



# Annual Review

# 2019



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## ***Who we are and what we do***

**The Institute of Chartered Accountants in England and Wales (ICAEW) [RC000246] is a chartered professional body and operates in the public interest under the terms of our Royal Charter, awarded to us in 1880.**

We ensure our members maintain the highest standards of professional and ethical conduct.

We operate examinations that attract students to a globally recognised premium qualification.

We invest in business development to ensure our examinations and training meet the needs of employers and the wider profession and to attract quality students.

We support our members throughout their careers and professional activities.

We have a regulatory role in the UK for our members and member firms.

We are a voice for the profession with governments, regulators, decision-makers and other key stakeholders.



## *Our vision*

# *Our strategic vision is creating a World of Strong Economies, together*

Everything we do is motivated by our belief that accountancy can be a force to bring positive economic change across the world. A World of Strong Economies has always meant we work with others to develop strong, accountable and open economies where people can trust data, leaders can make good decisions, public finances are transparent and businesses are accountable.

## *Our operational objectives*



### **GROWTH**

We grow our student numbers and membership to remain at a sustainable scale, and to maintain and enhance our competitive position.



### **MEMBERS**

We support our members to enable them to act in the public interest and to add value to economies around the world.



### **REPUTATION & INFLUENCE**

We enhance our brand to support growth, provide value to our members and fulfil our charter commitment to advance the profession.

# Key performance indicators

## MEMBERS

During the year, we welcomed 2,770 new members into ICAEW, with admissions of newly-qualified students to membership, together with reciprocal and similar arrangements with members of other institutes.

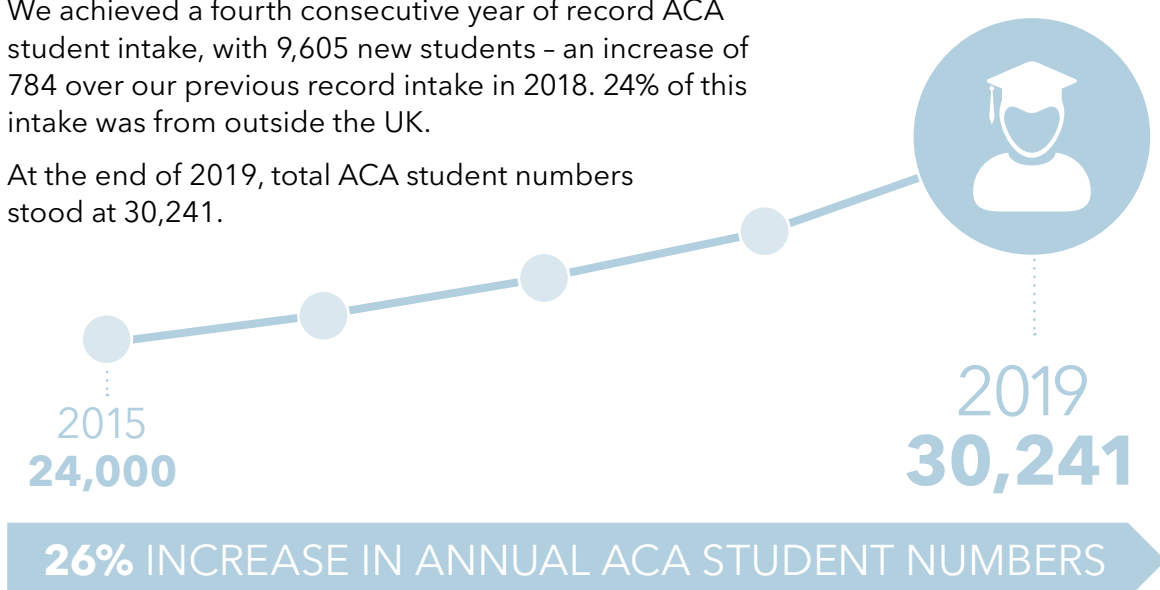
At the end of 2019, our global membership stood at 154,531.



