominantly exam income and is recognised in the period in which the exam was sat.
- Income associated with professional conduct (disciplinary fines) is recognised on receipt.
- Fine income as well as any associated cost recoveries arising from FRC Conduct Committee cases is recognised when receivable ie, when the tribunal judgement has been made and the decision is final after any appeal.
- Other income, including commercial income and income from consulting services is recognised in the period in which the services are provided. For long-term capacity building contracts, income is recognised by reference to stage of completion of the individual contract.
- ICAEW does not recognise as income any charges raised on behalf of the FRC for Audit Quality Review costs where it is considered ICAEW acts as agent for the FRC. The amounts invoiced and repaid to the FRC for the year in relation to these costs amounted to £7.1m (2016: £4.4m).

**Foreign currencies**

- Transactions in foreign currencies are converted into sterling, the presentational currency of the group, at exchange rates at the date of the transaction.

**1 Learning and professional development**

	Group and ICAEW			Group and ICAEW		
	2017	2017	2017	2016	2016	2016
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Qualifications	13.4	(11.4)	2.0	12.7	(10.7)	2.0
Business development	-	(7.8)	(7.8)	-	(7.6)	(7.6)
Executive, policy and strategy	-	(1.1)	(1.1)	-	(0.9)	(0.9)
	<b>13.4</b>	<b>(20.3)</b>	<b>(6.9)</b>	<b>12.7</b>	<b>(19.2)</b>	<b>(6.5)</b>

**2 Professional standards**

	Group and ICAEW			Group and ICAEW		
	2017	2017	2017	2016	2016	2016
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Disciplinary	0.8	(2.5)	(1.7)	0.8	(2.3)	(1.5)
Authorisation of investment business	2.7	(2.6)	0.1	2.5	(2.7)	(0.2)
Practice regulation and assurance	13.4	(11.0)	2.4	12.6	(10.3)	2.3
Capacity building and public sector	1.4	(1.9)	(0.5)	0.7	(1.1)	(0.4)
	<b>18.3</b>	<b>(18.0)</b>	<b>0.3</b>	<b>16.6</b>	<b>(16.4)</b>	<b>0.2</b>

**3 Commercial and shared services**

	Group and ICAEW			Group and ICAEW		
	2017	2017	2017	2016	2016	2016
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Commercial	11.8	(9.5)	2.3	11.5	(8.9)	2.6
Shared services	-	(6.8)	(6.8)	0.1	(5.8)	(5.7)
	<b>11.8</b>	<b>(16.3)</b>	<b>(4.5)</b>	<b>11.6</b>	<b>(14.7)</b>	<b>(3.1)</b>

**4 Member services**

	<b>Group</b>			<b>Group</b>		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Members - Communities	0.7	(1.1)	(0.4)	0.7	(0.7)	-
Member services - Practice and Business	0.2	(4.6)	(4.4)	0.1	(4.8)	(4.7)
UK regions	-	(3.4)	(3.4)	-	(3.9)	(3.9)
International regions	0.2	(7.9)	(7.7)	0.1	(7.1)	(7.0)
	<b>1.1</b>	<b>(17.0)</b>	<b>(15.9)</b>	<b>0.9</b>	<b>(16.5)</b>	<b>(15.6)</b>
	<b>ICAEW</b>			<b>ICAEW</b>		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Members - Communities	0.7	(1.1)	(0.4)	0.7	(0.7)	-
Member services - Practice and Business	0.2	(4.6)	(4.4)	0.1	(4.8)	(4.7)
UK regions	-	(3.4)	(3.4)	-	(3.9)	(3.9)
International regions	0.2	(8.3)	(8.1)	0.1	(7.1)	(7.0)
	<b>1.1</b>	<b>(17.4)</b>	<b>(16.3)</b>	<b>0.9</b>	<b>(16.5)</b>	<b>(15.6)</b>

**5 Technical strategy**

	<b>Group and ICAEW</b>			<b>Group and ICAEW</b>		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Technical departments	-	(1.2)	(1.2)	-	(1.3)	(1.3)
Faculty activities	4.6	(7.4)	(2.8)	4.8	(7.5)	(2.7)
Executive and administration	-	(1.3)	(1.3)	-	(1.1)	(1.1)
	<b>4.6</b>	<b>(9.9)</b>	<b>(5.3)</b>	<b>4.8</b>	<b>(9.9)</b>	<b>(5.1)</b>

**6 Central activities**

	<b>Group</b>			<b>Group</b>		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(14.2)	(14.2)	-	(12.6)	(12.6)
Marketing and communications	0.3	(7.2)	(6.9)	0.5	(8.9)	(8.4)
Finance and administration	-	(11.8)	(11.8)	-	(10.1)	(10.1)
	0.3	(33.2)	(32.9)	0.5	(31.6)	(31.1)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2016: £1.1m))	-	19.2	19.2	-	18.3	18.3
	<b>0.3</b>	<b>(14.0)</b>	<b>(13.7)</b>	<b>0.5</b>	<b>(13.3)</b>	<b>(12.8)</b>
	<b>ICAEW</b>			<b>ICAEW</b>		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Infrastructure	-	(14.2)	(14.2)	-	(12.6)	(12.6)
Marketing and communications	0.3	(7.2)	(6.9)	0.5	(8.9)	(8.4)
Finance and administration	-	(11.8)	(11.8)	-	(10.1)	(10.1)
	0.3	(33.2)	(32.9)	0.5	(31.6)	(31.1)
Less: allocated to other activities or recovered from outside bodies (including notional rent of £1.1m (2016: £1.1m))	-	19.6	19.6	-	18.6	18.6
	<b>0.3</b>	<b>(13.6)</b>	<b>(13.3)</b>	<b>0.5</b>	<b>(13.0)</b>	<b>(12.5)</b>



**7 Charitable trusts**

	Group			Group		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
External research grants	-	(0.2)	(0.2)	-	(0.3)	(0.3)
Library income and expenditure	-	(0.6)	(0.6)	-	(0.7)	(0.7)
Other income and expenditure	0.1	-	0.1	0.1	-	0.1
	<b>0.1</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>0.1</b>	<b>(1.0)</b>	<b>(0.9)</b>

**8 FRC Conduct Committee**

	Group and ICAEW			Group and ICAEW		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
Other income	4.5	-	4.5	4.5	-	4.5
Costs	-	(6.0)	(6.0)	-	(5.5)	(5.5)
Operational costs of funding FRC Conduct Committee	<b>4.5</b>	<b>(6.0)</b>	<b>(1.5)</b>	<b>4.5</b>	<b>(5.5)</b>	<b>(1.0)</b>
Fines	14.6	-	14.6	6.7	-	6.7
Cost recoveries	-	2.8	2.8	-	3.8	3.8
	<b>14.6</b>	<b>2.8</b>	<b>17.4</b>	<b>6.7</b>	<b>3.8</b>	<b>10.5</b>
	<b>19.1</b>	<b>(3.2)</b>	<b>15.9</b>	<b>11.2</b>	<b>(1.7)</b>	<b>9.5</b>

Other income relates to a direct levy on regulated firms.