## STUDENTS

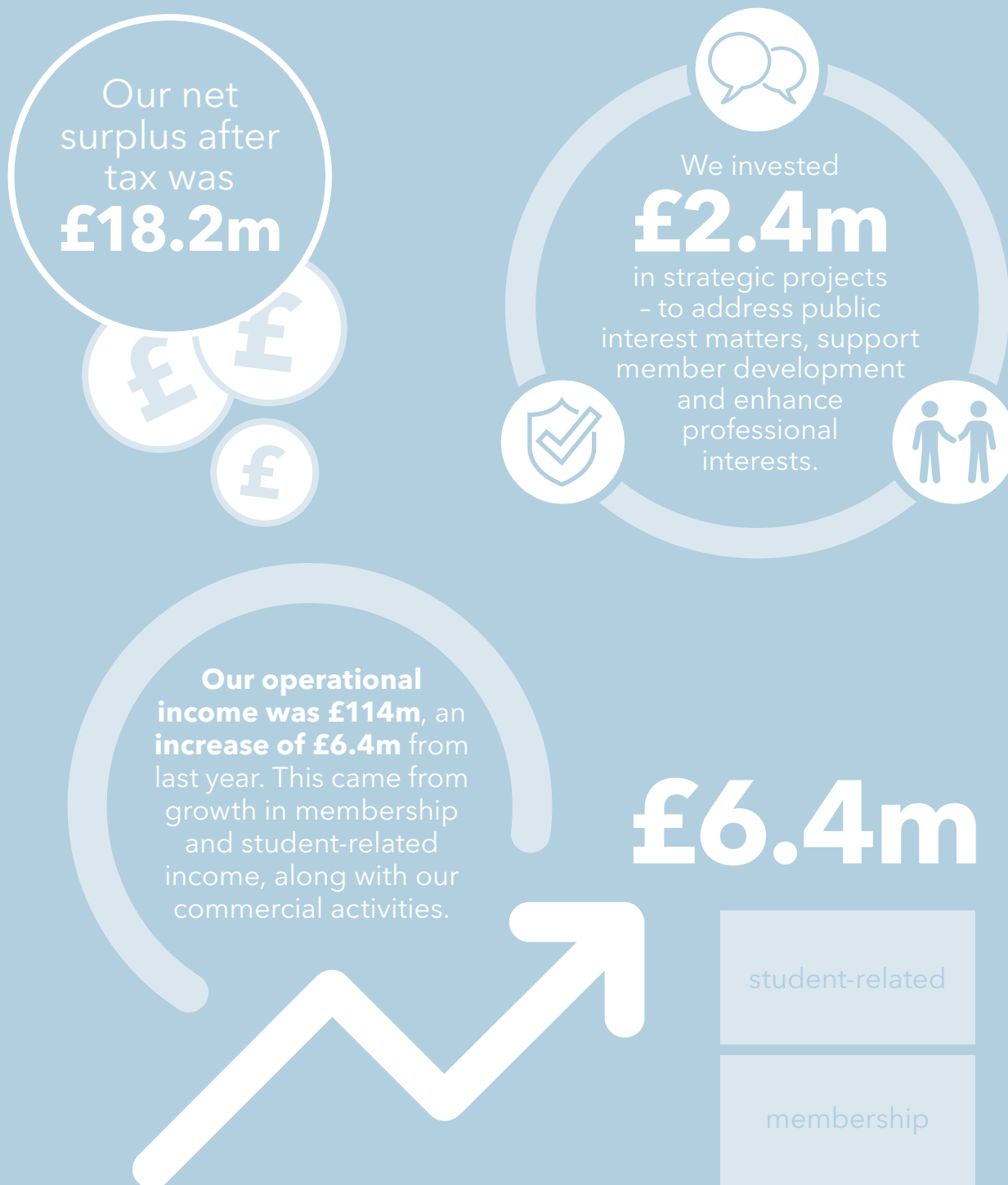
We achieved a fourth consecutive year of record ACA student intake, with 9,605 new students - an increase of 784 over our previous record intake in 2018. 24% of this intake was from outside the UK.

At the end of 2019, total ACA student numbers stood at 30,241.



In addition, 8,201 students signed up for our foundation level Certificate in Finance, Accounting and Business (CFAB) and University Scholarship Schemes - an increase of 1,117 over the 2018 figure.

## FINANCES



For further information turn to page 26 of the Financial review at the back of this document.

## *Chief Executive's foreword*



2019 successfully concluded ICAEW's three-year operational plan to transform into a more agile organisation.

These three years have coincided with two of the most significant challenges in our recent history – audit reform and Brexit – and 2019 was pivotal on both fronts.

The audit reform debate began to become clearer, as the BEIS Select Committee published the final report on its inquiry into the future of audit, the CMA published its final report on competition in the audit market, and BEIS consulted on the implementation of Sir John Kingman's recommendations for regulatory reform. Sir Donald Brydon also held his Independent Review into the quality and effectiveness of the UK audit market and reported in December 2019. These reviews are likely to influence policymakers and regulators outside the UK in the years ahead.

We continued to support, engage with and contribute comprehensively to all of these reviews, which together made over 150 recommendations. We highlighted our key themes for reform of a user-driven assurance model, a better statutory audit product and better regulation principles. Turn to page 18 for more details.

Brexit uncertainty persisted throughout the year, and our top priority was helping members to prepare for a range of outcomes, including 'no deal'. We worked with government and invested in our own resources, which you can read more about on page 14.

I am pleased to report that at the end of the year, our membership once again sat at a record high, of 154,531. We also welcomed 9,605 new ACA students, marking a fourth consecutive year of record student intake and ensuring a sustainable pipeline of chartered accountants for the future.

Combined with commercial activities, this successful growth boosted our operational income to £114m, an increase of £6.4m from last year.

Our net surplus after tax was £18.2m. This marks a notable increase on 2018's figure, even with our £2.4m investment in strategic projects to support public interest matters, member development and professional interests.

Since the end of 2019, attention has of course turned to the substantial health and economic impact of COVID-19. This will have significant implications for ICAEW during 2020 and beyond, as well as for many members, students and the wider profession. At the time of writing, much of our resource is being allocated to supporting members across the world through this crisis, and working with the UK Government to ensure that policy measures are addressing the practical needs of businesses.

I wish you well during this challenging time and thank you for your continued support of our institute.

Michael Izza, Chief Executive



## *Message from the President*



2019 was a historic year for ICAEW and the chartered accountancy profession, as we began our 12-month campaign to mark the centenary of the admission of ICAEW's first female member, Mary Harris Smith.

As the third female president of ICAEW, it has been important to me to highlight Mary's achievement – which she realised through sheer tenacity and determination – and to reflect on the trail she blazed and the progress that has been made over the last 100 years.

Gender equality and the role of women in business has rightfully moved up the social and political agenda, and we continue to work hard to ensure that our profession and the wider finance community play a leading role in promoting equality and inclusivity.

I have attended centenary events all over the world during the past year, hearing inspiring stories from ICAEW members and other female business leaders about their career successes and the challenges which still lie ahead. We have also featured some of our most notable female members in our publications, and placed the centenary theme at the heart of many of our activities.

As well as a year of celebration, it was also one of further challenge and disruption to our profession. Audit reform once again topped the agenda in the UK, and we continued to work hard to support our members through the unpredictability of Brexit. At the time of writing, the outbreak of COVID-19 has also impacted our profession and the global economy in ways many of us never thought possible.

It has been an honour and a privilege to serve as ICAEW President, and I hope that all of our members and students keep well during these challenging times.

A handwritten signature in black ink that reads "Fiona H. Wilkinson". The signature is written in a cursive, flowing style.

Fiona Wilkinson, President

# Growth

**In 2019, we set out to increase our focus on both our business development activities and direct membership routes, in order to ensure a growing and sustainable pipeline of chartered accountants.**

**ICAEW Chartered Accountants play an important role in building and supporting strong economies around the world.**

## ACA

During 2019, we undertook a comprehensive review of our flagship **ACA qualification**. We continue to develop the ACA to ensure that it remains a world-leading professional qualification, equipping future chartered accountants with the knowledge, skills and ethics to succeed in a fast-changing world.

We continued to embed technology content into both the syllabus and our assessment methods. We also undertook a retender for our computer-based exams, in order to improve the delivery of the exams and the functionality of the exam platform. The retender also means we can introduce the facility to use different software packages in our exams and introduce remote invigilation.

The ACA development cycle is also now more agile and responsive to stakeholders, with an annual update of the syllabus and skills grid, alongside controlled developments based on research and stakeholder consultation.

All exams moved from desktop to web-based delivery and we began to provide students with automated marks feedback.

In July, we completed the transition of the ACA session-based assessments from paper to computer. The July Case Study exam was electronically marked, completing the full transition of these assessments to electronic marking.

For students, we hosted a live webinar focusing on a Q&A and walk-through of the computer-based exam experience and recorded five new webinars on how to approach the Case Study exam.

Over the summer, we launched a digital advertising campaign encouraging employers to 'Choose the ACA' - related to the eight key benefits of ACA training we have developed.

## PATHWAYS TO MEMBERSHIP

In 2019, we welcomed 290 new members into ICAEW via our **Pathways route**, from 28 different countries. The majority of these members were based in China, India, Pakistan, Saudi Arabia, the United Arab Emirates and the UK, with many joining us from the ACCA, ICAI and ICAP.

Pathways members work in a wide range of sectors, including audit, banking, manufacturing and the public sector, and at many levels of seniority, including as CEOs and CFOs. In India, we welcomed Mr V S Parthasarathy - Group CFO and Group CIO of Mahindra Group. The Mahindra Group is an Indian conglomerate with a revenue of US\$20.7bn in 2018, and employs more than 240,000 people in over 100 countries.

We stepped up promotion of our Pathways to Membership scheme with digital and radio campaigns in India, Nigeria, Pakistan, Saudi Arabia and the UAE. We also held Pathways workshops in Dubai, India, Pakistan and Sri Lanka to support candidates with their applications.

## BASE

**BASE**, our national business and accounting competition for 16-17 year olds, ran for its tenth consecutive year. Nearly 500 schools and colleges registered to take part, and over 5,000 students participated. 2019 also saw an increase in the number of students from lower socio-economic backgrounds taking part in the competition and reaching the final - a trend we are working to continue.

The competition has now given more than 22,000 sixth form and college students the opportunity to experience life as an ICAEW Chartered Accountant.

By the end of 2019, more than 400 schools and over 100 mentors had already signed up to take part in the 2020 competition.

## GROWTH AROUND THE WORLD

In July, we signed a memorandum of understanding with the **Abu Dhabi Global Market (ADGM)** – who will help UAE nationals to gain the ACA or CFAB. The partnership helps organisations to identify their training needs and enables businesses to upskill their workforces.

Across the **MEASA** region, our year-on-year CFAB intake increased by 259% and 33 new Authorised Training Employers (ATEs) were approved.

In **Malaysia**, we signed a memorandum of understanding with MARA (The People's Trust Council), a federal agency of the Ministry of Rural Development which aids, trains and develops indigenous Malaysians to improve their socio-economic futures. 53 students have already begun their studies at MARA.

Our members build and strengthen economies in 149 countries. We support them through our network of offices around the world.

We work globally with institutes and professional bodies, including the International Federation of Accountants (IFAC), the Confederation of Asian and Pacific Accountants (CAPA), the ASEAN Federation of Accountants (AFA) and the Pan-African Federation of Accountants (PAFA).

In May, our annual **China and South East Asia** Business Challenge saw 12 teams of students from leading universities compete, using their financial analysis and critical thinking to address real-life business situations.

In **Pakistan**, we held new member graduation ceremonies in Islamabad, Karachi and Lahore.

In **Vietnam**, we signed an MoU with the Ministry of Education and Training, highlighting the importance of education and training as a driver for economic development and in enhancing relations between the UK and Vietnam.

In **Indonesia**, we held our second 'Future Chartered Accountants Event' - bringing together 350 accountancy students from 40 universities to support the future of the profession and build a greater national accountancy community.

We renewed our agreement with the **Mauritius** Institute of Professional Accountants (MIPA).

# Members

**We know that many of the challenges we face as an institute are equally faced individually by our members. At the start of 2019, we knew we would need to continue supporting our members through technological and regulatory changes, and ensuring continued and expanded market access and global recognition.**

**This included helping our members understand the impact of potential changes to audit and corporate governance regulation and the increasing adoption of artificial intelligence, data analytics and other technologies.**

**Specifically in our UK and EU markets, that involved influencing and responding to Brexit and supporting members through it.**

## BREXIT

With uncertainty around if and when continuing through the whole of 2019, we helped members prepare so that they were equipped, whatever the outcome. This included preparations for the UK to leave the EU, firstly in March, then in October, and finally in January 2020.