**9 Other regulatory and professional associations**

	Group and ICAEW			Group and ICAEW		
	2017	2017	2017	2016	2016	2016
	Income	Expenditure	Net	Income	Expenditure	Net
	£m	£m	£m	£m	£m	£m
FRC	1.7	(2.0)	(0.3)	1.0	(1.8)	(0.8)
Consultative Committee of Accountancy Bodies	-	(0.4)	(0.4)	-	(0.4)	(0.4)
International Federation of Accountants	-	(0.9)	(0.9)	-	(0.8)	(0.8)
Other	-	(0.1)	(0.1)	-	(0.1)	(0.1)
	<b>1.7</b>	<b>(3.4)</b>	<b>(1.7)</b>	<b>1.0</b>	<b>(3.1)</b>	<b>(2.1)</b>

Income relates to a direct levy on regulated firms.

**10 Gift aid and library funding**

ICAEW made payments of £0.6m (2016: £1.0m) in the year under gift aid to the Chartered Accountants' Trust for Education and Research (CATER), a charitable trust aggregated within ICAEW's subsidiary ICAEW Foundation, which funds the ICAEW library and education in the field of accountancy and related subjects.

**11 Operating result**

The group and ICAEW operating result is stated after charging:

	Group		ICAEW	
	2017	2016	2017	2016
	£m	£m	£m	£m
Staff costs	45.8	43.9	41.9	40.9
Depreciation on owned property, plant and equipment	2.7	2.0	2.7	2.0
Amortisation of intangible assets	2.1	1.7	2.1	1.7
Cost of inventories recognised as an expense	1.3	1.0	1.3	1.0
Amounts payable under operating leases:				
Plant and machinery	0.1	0.1	0.1	0.1
Other	0.9	0.9	0.6	0.6
Fees payable to ICAEW's auditor for the audit of the financial statements	0.1	0.1	0.1	0.1
Foreign exchange differences	-	0.1	-	-

Fees payable to ICAEW's auditor haysmacintyre for consultancy work were £nil (2016: £nil).

**12 Investment income**

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
Interest receivable from investment deposits	0.1	0.5	0.1	0.1
Returns on multi-asset portfolio	1.4	0.8	1.0	0.8
Dividends receivable	-	-	0.8	-
Net realised gains from equities	0.6	0.5	0.4	0.5
	<b>2.1</b>	<b>1.8</b>	<b>2.3</b>	<b>1.4</b>

**13 Leasing commitments - operating leases**

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

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

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
Land and buildings				
Minimum lease payments due:				
Within one year	0.9	0.7	0.7	0.7
In two to five years inclusive	2.5	2.4	2.4	2.4
After five years	0.1	0.7	0.1	0.7
	<b>3.5</b>	<b>3.8</b>	<b>3.2</b>	<b>3.8</b>
Plant and machinery				
Minimum lease payments due:				
In two to five years inclusive	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

**14 Staff costs****Average number of staff employed during the year**

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
Total employees	737	757	693	702
Full-time equivalents	706	724	662	669

**Employment costs**

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
Wages and salaries	39.4	37.5	35.6	34.7
Employer's social security costs	3.6	3.8	3.6	3.7
Employer's pension costs	2.8	2.6	2.7	2.5
	<b>45.8</b>	<b>43.9</b>	<b>41.9</b>	<b>40.9</b>

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2016: two). The charitable trust employees' employment costs are borne by CATER although they have contracts of employment with ICAEW.

**15 Key management compensation - executive directors**

	2017		2016		2016	
	Salary	Deferred variable pay	Total	Salary	Deferred variable pay	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sharron Gunn	239	65	304	226	62	288
Robert Hodgkinson	274	69	343	268	65	333
Michael Izza	438	143	581	429	141	570
Mark Protherough	217	60	277	209	61	270
Vernon Soare	280	71	351	256	68	324
Duncan Wiggetts	215	85	300	117	33	150
Former executive director	-	-	-	127	-	127
	<b>1,663</b>	<b>493</b>	<b>2,156</b>	<b>1,632</b>	<b>430</b>	<b>2,062</b>

The executive directors are remunerated on a total-package basis. This means that they may elect to take all of their remuneration in the form of salary or they may opt to commute a portion of their salary towards ICAEW benefits such as pension scheme membership, health insurance or a car. Deferred variable pay is payable to executive directors on the basis of performance and is agreed by the remuneration committee. In addition to the above salaries, employer's national insurance contributions totalled £277,000 (2016: £266,000). Duncan Wiggetts was appointed executive director professional standards from 1 June 2016. In addition to the salaries above discretionary payments to former directors totalled £nil (2016: £51,000).

Independent non-executive directors receive a director's fee of £15,000 per annum. The other non-executive directors are not remunerated.

**16 Taxation**

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

	Group		ICAEW	
	2017	2016	2017	2016
	£m	£m	£m	£m
Current tax - current period tax charge on operating result	(0.1)	(0.1)	-	-
Adjustments for previous period	-	0.1	-	0.1
	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>0.1</b>

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

Factors affecting the tax charge for the year:

	Group		ICAEW	
	2017	2016	2017	2016
	£m	£m	£m	£m
Net result before taxation	16.8	11.4	17.1	11.2
Add back: result on transactions with members	(14.3)	(9.7)	(15.8)	(10.2)
Net result before taxation on transactions with non-members	2.5	1.7	1.3	1.0
Net result above at the standard rate of corporation tax in the UK of 19.3%/20.0%	(0.5)	(0.4)	(0.3)	(0.2)
Effects of:				
Items not chargeable/deductible for tax purposes	0.4	0.3	0.3	0.2
Unutilised tax losses	-	(0.1)	-	(0.1)
Adjustment for prior years	-	0.1	-	0.1
Tax on operating surplus for the year	(0.1)	(0.1)	-	-

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

**17 Deferred tax**

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

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

	Revaluation of available for sale investments £m	Revaluation of properties and historic collections £m	Defined benefit pension scheme £m	<b>Group and ICAEW</b> Net £m
Liability at 1 January 2016	(1.0)	(0.3)	(0.2)	(1.5)
Movement in year: Recognised as other comprehensive income	(0.4)	-	0.2	(0.2)
Liability at 1 January 2017	<b>(1.4)</b>	<b>(0.3)</b>	-	<b>(1.7)</b>
Movement in year: Recognised as other comprehensive income	(0.2)	(0.2)	(0.1)	(0.5)
<b>Liability at 31 December 2017</b>	<b>(1.6)</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>(2.2)</b>

## FINANCIAL POSITION

The following section contains the notes that relate to the financial position of the group and ICAEW during the year, together with the related accounting policies.

### 18 Property, plant and equipment

#### Freehold properties

- Freehold properties comprise our offices and are considered to be level 2 assets as defined by IFRS 13 – Fair Value Measurement and are revalued regularly, at least every five years, at open market value by independent, professionally-qualified valuers. They are included in the statements of financial position at their revalued amounts derived from observable market data of comparable buildings in a similar location. 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.
- Valuations are carried out using a market approach which reflects observed prices for recent market transactions. Because of changing market and economic conditions, the estimated value of our freehold property in the future may differ materially from the estimates made on the basis of these external valuations.
- Depreciation is provided on the plant and equipment elements within the freehold property. 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 year.

The major refurbishment project at Chartered Accountants' Hall which started during 2015 was completed in 2017. A professional valuation of Chartered Accountants' Hall has been carried out in line with the above accounting policy.

#### Silver collection and antiques

- The historical cost of ICAEW's silver collection and antiques represents only the cost of items bought by ICAEW. The valuations of these collections also include substantial donations and bequests. The collections are considered to be level 2 assets as defined by IFRS 13 – Fair Value Measurement and are revalued annually by independent, professionally-qualified valuers. They are stated at estimated open market values derived from observed prices for recent market transactions. Because of changing market and economic conditions, the estimated value of these collections in the future may differ materially from the estimates made on the basis of these external valuations.
- Surpluses on revaluation, including surpluses arising from donations of items to the collections, are transferred to the revaluation reserve. Deficits on revaluation 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.
- In view of the nature of these assets, the estimated residual value is equal to the carrying amount and no depreciation is provided.

ICAEW's historic collections were revalued at open market value at 31 December 2017 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).

#### Short leasehold property

- Improvements to leasehold properties are capitalised at cost and are depreciated on a straight line basis over the shorter of their estimated useful economic lives and the remaining lease term.
- In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, provision is made for an estimate of dilapidations costs on the leasehold property in relation to both repairs and reinstatement relating to conditions in place at the reporting date. The reinstatement provision is matched by an asset which is depreciated over the remaining lease term.

#### Furniture, computer hardware and equipment

- Other plant and equipment is capitalised at cost. Depreciation is charged on a straight line basis over the estimated useful economic lives of the assets ranging from two 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 are made where necessary.

At 31 December 2017 there were £0.7m contracts for capital expenditure not provided for in these financial statements (2016: £4.2m). There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 28).

## 18 Property, plant and equipment (continued)

	Freehold property	Refurbishment project in course of construction	Short leasehold property	Silver collection and antiques	Furniture, computer hardware and equipment	Group and ICAEW Total
	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>						
<b>At 1 January 2016</b>	14.9	2.8	3.2	4.2	10.5	35.6
Additions	0.3	6.4	-	-	2.9	9.6
Brought into use	4.8	(4.8)	-	-	-	-
Reclassifications	0.1	-	(0.1)	-	(0.1)	(0.1)
Disposals at cost or valuation	-	-	-	-	(1.0)	(1.0)
<b>At 1 January 2017</b>	<b>20.1</b>	<b>4.4</b>	<b>3.1</b>	<b>4.2</b>	<b>12.3</b>	<b>44.1</b>
Additions	3.7	-	0.1	0.1	1.8	5.7
Brought into use	4.4	(4.4)	-	-	-	-
Disposals at cost or valuation	(0.2)	-	-	-	(2.2)	(2.4)
Surplus on revaluation	6.8	-	-	0.2	-	7.0
<b>At 31 December 2017</b>	<b>34.8</b>	<b>-</b>	<b>3.2</b>	<b>4.5</b>	<b>11.9</b>	<b>54.4</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2016</b>	2.8	-	1.7	-	7.4	11.9
Depreciation for the year	0.8	-	0.2	-	1.0	2.0
Reclassifications	0.1	-	(0.1)	-	(0.1)	(0.1)
Depreciation on disposals	-	-	-	-	(0.9)	(0.9)
<b>At 1 January 2017</b>	<b>3.7</b>	<b>-</b>	<b>1.8</b>	<b>-</b>	<b>7.4</b>	<b>12.9</b>
Depreciation for the year	1.2	-	0.2	-	1.3	2.7
Depreciation on disposals	(0.2)	-	-	-	(2.2)	(2.4)
<b>At 31 December 2017</b>	<b>4.7</b>	<b>-</b>	<b>2.0</b>	<b>-</b>	<b>6.5</b>	<b>13.2</b>
<b>Carrying amount</b>						
At 31 December 2016	16.4	4.4	1.3	4.2	4.9	31.2
<b>At 31 December 2017</b>	<b>30.1</b>	<b>-</b>	<b>1.2</b>	<b>4.5</b>	<b>5.4</b>	<b>41.2</b>
On an historical cost basis the comparable amounts of property, plant and equipment are:						
Cost	25.9	-	3.2	0.3	11.9	41.3
Accumulated depreciation	(10.5)	-	(2.0)	-	(6.5)	(19.0)
<b>Net historical cost at 31 December 2017</b>	<b>15.4</b>	<b>-</b>	<b>1.2</b>	<b>0.3</b>	<b>5.4</b>	<b>22.3</b>
Net historical cost at 31 December 2016	8.9	4.4	1.3	0.2	5.0	19.8