We continued to update our resources through our online [Brexit hub](#), including briefings on how the accountancy profession may be impacted, and analyses of the potential impact upon wider business. This became particularly important over the summer when a 'no deal' exit was looking increasingly possible.

The UK Government asked us to publicise their own guidance and technical notices to our members, who advise three million businesses. We used a wide range of channels to increase its profile and build awareness.

We led negotiations with government, on behalf of the Professional and Business Services Council (PBSC) for a Sector Deal for professional and business services.

We held meetings with FRC and BEIS officials to plan for the consequences of a potential 'no deal' Brexit.

We gave evidence to the House of Commons Exiting the EU Select Committee – communicating the message that the prospect of 'no deal' raised serious concerns for us as a public interest membership body.

Through funding from the UK's Brexit readiness fund, we provided hard copy collateral to all practices and all members in SMEs, and launched a UK media advertising campaign promoting our Brexit hub. The campaign achieved 10m impressions across digital media and saw 2.1m leaflets distributed to members.

## TECHNOLOGY AND THE PROFESSION

Across the year, we actively supported and contributed to a new initiative called 'Engine B', a concept that would improve collaboration in the audit market with the potential for wider business applications in the long term. 'Engine B' would see the creation of a common data model for all participating firms, using both structured and unstructured data, and which are open-source and available to everyone. We also supported the Common Data Model workshops which continue to work towards a global data model that will underpin this project.

Making Tax Digital (MTD) for VAT will come into force in April 2021. We continued to update our [MTD online hub](#) with practical guidance for businesses, tools for tax agents and webinars and videos. In March, we held 'MTD live' expos in London and Manchester, providing opportunities for delegates to assess and compare different software solutions and to embed MTD into their business models.

Our [Finance in a Digital World](#) online learning experience, launched in October 2018 to help finance professionals navigate digital change, continued to attract significant interest. 4,345 members registered on the platform during 2019, and 5,151 CPD courses were completed.

## THOUGHT LEADERSHIP

Our insight helps to equip our members with the knowledge and information to understand and address today's challenges. Much of our thought leadership is also publicly available, allowing us to influence and educate on a wide variety of topics.

*New technologies, ethics and accountability* looked at the need to create ethical frameworks to increase trust and confidence in technology, and examined the role for our profession.

Our 'Connect and Reflect' series continued with *How whistleblowing helps companies* – a look at the benefits of whistleblowing and how boards can implement a system of checks and balances.

In the *The internet of things and accounting; lessons from China*, we looked at how businesses and accountants are approaching this new technology, and the challenges it presents.

The high volume of information presented to boards and its practical implications were examined in *Information overload: effective boards and committees in financial services*.

Together with the FRC, we published a guide to help audit committees of *smaller listed and aim quoted companies improve their financial reporting*, following concerns about the quality of reporting in this sector.

Our 'Audit insights' series continued with *Construction: bidding for lasting value, delivering for success*, which reviewed the health and sustainability of the UK construction sector.

*Digital transformation in finance functions: ASEAN and UK perspectives* focused on the practical experiences of CFOs and digital transformation leads.

## ICAEW COMMUNITIES

We recruited 23,161 new members of our **communities** during 2019 – a 53% increase from 2018. At the end of 2019, the total membership of our communities was 67,035.

We launched a new Data Analytics Community, to support members in developing their knowledge and skills in this area. Data analytics offers finance professionals the ability to uncover previously hidden insights, and this community provides access to a curated programme of webinars, e-learning courses, face-to-face training and expert Q&As, along with networking opportunities. By the end of 2019, more than 9,500 members had already joined this community.

## SUPPORTING MEMBERS AROUND THE WORLD



Our **Women in EU Finance Network** continued to host a series of successful discussions, in partnership with organisations including the European Central Bank, the Federation of European Securities Exchanges, EY and the City of London. In November, ICAEW President Fiona Wilkinson joined a special debate in **Brussels** to commemorate the centenary of Mary Harris Smith, our first female member.

ICAEW is a founder member of Chartered Accountants Worldwide (CAW), an international network which works together to support, develop and promote the role that chartered accountants play across the world. CAW now comprises 12 member bodies, representing over 1.8 million members and students in more than 190 countries.

We are also a founder member of the Global Accounting Alliance (GAA), which represents almost one million members in 180 countries.

We are also a member of Accountancy Europe, which represents 51 professional organisations from 36 countries to European institutions.

In April, we co-hosted an Economic Insight event with ICAN in Lagos, **Nigeria**.



In **Greece**, we held a high-level conference on the future of banking, bringing over 200 participants together to discuss banking regulation and strategy.

In **Dubai**, our **Middle East** Annual Honours Dinner was attended by 200 industry professionals and ICAEW members from across the region.

In **India**, we held a 'Finance in a Digital World' members event - looking at how the profession is managing technological change, and welcoming new members.

In December, we signed a Joint Membership Scheme with CA **Sri Lanka**.

In **Singapore**, we held a breakfast roundtable event - 'UK-ASEAN Partnership in Business and Education' - involving the Auditor-General of Myanmar, the UK Trade Commissioner for Asia Pacific, ICAEW members, ISCA representatives, and business leaders and academics from across the region.



# *Reputation and Influence*

We knew 2019 would be another challenging year for trust in business and in the profession. We wanted our knowledge and expertise to be clear and influential across the world, supporting our members and firms to play their part in developing strong economies, and building our institute's reputation.