**19 Intangible assets**

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

	<b>Group and ICAEW</b>	
	2017	2016
	£m	£m
<b>Cost</b>		
At 1 January	16.7	13.6
Additions	6.0	3.1
Reclassifications	-	0.1
Disposals	(6.1)	-
<b>At 31 December</b>	<b>16.6</b>	<b>16.8</b>
<b>Accumulated amortisation</b>		
At 1 January	11.3	9.6
Amortisation for the year	2.1	1.7
Reclassifications	-	0.1
Amortisation on disposals	(6.1)	-
<b>At 31 December</b>	<b>7.3</b>	<b>11.4</b>
<b>Carrying amount at 31 December</b>	<b>9.3</b>	<b>5.4</b>

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

**20 Investments in subsidiaries and associates**

The following entities, all registered in England, have been treated as subsidiaries on the basis that ICAEW has control as it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns:

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

The trusts, although separately administered, are accounted for as a single charity under the authority of a uniting direction from the Charity Commission. There is an agreement between the above trusts and ICAEW to provide administrative services to the trusts. The total value of the transactions amounted to £0.3m (2016: £0.5m). At the year end, the trusts owed ICAEW £nil (2016: £nil).

ICAEW holds 100% interest in the share capital of the following subsidiary undertakings, all incorporated in England and Wales, through its direct wholly owned subsidiary ICAEW Ltd.

	2017 cost £m	2016 cost £m	Activity
ICAEW Malaysia Limited	-	-	Representative office for ICAEW in Malaysia, Indonesia and Vietnam
ICAEW China Limited	-	-	Representative office for ICAEW in China
ICAEW Middle East Limited	-	-	Representative office for ICAEW in the Middle East
ICAEW SEA Limited	-	-	Representative office for ICAEW in South East Asia
ICAEW Europe Limited	-	-	Representative office for ICAEW in Europe

The above companies provide marketing services for ICAEW. The value of these services during 2017 was £5.6m (2016: £5.5m). At the year end £0.7m (2016: £0.3m) was owed by ICAEW. During the year, ICAEW SEA Limited and ICAEW Middle East Limited paid dividends in specie to ICAEW of £0.4m and £0.4m respectively (2016: £nil).

**20 Investments in subsidiaries and associates (continued)**

The following related companies, all with their principal place of business in the UK, have been treated as associates. In each case, and notwithstanding the majority ownership of CCAB Limited and the Chartered Accountants' Compensation Scheme Limited, ICAEW exercises significant influence through its power to participate in the financial and operating policy decisions through its representation on the board of directors; participation in the policy-making process; and through the existence of material transactions between the company and ICAEW, but ICAEW does not control the companies.

	Shareholding (ordinary shares)	2017 cost £m	2016 cost £m	Activity
The Joint Insolvency Examination Board (JIEB) - a company limited by guarantee	-	-	-	Conducts exams in insolvency practice to meet the education requirements of the Insolvency Act 1986. ICAEW is one of seven subscribers, each of whom has guaranteed £1 in the event of the company being wound up. ICAEW provides exam services. JIEB has a year end date of 30 June.
Fraud Advisory Panel (FAP) - a company limited by guarantee	-	-	-	Registered charity which carries out research into, and education in, all aspects of fraud prevention, detection, prosecution and deterrence. ICAEW has the right to appoint up to one third of the directors of the company. ICAEW provides grant funding together with administration services.
CCAB Limited (CCAB)	60.5%	-	-	CCAB undertakes activities of mutual interest to five major accountancy bodies in the British Isles. ICAEW is the majority shareholder but does not have the majority of voting shares on the board. ICAEW provides administration and secretarial services.
Chartered Accountants' Compensation Scheme Limited (CACS)	80.0%	-	-	Evaluates and administers claims for compensation arising from the obligations of ICAEW, the Institute of Chartered Accountants of Scotland and Chartered Accountants Ireland as recognised professional bodies under the Financial Services Act 1986 and as designated professional bodies under the Financial Services and Markets Act 2000. ICAEW is the majority shareholder but does not have the majority of voting shares on the board. ICAEW provides administration and secretarial services.
Chartered Accountants Worldwide Limited (CAW) - a company limited by guarantee	-	-	-	Supports, develops and promotes the vital role that chartered accountants play throughout the global economy. ICAEW is one of five founder members each of whom has guaranteed £1 in the event of the company being wound up. ICAEW provides administration and secretarial services.

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

Financial information relating to the associates is summarised below:

	JIEB 2017 £m	FAP 2017 £m	CCAB 2017 £m	CACS 2017 £m	CAW 2017 £m	<b>Total 2017 £m</b>	<b>Total 2016 £m</b>
Assets	0.2	0.2	1.7	0.6	0.1	<b>2.8</b>	<b>2.1</b>
Liabilities	(0.2)	(0.1)	(1.7)	(0.6)	(0.1)	<b>(2.7)</b>	<b>(1.8)</b>
Net assets	-	0.1	-	-	-	<b>0.1</b>	<b>0.3</b>
Revenue	0.1	0.2	4.9	0.1	0.3	<b>5.6</b>	<b>6.0</b>
Result from continuing operations and total comprehensive income	-	0.1	-	-	-	<b>0.1</b>	-
Services provided by ICAEW during the year, including grant funding	-	0.1	0.1	0.1	-	<b>0.3</b>	<b>0.3</b>
Balances due from associates at 31 December	-	-	1.2	0.7	-	<b>1.9</b>	<b>0.2</b>
Balances due to associates at 31 December	-	-	-	-	-	-	<b>(0.2)</b>
Group share of net assets at 31 December	-	0.1	-	-	-	<b>0.1</b>	<b>0.1</b>

None of the above companies had any discontinued operations in the year or previous year.



**21 Financial assets: available for sale investments**

- All our investments are publicly traded in the UK or on other major capital markets and the substantial majority are denominated in sterling. They are held for the purposes of generating long-term investment income and are considered to be level 1 assets as defined by IFRS 13 – Fair Value Measurement and are treated as non-current available for sale investments. They are included at fair value at the year-end date. Gains and losses on re-measurement are taken to the investment revaluation reserve initially and are recognised in other comprehensive income. On disposal, the cumulative gain or loss previously recognised in reserves is reclassified to profit or loss.
- At each year-end date, an assessment is made as to whether there is objective evidence that an available for sale equity instrument is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. Judgement is used to determine what a significant or prolonged decline is. Impairment charges are recognised in the income statement.

	Interest-bearing investments 2017	Equities and unit trusts 2017	Total 2017	Interest-bearing investments 2016	Equities and unit trusts 2016	Total 2016
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.0	50.1	<b>55.1</b>	6.9	43.3	<b>50.2</b>
Additions	0.4	8.5	<b>8.9</b>	11.3	10.5	<b>21.8</b>
Disposals	-	(8.4)	<b>(8.4)</b>	(13.2)	(8.1)	<b>(21.3)</b>
Gains on disposal	-	0.6	<b>0.6</b>	-	0.5	<b>0.5</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	1.8	<b>1.8</b>	-	3.9	<b>3.9</b>
At 31 December	<b>5.4</b>	<b>52.6</b>	<b>58.0</b>	<b>5.0</b>	<b>50.1</b>	<b>55.1</b>

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

At 31 December	5.4	41.4	46.8	5.0	38.3	43.3
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	Interest-bearing investments 2017	Equities and unit trusts 2017	Total 2017	Interest-bearing investments 2016	Equities and unit trusts 2016	Total 2016
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.0	35.3	<b>40.3</b>	5.0	31.7	<b>36.7</b>
Additions	-	8.0	<b>8.0</b>	10.0	8.5	<b>18.5</b>
Disposals	-	(7.2)	<b>(7.2)</b>	(10.0)	(7.8)	<b>(17.8)</b>
Gains on disposal	-	0.4	<b>0.4</b>	-	0.5	<b>0.5</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	1.2	<b>1.2</b>	-	2.4	<b>2.4</b>
At 31 December	<b>5.0</b>	<b>37.7</b>	<b>42.7</b>	<b>5.0</b>	<b>35.3</b>	<b>40.3</b>

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

At 31 December	5.0	28.9	33.9	5.0	27.7	32.7
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The methods and valuation techniques used to measure fair value are unchanged compared to the previous year.

Within group investments are charitable funds of £15.3m (2016: £14.7m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £2.9m (2016: £3.3m).

The trustee of ICAEW's defined benefit pension scheme has an interest noted in up to £10.0m of the investment portfolio of ICAEW (see note 28).

## 22 Inventories

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

	<b>Group and ICAEW</b>	
	2017	2016
	£m	£m
Learning materials	<b>0.9</b>	<b>0.7</b>

There was no provision against learning materials at the year end (2016: £nil).

## 23 Trade and other receivables - current

- Trade receivables and other receivables are categorised as loans and receivables as required by IAS 39. The principal component of trade and other receivables is amounts due from ICAEW's members and member firms, and in the case of disciplinary fines and costs, certain former members, and are short-term.
- The carrying value of trade receivables is considered a reasonable approximation of fair value. Trade and other receivables are stated at cost less allowances made for doubtful receivables after initial recognition, which approximates fair value. It is considered that all the above financial assets which are not impaired or past due are of good credit quality.
- Using information available at the year-end date, provision against trade receivables is made when there is objective evidence that ICAEW will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
Trade receivables and other receivables	16.3	17.7	15.6	16.3
Amounts owed by subsidiaries	-	-	0.5	0.4
Amounts owed by associates	1.9	0.2	1.9	0.2
Prepayments	2.8	2.8	2.6	2.6
Accrued income	4.2	3.2	3.8	3.2
	<b>25.2</b>	<b>23.9</b>	<b>24.4</b>	<b>22.7</b>
Less: provision for impairment of trade and other receivables	(0.4)	(0.5)	(0.4)	(0.5)
	<b>24.8</b>	<b>23.4</b>	<b>24.0</b>	<b>22.2</b>

All receivables have been reviewed for indicators of impairment. Certain trade receivables, principally in relation to disciplinary fines and costs from members, member firms and former members, were found to be impaired, and a provision of £0.4m (2016: £0.5m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
Balance at 1 January	0.5	0.5	0.5	0.5
Impairment losses	0.3	0.4	0.3	0.4
Impairment losses reversed	(0.4)	(0.4)	(0.4)	(0.4)
	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>

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:

	<b>Group</b>		<b>ICAEW</b>	
	2017	2016	2017	2016
	£m	£m	£m	£m
More than one month but not more than three months	1.3	13.4	1.3	13.4
More than three months	-	0.1	-	0.1
	<b>1.3</b>	<b>13.5</b>	<b>1.3</b>	<b>13.5</b>

**24 Cash and cash equivalents**

- Cash and cash equivalents comprise cash in hand, balances with banks and investments in money market instruments representing short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are categorised as loans and receivables as required by IAS 39.

Forward contracts are used to cover known foreign currency exposures. Forward contracts for the purchase of foreign currency totalling £4.9m were in place at the year end (2016: £4.5m) and there were no material fair value differences at the end of either period. US dollar and euro bank accounts stood at £0.3m (2016: £0.1m) equating to 2% (2016: 1%) of cash and cash equivalent balances.

The income statement effect of a 0.25% change in the average market interest rate on current cash and equivalents, and cash balances within the available for sale portfolio, held at the reporting date that are sensitive to changes in interest rates, would be £41,000 (2016: £38,000). All other variables are held constant.

**25 Trade and other payables**

- Trade and other payables are categorised as current financial liabilities measured at amortised cost as required by IAS 39. All the above trade and other payables are short-term and are payable within one month. Subscriptions, admission fees and other income in advance relate to income received during 2017 but relating to 2018 annual subscriptions and fees. The carrying values are considered to be a reasonable approximation of fair value.
- Life membership income and income from other long-term licence agreements is deferred over future years and reported within other long-term liabilities

	Group		ICAEW	
	2017 £m	2016 £m	2017 £m	2016 £m
Subscriptions and admission fees in advance	15.0	14.7	15.0	14.7
Amounts owed to subsidiaries	-	-	0.7	0.7
Amounts owed to associates	-	0.2	-	0.2
Other income in advance	11.2	11.4	11.2	11.4
Trade payables	3.0	4.6	2.9	4.6
Other payables	8.2	9.1	7.3	8.7
Income tax and social security payables	1.1	1.0	1.1	1.0
Accruals	9.6	10.0	9.7	9.4
	<b>48.1</b>	<b>51.0</b>	<b>47.9</b>	<b>50.7</b>

**26 FRC Conduct Committee provision**

- ICAEW is required to reimburse the FRC for the costs incurred in relation to its disciplinary schemes. ICAEW therefore makes provision for the estimated future external costs of Conduct Committee disciplinary cases based on the extent to which present obligations arising from past events up to 31 December 2017 can be reliably estimated. The estimated costs of completing the stage of each case at 31 December 2017 has been provided for.
- ICAEW reviews the adequacy of the provision through a review of past case cost estimates and discussions of current cases with relevant individuals at the FRC. However, the accuracy of both the provision and the forecast of the period over which it will be used will depend on assumptions made about the progress of individual cases and judgements on information provided by the FRC, and is subject to a significant degree of judgement and a range of potential outcomes. In setting the provision, no account is taken of any potential fines or cost recoveries potentially due to ICAEW from tribunals not yet completed. The provision is not discounted.