Our Royal Charter requires us to work in the public interest, and continuing to do this and be seen to be doing this was a high priority. It is important that the profession remains - and is seen as - part of the solution to rebuilding public trust.

## AUDIT REFORM AND CONSULTATIONS

The end of 2018 saw the publication of Sir John Kingman's Review of the FRC and the announcement by Sir Donald Brydon of his Independent Review into the quality and effectiveness of the UK audit market.

In January 2019, a cross-ICAEW team produced a **written submission** for the Business, Energy and Industrial Strategy (BEIS) Select Committee inquiry into the future of audit. In February, Michael Izza gave oral evidence to the Committee. The Committee's Chair, Rachel Reeves MP, launched their final report at an event at Chartered Accountants' Hall in April.

Also in January, we submitted a **representation** on the CMA's suggested 'remedies', ahead of their final report.

In April, we **responded** to the FRC's consultation on proposals for revisions to the Stewardship Code.

Our Audit and Assurance Faculty established a new **online hub** for our 'Future of Audit' thought leadership, launching a series of succinct, high-level essays intended to help inform the various reviews of audit and regulation. In March, we published our first paper in the series, *Financial reporting: who does what?*

In June, we submitted our **response** to the BEIS consultation on the implementation of the Kingman recommendations, and our **response** to Sir Donald Brydon's Call for Views. Our key themes were a user-driven assurance model, a better statutory audit product that addresses the delivery gap, and better regulation principles.

In September, we submitted our **response** to the CMA's final report on its Market Study of competition in the audit market.

We also submitted our **response** to the IAASB's consultation on audits of less complex entities. Our response reflected a compromise of the range of opinions on reform, and suggested what the IAASB needs to do to modernise its approach, to future-proof its standard-setting activities and to secure its own long-term future.

## SUSTAINABILITY

We want to strengthen economies and build prosperity in ways that will last long into the future. There continues to be an increasing need for business and economic activity to be sustainable for the long term.

The UN Global Goals for Sustainable Development (SDGs) speak directly to ICAEW's vision of a World of Strong Economies. They provide a narrative of what the world wants by 2030, therefore articulating the public interest.

Sustainability has traditionally been synonymous with the environment, but in recent years its remit has evolved to also encompass a range of social themes. We recognise that business success is interdependent with both environmental and social responsibility. In that vein, we want to play our part in changing behaviour across the economy to live within its means.

During 2019, we continued to host the **Natural Capital Coalition**, a global collaboration of 300 organisations who promote the importance of natural capital, and work to conserve and enhance it. In January 2020, the Natural Capital Coalition united with the Social & Human Capital Coalition to form the Capitals Coalition.

In June, we hosted the premiere of the corporate edition of the WWF's *Our Planet: Our Business* film. Following a presentation of the film to our Council and staff, Council asked for a plan to make ICAEW carbon-neutral and to build on measures already in place to further reduce our carbon footprint.

We launched our **climate change learning programme**, in partnership with Deloitte. The programme consists of a series of video learning modules to help business and finance professionals learn more about the effects of climate change and how they can help tackle it.

## SOCIAL MOBILITY AND DIVERSITY

At our Annual Dinner in March, our keynote speaker was former cabinet minister Justine Greening MP, a fellow ICAEW Chartered Accountant. The theme of the evening was 'changing lives', during which we signed the Social Mobility Pledge and became a pledge-accredited employer. The Pledge is aligned with our work to widen access to the profession and is about providing disadvantaged young people with the opportunity to succeed in business and the professions by connecting them with high quality work experience and mentoring.

We signed up to be a Disability Confident Committed Employer. The target we have chosen is to encourage those with disabilities to apply for a work experience placement with ICAEW.

ICAEW signed up to the 'Tech She Can' charter and launched our *Women in tech* campaign, aiming to motivate, inspire and educate more women into tech. This included a social media campaign, a technology open day and a vlog series.

We issued new *guidance* to help companies assess and improve their practices in relation to gender pay gap reporting.

We developed and hosted a pilot *Economics and Accountancy Careers in Society* field trip with the charity, Economy, for school students from lower socioeconomic areas in London.

At Chartered Accountants' Hall, the ICAEW flag was replaced with the Pan-African flag for Black History Month in October, and with the rainbow flag for Pride in London in June.

## PUBLIC POLICY

2019 was a busy year for our public policy engagement work in the UK, including Brexit and a General Election.

In April, we hosted a dinner with Members of Parliament to discuss the challenges facing the profession. The event was attended by Chair of the Treasury Select Committee and the shadow economic spokespeople from the Labour Party and the Scottish National Party.

We hosted several roundtable events with Members of Parliament and ICAEW members, including in Loughborough with the Secretary of State for Digital, Culture, Media and Sport - which you can read more about [here](#).

We held a *roundtable* in Parliament about the role of professional education in enabling investment, business growth and prosperity in the UK and South East Asia.

We attended the annual conferences of the Labour, Conservative and Liberal Democrat parties. Each conference held a 'business day', which provided the opportunity for a dialogue between their policymakers and business leaders.

During the General Election, we launched a national social media campaign - *It's More Than a Vote* - to engage with leading political figures on what we regard as the big challenges facing government; sustainability, technology and the public finances. This campaign also encouraged ICAEW members to engage with their local candidates on these key issues.

## ONE YOUNG WORLD

The annual 'One Young World' summit was held in London in October. ICAEW sent six delegates to the summit, among a total of 19 from Chartered Accountants Worldwide.

The annual summit serves as a global forum for young leaders – bringing together the very best talent from almost every country and from a huge cross-section of industries, to debate key issues and share ideas and experiences.

ICAEW Chief Executive Michael Izza sat on the London Advisory Board, which was responsible for supporting and guiding the development of the summit and the organisation more widely. He also introduced one of the main plenary sessions, looking at how climate change is endangering our health.

During the week in which the summit was held, we hosted a dinner themed around the UN SDGs, attracting over 200 guests from the One Young World community, including members and students. Delegates were able to network with ICAEW members and students working in support of one or more of the SDGs, showcasing chartered accountants' contributions to sustainability.

## ICAEW FOUNDATION

Our members' charity, [ICAEW Foundation](#), continued to change lives in 2019.

The Foundation supports the next generation of professional accountants by providing bursaries to talented young people from financially-challenged backgrounds.

Our universities-focused programme, [Changing Futures](#), helps ambitious students on their way towards a degree in accountancy and finance. We have partnered with universities across the UK and in Hong Kong and Cyprus and so far have supported 44 students.

Our future professionals programme, [Building Futures](#), works closely with local professional accountancy bodies in developing and emerging economies, to provide bursaries to local students to improve their pass rates and realise their ambition of becoming chartered accountants. To date, Building Futures has supported 97 students in Cambodia, Ghana, Lesotho and Malawi – a 70% increase from last year's total.

This includes 40 new bursaries for the new Accounting Technician Qualification (ATQ) which launched in Cambodia in November.

In 2019, four bursary recipients from the Institute of Chartered Accountants of Ghana (ICAG) qualified to become chartered accountants.

In October, we launched 'Mentoring Matters', in conjunction with Deloitte – a study, career and wellbeing mentoring programme for our bursary recipients. Immediately upon its launch, 11 students in 9 universities took up the programme immediately upon its launch – and it is now being extended to students who were unsuccessful in their applications for ICAEW Foundation bursaries.

Our 'Challenge Ten' programme closed at the end of 2019, having raised over £34k. This has been the Foundation's most successful fundraising programme.

To make a donation, or to find out how you can support the Foundation's work, please [click here](#).

## CAPACITY BUILDING

Our **international capacity building** work remains a key part of our strategy.

Globally, there is a need to improve capacity in the accountancy sector – and our experience in regulation, education and training means that we are well-placed to address these gaps. Our work helps to foster high quality financial management, reporting and auditing, and strengthens national accountancy professions around the world.

In 2019, we worked on 13 projects across 11 countries. These included:

- Piloting an audit quality assurance system for professional accountancy organisations in the Philippines (with funding from the Asian Development Bank)
- Improving professional qualification pass rates in Malawi
- Strengthening the accountancy profession in Kyrgyzstan (with funding from DFID)
- Strengthening audit regulation in Abu Dhabi
- Developing a new professional accounting qualification in Cambodia (with funding from the UN Development Programme)

We won 'Accountancy Capacity Building Champion of the Year' at the Digital Accountancy Awards – in recognition of our ongoing ADB-funded project to Strengthen Financial Management in Asia and the Pacific through developing quality assurance for audit systems in Cambodia, Georgia, Nepal and Samoa.

In total, we have now worked on more than 60 projects in over 30 countries across Asia, Africa, Europe and the Middle East.

## MORE THAN A NUMBER

In September, we launched our new podcast series, *More Than a Number*. The series examines key numbers which raise important questions about some of the most pressing economic, social and environmental issues in our lives. Panels of leading experts provide insight and opinion on their areas of expertise.

The inaugural episode examined the figure '1.5°C', looking at the financial impact of climate change and how well companies are prepared for it, and featured the Managing Director of the Climate Standard Disclosures Board and the Deputy Leader of the Green Party.

Topics for other episodes have included the gender pay gap, the ageing workforce and the political subversion of numbers.

By the end of 2019, the series had achieved a total reach of 7,889,232.

The series is available on GooglePlay, iTunes, Soundcloud and Spotify.

## CORPORATE TRAINING FILMS

Our corporate training films, *False Assurance*® and *Without Question*®, continued to be used around the world to support training and business development programmes.

The films are intended for use by a wide range of audiences, from firms to directors and board members, to universities and other academic establishments. We believe that their style and production value sets them apart from other corporate training films.

Our films have now provided training to hundreds of thousands of people around the world.

## HIGHLIGHTS

We attended the Annual Meeting of the American Accounting Association – the world's largest gathering of accountancy researchers and teachers. We organised seven wide-ranging panel discussions and a members event on the impact of technology.



Sir Donald Brydon delivered the keynote speech at our annual Audit and Assurance Faculty Conference in October. He emphasised the value and importance of audit to society and pressed the point that auditors in themselves do not cause companies to fail, but the solution to company failures include better audits.



We hosted the launch of *Charity Fraud Awareness Week* at Chartered Accountants' Hall, attracting around 600 delegates.



An agreement was reached with HMRC to fund the training of a new film on anti-money laundering.



We co-organised a *Women in EU Finance* breakfast with a view to applying a gender lens to the EU Sustainable Finance Agenda. The discussion centred on whether the focus on green finance limits the attention paid to social and governance considerations as they impact women.



In November, a new global identifier for Chartered Accountants Worldwide members was launched. Through using this new logo on email signatures, websites, social media and stationery, the 750,000 members of CAW can promote the value of the chartered accountancy profession, and show they are part of a network of qualified professionals who share common values and a commitment to the highest technical and ethical standards.



## *Principal risks*

The council, through the board, audit committee, chief executive and executive directors, has an established and continuous process for identifying, evaluating and managing the principal risks faced by ICAEW. This process has been in place for the whole of 2019 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.