The FRC Conduct Committee is part of the FRC and is responsible for operating and administering two independent disciplinary schemes (the Audit Enforcement Procedure (AEP) and the Accountancy Scheme) covering members of ICAEW and the following participating institutes: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, Chartered Accountants Ireland and the Institute of Chartered Accountants of Scotland. The FRC Conduct Committee also operates and administers a separate independent disciplinary scheme (the Actuarial Scheme) covering members of the Institute and Faculty of Actuaries.

**26 FRC Conduct Committee provision (continued)**

At the year end, the provision covers a total of 26 live cases involving ICAEW members and member firms (2016: 21) and is expected to be used over the next three to five years.

The provision is based on the present obligations of ICAEW which can be most reliably estimated at the year-end date. However, the obligation extends to any case costs incurred by the FRC and which may exceed the extent of the FRC's work which can be reasonably estimated at 31 December 2017, for example if the FRC escalates a case to the next stage. These additional obligations form a contingent liability outlined in note 31.

In making this provision there is a greater degree of uncertainty of potential costs arising on cases investigated under the AEP because of the broader range of scope for matters to investigate and sources of enquiry. It is not appropriate to assume that average case costs incurred under the Accountancy Scheme will necessarily be the same for AEP cases as they may be higher and this uncertainty is reflected in the provision. At the year end 11 of the 26 cases were AEP matters.

ICAEW meets the provision, together with any obligations arising from new investigations as they arise, through additional charges to its income statement and a levy on member firms conducting audit work. The levy is raised to help ICAEW manage the settlement of costs incurred by the FRC which are invoiced quarterly in arrears.

	<b>Group and ICAEW</b>	
	2017	2016
	£m	£m
Balance at 1 January	12.0	11.9
Charge to income statement	6.0	5.5
Amounts paid	(5.0)	(5.4)
Balance at 31 December	<b>13.0</b>	<b>12.0</b>
Provision expected to be used within one year	5.0	5.0
Provision expected to be used after more than one year	8.0	7.0

**27 Provisions for future liabilities**

- In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, provision is made for an estimate of dilapidations costs on the leasehold property in relation to both repairs and reinstatement relating to conditions in place at the reporting date. The reinstatement provision is matched by an asset which is being depreciated over the remaining lease term.
- Provision is also made for the rent free period on the leasehold property which is being released over the life of the lease.

	<b>Group and ICAEW</b>	
	2017	2016
	£m	£m
Balance at 31 December	<b>1.1</b>	<b>0.6</b>

These provisions are expected to be used on termination of the lease in 2023; the actual outflows will vary dependent upon agreement with the landlord at that time.

**28 Pension asset****Defined benefit scheme**

- Retirement benefits are accounted for under IAS 19 - Employee Benefits (revised). The net asset/liability on the defined benefit scheme is the fair value of the scheme assets less the present value of the defined benefit liabilities at the end of the reporting period.
- Scheme liabilities are measured by qualified actuaries on an actuarial basis using the projected unit credit method, and are discounted at appropriate high-quality corporate bond rates that have terms to maturity which approximate to the terms of the related liability.
- Scheme assets which are held in a separate trustee-administered fund are measured at fair value. Scheme assets may include equities, securities and cash together with qualifying insurance policies.
- Net interest is determined by applying the discount rate to both the liability and asset calculations. In addition, scheme administration costs, which are paid directly by ICAEW, are included in the defined benefit obligation, offset by a corresponding non-cash increase in contributions by the employer.
- The discount rate is determined with reference to high quality corporate bonds that have terms to maturity approximating the terms of the related pension obligation.
- The assumption for long-term inflation is based on market expectation of long-term future inflation at the year end, as measured by the difference between yields on fixed interest and index-linked government bonds.
- The assumptions relating to the mortality of current and future pensioners are based on bespoke data using up-to-date pooled experience from occupational pension schemes and taking into account the characteristics of each individual member that are known to affect life expectancy. Allowance is made for future mortality improvements in line with the projection model issued by the Institute and Faculty of Actuaries. Improvements are assumed to have peaked and decline at older ages. This is consistent with the assumption used in the most recent actuarial valuation.
- Actuarial gains and losses are recognised in full in other comprehensive income as they arise.

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

The most recent completed valuation of the scheme was carried out by Hymans Robertson LLP as at 31 March 2016 on the projected unit credit method, taking into account the closure of the scheme to future accrual from 30 June 2010. At the valuation date, the market value of the assets of the scheme was £176.4m, which represented 90% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

A recovery plan has been agreed with the trustee whereby ICAEW has undertaken to make monthly payments totalling £1.6m per year until the deficit is eliminated, to be reviewed at the next triennial valuation, together with any additional employer contributions required under the trust deed and rules. Total payments by ICAEW to the scheme during 2017 for past service costs amounted to £1.6m (2016: £1.8m). Contributions to the scheme in 2018 are estimated at £1.6m, together with contributions in kind in relation to the administration costs of the scheme. The next triennial review will be as at 31 March 2019.

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

In conjunction with the 2016 valuation of the scheme, ICAEW agreed to continue with a charge being made over Chartered Accountants' Hall and the trustee having an interest noted in up to £10.0m of the investment portfolio of ICAEW.

**Desktop actuarial valuation**

The actuary has provided a desktop actuarial update on the scheme's financial position as at 31 December 2017. This review estimated that the deficit, based on assumptions consistent with the 2016 triennial valuation, was £10.6m, reflecting a funding level of 95% (2016: £19.8m on assumptions consistent with the 2013 triennial valuation with a 90% funding level).