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

Annually in March, council undertakes a review to consider:

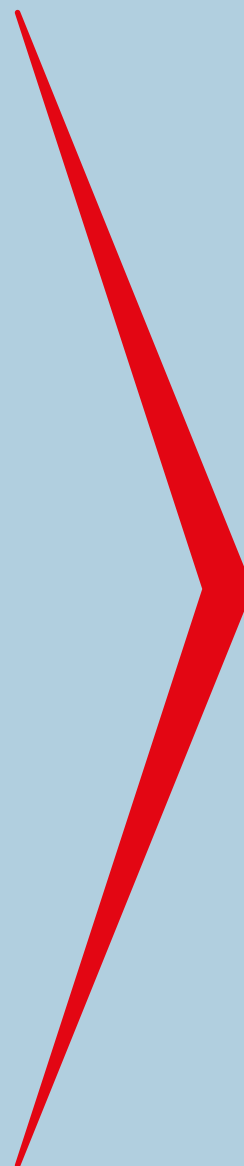
- the application of the risk management processes;
- reports on risk and internal control from the board;
- reports on internal control from the audit committee; and
- how the risks have changed over the period under review and any significant issues.

The board formally reviews risk twice a year, including a consideration of risk appetite. 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.

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. We confirm that there have been no significant failings or weaknesses in our internal controls in 2019.

DESCRIPTION	GROSS RISK	NET RISK	PLANNED RISK MANAGEMENT ACTIVITY
Our relevance to firms and demand for future skills	High	Medium	<ul style="list-style-type: none"> <li>• Further development of qualifications, syllabus and designations and assessment methodology to meet market demand.</li> <li>• Continue to build strategic partnerships and monitor the external environment. Enhanced regular contact with firms via the Strategic Relationship Programme.</li> <li>• Continue to position ICAEW as the partner of choice across growing networks.</li> <li>• Follow up on consultation with employers – ‘this is what you told us, this is what we’re doing.’</li> </ul>
The changing nature of the global competitive environment	High	Medium	<ul style="list-style-type: none"> <li>• Our strategy includes keeping in step with technology. Cyber and data analytics will be included and examined in the ACA and CFAB.</li> <li>• Enhanced data analytics theme running through our Academy proposition.</li> <li>• We have commissioned consultancy as part of Chartered Accountants Worldwide to assess how we make more of the chartered accountant brand together. Taking CAW forward is very likely to be a key part of any competitive response to future market changes.</li> </ul>
Loss of public trust in the accountancy profession	High	High	<ul style="list-style-type: none"> <li>• Support an effective transition to the new ARGA regulatory regime. However, this transition might take longer to be implemented than previously thought ie, 2021 or even 2022.</li> <li>• In the meantime, and pending further government consultation on audit reform, engage with FRC and BEIS on key issues such as the audit profession and competition and resilience.</li> <li>• Consider, with key players in the profession, possible voluntary action to restore and sustain trust.</li> </ul>
The impact of Brexit on the UK accountancy profession	High	High	<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>• Dialogue with EU officials through the ICAEW Europe office.</li> </ul>
Cyber and data security	High	Medium	<ul style="list-style-type: none"> <li>• Reviews to ensure staff have the appropriate application security access.</li> <li>• System penetration tests undertaken by a specialist organisation.</li> <li>• PCI compliance testing.</li> <li>• Intensive test programmes and spot checks for systems and processes control weaknesses.</li> </ul>
Replacement of key ICAEW business systems	High	High	<ul style="list-style-type: none"> <li>• Programme governance board.</li> <li>• External review reports on plan progress and budget.</li> <li>• Monthly update report to ICAEW Board.</li> <li>• Tracking of business benefits.</li> </ul>
Impact of coronavirus COVID-19 on (i) ICAEW’s members, students and staff and (ii) its financial and operational resilience	High	High	<ul style="list-style-type: none"> <li>• Initiate business continuity plans as regularly rehearsed.</li> <li>• Continue business operations with high majority of staff able to work from home.</li> <li>• Review cost base and identify/implement items for savings.</li> <li>• Identify potential impact on and use of reserves.</li> <li>• Use website, intranet and social media to update and inform as necessary.</li> </ul>

# *Financial statements*





# Financial review

The Institute of Chartered Accountants in England and Wales, incorporated by Royal Charter RC000246 with registered office at Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA (hereinafter referred to as 'ICAEW') is a chartered body and operates in the public interest under the terms of our Royal Charter, awarded to us in 1880. ICAEW is headed by a chief executive and has five operating departments:

- **Learning & Professional Development** develops and assesses ICAEW qualifications and employers training our students;
- **Professional Standards** provides confidence that our members uphold the highest professional and ethical standards, investigating and, if necessary, disciplining those who don't;
- **Technical Strategy** researches and influences policy and develops best practice guidance in the activities which our members typically undertake;
- **Members, Commercial and Shared Services** supports our members at all stages of their careers, develops our commercial operations and provides expertise to drive competitive advantages; and
- **Finance & Operations** delivers the core functions and activities that support the day-to-day operation of ICAEW, our brand and reputation.

ICAEW Group's financial statements represent the results of ICAEW and its subsidiaries and associated undertakings. ICAEW as a single entity relates primarily to the operational activities of ICAEW, including the costs of our international subsidiaries. Except where stated, the commentary below relates to ICAEW as a single entity and excludes Financial Reporting Council (FRC) fines and cost recoveries arising in the year.

IFRS 16 Leasing is a new accounting standard that was effective from 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases. IFRS 16 introduces a single, on-balance sheet leases accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 has been applied using the modified retrospective approach.