The desktop actuarial valuation is prepared using the following key assumptions:

- Pre-retirement discount rate - Bank of England gilt curve plus 1.25% pa (varies by term)
- Inflation - Bank of England gilt inflation curve (varies by term)
- Life expectancy - bespoke mortality base tables with future improvements underpinned at broadly one year per decade, reflecting the characteristics of the fund's membership

**28 Pension asset (continued)**

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

The following table highlights the sensitivities of the funding level in the above desktop actuarial valuation to changes in each of these assumptions individually; the effect of changing more than one assumption would not necessarily be equal to the sum of the two individual changes. As a result of the annuities held, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 6%	16.9
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 4%	11.0
Longevity	Increase by 1 year	Decrease by 2%	4.8

**IAS 19 valuation**

The scheme's actuary provides a separate report for IAS 19 purposes at each year end. The assumptions made at 31 December 2017 by the board on the advice of the scheme's actuary were:

	2017	2016
Discount rate	2.50%	2.70%
Rate of inflation	3.15%	3.25%

IAS 19 states that the discount rate used should have regard to returns on high quality corporate bonds of a term consistent with the term of the post-employment benefit obligations. A yield curve of iBoxx AA bonds has been used to estimate an appropriate discount rate for the scheme's liabilities, which are estimated to have a weighted average term of 18 years.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 23.6 years (men) and 25.2 years (women); and for current non-pensioners of 26.0 years (men) and 27.9 years (women). These assumptions are in line with the actuarial valuation as at 31 March 2016.

The table below summarises the split of defined benefit obligation between deferred members and pensioners. There are no active members.

	Number of members	Liability split	Duration - years
Deferred members	326	48.8%	21.8
Pensioners	420	51.2%	13.5
Total/weighted average	<b>746</b>	<b>100.0%</b>	<b>17.5</b>

The scheme actuary has confirmed that the assumptions adopted by management are within their acceptable range for the purposes of the IAS 19 valuation. The following table highlights the sensitivities of the funding level in the IAS 19 valuation, as calculated by the actuary, to changes in each of the assumptions individually; the effect of changing more than one assumption would not necessarily be equal to the sum of the two individual changes. As a result of the purchase of the buy-in annuity in the year which is discussed below, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on funding level %	Net effect on deficit £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 9%	17.8
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 8%	14.8
Longevity	Increase by 1 year	Decrease by 3%	5.8

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

	Group		ICAEW	
	2017 £m	2016 £m	2017 £m	2016 £m
Present value of funded obligations	(194.9)	(193.9)	(194.9)	(193.9)
Fair value of plan assets	200.6	195.1	200.6	195.1
Whole scheme surplus	5.7	1.2	5.7	1.2
Less: relating to other group companies	-	-	-	0.3
Scheme surplus	<b>5.7</b>	<b>1.2</b>	<b>5.7</b>	<b>1.5</b>

**28 Pension asset (continued)**

In accordance with IFRIC 14, the defined benefit pension scheme rules and funding arrangements were reviewed and, with supporting legal advice, ICAEW considers that it has an unconditional right to a refund assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme. Accordingly any surplus arising on valuation is recognised as a scheme asset. We note that IFRIC 14 is currently under review and we will review the recognition accordingly.

**Reconciliation of defined benefit obligation - whole scheme**

	2017	2016
	£m	£m
Opening defined benefit obligation	193.9	153.6
Administration cost	0.3	0.4
Interest on obligation	5.1	5.7
Actuarial losses arising from changes in financial assumptions	4.7	41.4
Benefits and expenses paid	(9.1)	(7.2)
Closing defined benefit obligation	<b>194.9</b>	<b>193.9</b>

The administration costs of the scheme are paid directly by ICAEW.

**Reconciliation of fair value of plan assets - whole scheme**

	2017	2016
	£m	£m
Opening fair value of plan assets	195.1	162.9
Net interest income on plan assets	5.2	6.1
Contributions by the employer	1.9	2.2
Actuarial gains arising from return on assets, excluding amounts included in net interest	7.5	31.1
Benefits and expenses paid	(9.1)	(7.2)
Closing fair value of plan assets	<b>200.6</b>	<b>195.1</b>
Actual return on assets	12.7	37.2

Contributions by the employer include deficit funding payments, together with contributions in kind of £0.3m (2016: £0.4m) in relation to administration costs paid directly.

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

	2017	2016
Equities	39%	40%
Debt securities - Government bonds	9%	8%
Debt securities - Corporate bonds	21%	17%
Insurance contracts	26%	27%
Cash and cash equivalents	5%	8%
	<b>100%</b>	<b>100%</b>

The scheme trustee intends to reduce investment risk over a period of time, with the aim of ultimately creating a mainly bond portfolio where the value of the assets moves in a similar way to the liabilities when there is a change in inflation or interest rates. In terms of setting long-term objectives for the scheme, the key elements agreed between the trustee and ICAEW are as follows.

- The long-term objective is for the scheme to be self-sufficient, based on the scheme's current funding position and the agreed recovery plan, in around nine years.
- The interim target is to be fully funded on the technical provisions basis by 2024.

The stochastic modelling carried out as part of the 2016 valuation helped the trustee identify funding and investment strategies that would provide a reasonable probability of meeting their long-term target while taking an acceptable level of risk that ICAEW could tolerate. Given the agreed contribution payments and the strength of ICAEW's covenant, the current asset allocation was identified as appropriate, although it will be regularly reviewed in light of emerging changes to the scheme, the wider economy and general market conditions.

The trustee had previously agreed to implement a plan to reduce the risks in the scheme as it moves progressively closer towards the objective of self-sufficiency. The process aims to give the trustee the ability to capture good investment performance as and when the right opportunities arise. The default option is to disinvest from equities in order to invest in bonds and other lower risk assets but sufficient flexibility has been built into the process to allow investment in alternative assets if market conditions do not support the default option.

**28 Pension asset (continued)**

As part of the continued process to manage scheme volatility, the trustee has purchased two buy-in annuities with Partnership to provide funding for the liabilities of a portion of the largest pension liabilities. The annuities are in the name of the trustee and are an asset of the fund and the corresponding pensioner obligations also remain as liabilities of the fund. The policies have been valued by the scheme actuary on a basis to value the underlying liabilities secured by the policy. It assumes that the fair value of the asset is equal to this liability value which is determined and is consistent with the scheme's ongoing funding basis. The asset is included as insurance contracts elsewhere in this note.

The fair values of the main asset categories can be summarised as follows:

	Quoted £m	Unquoted £m	Total £m
Equities	77.5	-	77.5
Debt securities	60.3	-	60.3
Insurance contracts	-	52.3	52.3
Cash and cash equivalents	10.5	-	10.5
	<b>148.3</b>	<b>52.3</b>	<b>200.6</b>

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

	Group		ICAEW	
	2017 £m	2016 £m	2017 £m	2016 £m
Administration cost	(0.3)	(0.4)	(0.3)	(0.4)
Net interest income on plan assets	5.2	6.1	5.2	6.1
Interest on obligation	(5.1)	(5.7)	(5.1)	(5.7)
	<b>(0.2)</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>

Amounts recognised as other comprehensive income:

	Group		ICAEW	
	2017 £m	2016 £m	2017 £m	2016 £m
Actuarial gain on plan assets	7.5	31.1	7.5	31.1
Actuarial loss on obligation	(4.7)	(41.4)	(4.7)	(41.4)
Actuarial gain/(loss) - whole scheme	2.8	(10.3)	2.8	(10.3)
Less/relating to other group companies within the scheme	-	-	(0.2)	0.3
	<b>2.8</b>	<b>(10.3)</b>	<b>2.6</b>	<b>(10.0)</b>

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £9.2m (2016: £12.0m).

Amounts for the current and previous periods are as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation	(194.9)	(193.9)	(153.6)	(163.2)	(149.3)
Plan assets	200.6	195.1	162.9	166.0	151.0
Whole scheme surplus	<b>5.7</b>	<b>1.2</b>	<b>9.3</b>	<b>2.8</b>	<b>1.7</b>
Actuarial gain/(loss) on plan assets	7.5	31.1	(5.0)	11.1	7.4
Actuarial (loss)/gain on obligation	(4.7)	(41.4)	9.6	(11.9)	(4.8)
Experience gains on obligation	-	9.6	-	-	3.0

**Defined contribution scheme**

- For the Group Personal Pension Scheme (defined contribution scheme), the contributions under the scheme are charged to the income statement as they become due and payable.

The defined contribution scheme provides benefits based upon contributions made and investment returns achieved. The assets of the scheme are held in a separate trustee fund. ICAEW contributes 9% of pensionable earnings for participating employees. Employees contribute a minimum of 4%. Employees not in the scheme are offered auto-enrolment at statutory minimum contributions. The amount charged to the income statement during the year for these schemes was £2.4m (2016: £2.5m). There were no contributions payable to the scheme at the year-end date (2016: £nil).



**29 Related parties**

The group and ICAEW operating results include reimbursement of members' expenses on ICAEW activities and payments on a normal commercial basis to members and member firms for services, particularly in connection with lecturing and writing. In 2017 these payments in aggregate amounted to £1.8m (2016: £1.8m). Of this, £344,000 (2016: £177,000) was paid for services to member firms which have a partner or employee who is a member of council. The amounts paid to individual council members for services was £2,000 (2016: £8,000) in total.

Transactions and balances between ICAEW and its subsidiaries and associates is set out in note 20 above.

ICAEW provides accounting and operational support to the Natural Capital Coalition (NCC), an unincorporated multi-stakeholder collaboration bringing together initiatives and organisations to harmonise approaches to natural capital. ICAEW hosts the secretariat and Robert Hodgkinson is a member of the NCC's board of directors. The amount held by ICAEW as agent of the NCC at the year end was £0.4m; amounts owed to ICAEW were £0.1m (2016: £0.6m and £0.2m respectively).

**30 Reserves**

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

Reserves comprise the following:

**Revaluation reserve**

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

**Investment revaluation reserve**

Represents unrealised gains and losses arising from the revaluation of available for sale investments over their historical cost.

**Accumulated fund and other reserves**

Represents the retained result of ICAEW and ICAEW group activities and comprises the accumulated fund, faculties, Chartered Accountants' Compensation Scheme and charitable trust reserve funds. In calculating the result to be taken to these reserves, account has been taken of a share of central activities costs and other indirect costs and an allocation of investment income where appropriate.

Included within reserves is £3.0m relating to the Chartered Accountants' Compensation Scheme. In accordance with investment business regulations ICAEW is required to maintain a compensation scheme, funded by levies on firms authorised for investment business. This compensation scheme exists to deal with claims received about work carried out by authorised firms under both the recognised professional body (RPB pre-2001) and designated professional body (DPB post-2001) regimes. ICAEW maintains a reserve to meet anticipated future claims. A levy was made in 2017 on licensed firms under the DPB regime. ICAEW has reserved the right to make further levies on firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

**31 Contingent liabilities and guarantees**

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

As a recognised supervisory body (RSB) ICAEW is required to meet the costs incurred by the FRC in conducting investigations and disciplinary matters under the Audit Enforcement Procedure and the Accountancy Scheme. Under these current arrangements ICAEW and other RSBs must meet the costs arising for cases involving their members or member firms and any fines or cost recoveries awarded are returned to the RSB. This obligation continues to the end of a case but the decision to progress a case to the next stage is made by the FRC on completion of the current stage of investigation. For this reason, the most reasonable estimates of case work currently in progress are included in the FRC case cost provision – see note 26. However, it is possible that a number of the cases in progress will be taken to subsequent stages which cannot be reasonably foreseen. This contingent liability, over and above the year-end provision of £13.0m, based on the average costs of progression for all cases which were live as at 31 December 2017, amounts to a potential contingent liability of £9.0m. ICAEW will meet these potential charges through a programme of levies on member firms and charges to the income statement.

## ANNUAL REVIEW

These Financial Statements support the 2017 Annual Review, which includes more detailed narrative reports on the performance, strategy, governance and direction of ICAEW. The Annual Review is published at [icaew.com/review](http://icaew.com/review)

If you would like a hard copy, please email [fullaccounts@icaew.com](mailto:fullaccounts@icaew.com) or write to Andrew Fagg, Finance Director.

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Over 150,000 of these are ICAEW Chartered Accountants. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

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