Therefore, the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

## RESULTS

ICAEW's operational income was £114.0m, an increase of £6.4m compared with 2018. Our operational deficit was £1.2m (2018: £3.0m).

Membership income growth was £2.4m 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 projects to support our strategy in the UK and internationally.

ICAEW received £18.3m in fines and £3.5m of cost recoveries from FRC disciplinary cases, reflecting the culmination of investigations conducted over a number of years which have been funded by ICAEW. Since its inception, cumulative charges to the income statement in respect of case costs to the end of 2019 are £62.3m, funded in part by levies on member firms; fines and cost recoveries total £80.2m over the 15-year period.

Including these fines and cost recoveries, total income was £132.3m, £8.4m higher than in 2018 and the retained surplus after tax for the year was £18.2m (2018: £13.1m).

ICAEW invested £2.4m in a range of strategic projects which utilise 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 at the front of this document.

Costs excluding strategic projects increased by £4.5m to £115.1m. Other cost increases reflect the growth in student numbers, investment in IT infrastructure and increased irrecoverable VAT.

ICAEW net assets at 31 December 2019 were £92.1m, an increase of £30.4m over the 2018 net assets of £61.7m. Total cash and investments stood at £88.7m at the end of the year, an increase of £3.7m on 2018. This includes the inflow of £21.8m from FRC disciplinary cases. Cash and cash equivalents ended the year at £34.5m, reflecting a net cash outflow of £1.6m in the year. Cash outflows include £1.6m agreed pension scheme deficit funding and £7.0m contributions to FRC case costs.

The consolidated Group surplus after tax for the year, including the results of ICAEW's charitable trusts, was £18.6m (2018: £13.8m) and consolidated Group net assets were £109.7m (2018: £77.7m).

On adoption of IFRS 16, ICAEW derecognised its existing leasehold improvements and recognised right-of-use assets and the corresponding lease liabilities. The key areas of impact on the 2019 accounts can be seen below:

	£m
Recognition of ROU assets	2.2
Recognition of lease liabilities relating to ROU assets	(2.8)
Adjustment to rent free accruals recognised under IAS 17	0.3
Charge to retained earnings on opening balances	(0.3)

## INCOME

Revenue from members' fees and subscriptions rose by 5.0% to £50.5m, reflecting the continued growth in membership and a 2.7% increase in membership fees. Income from our qualifications (learning and professional development income) increased by £1.4m, reflecting the record ACA and CFAB intakes in the past four years.

Our regulatory (professional standards) income rose by £1.2m, reflecting in part the changes in the number and mix of registered member firms and fee increases to cover the cost of regulation. Our commercial income increased to £13.6m (up £1.0m on 2018) with a £0.7m increase within catering following the completion of the major refurbishment project in Chartered Accountants' Hall in 2017.

## EXPENDITURE

Operating expenditure increased to £115.0m, excluding cost recoveries from concluded FRC cases and expenditure on our strategic projects. The total includes an increase in irrecoverable VAT resulting from the volume and mix of costs.

Costs of regulatory activities reflects a provision against doubtful debts now recorded of £0.6m (2018: £0.5m). 2019 also saw a further increase in our investment in member services and digital services. As a direct consequence of the completion of the refurbishment of Chartered Accountants' Hall and investment in our business systems, depreciation and amortisation increased by £0.7m compared with 2018.

## FRC CONDUCT COMMITTEE CASE COSTS

The FRC Conduct Committee carries out independent investigations of the work and conduct of member firms and 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 2019 we charged costs of £6.9m 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 2018. These were offset by levies on member firms of £4.4m. During the year we paid £7.0m to the FRC in respect of ongoing case costs.

In 2020 we expect to pay to the FRC in the region of £6.0m in respect of current and new obligations, which is also our expected charge for new obligations. We expect to receive levies by way of contribution to these new obligations of £5.4m.

We received the proceeds from fines of £18.3m (2018: £16.3m) and cost recoveries of £3.5m (2018: £1.9m) 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.

Over half of open cases are investigated under the Audit Enforcement Procedure, established in June 2016. As a recognised supervisory body ICAEW is liable for costs of investigation but any fines levied will be remitted by the FRC to HM Treasury. ICAEW would receive any cost recoveries imposed. Existing cases instigated under the Accountancy Scheme are not affected by this change.

## PENSIONS

The IAS 19 valuation at 31 December 2019 was a surplus of £24.0m (2018: £12.4m). 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 investment returns being higher than the assumed discount rate and a slight reduction to the life expectancy longevity assumptions. Further information and disclosures around life expectancy and other assumptions is included in note 18. Although the fall in discount rate resulted in an increase in liabilities of £10.9m, investment returns generated a larger increase in the fair value of plan assets of £22.5m resulting in an overall favourable movement in surplus.

ICAEW's defined benefits pension scheme was closed to further member benefit accrual in 2010. The latest triennial actuarial valuation showed a deficit of £0.2m at 31 March 2019. The trustee and ICAEW agreed deficit funding arrangements comprising annual payments of £1.6m from 1 January 2017 to 31 December 2019. With our support, the trustee has developed an investment strategy intended to make the scheme entirely self-sufficient by around 2026. As the scheme is now no longer in a deficit position, a reduced level of £0.3m annually has been agreed from 1 January 2020.

A charge is held over Chartered Accountants' Hall in favour of the scheme 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. The next triennial valuation will take place as at 31 March 2022.

Further details are given in note 18 to the financial statements, including details of the different bases for the actuarial valuation and IAS 19 valuation.

## TAX

The net corporation tax charge for ICAEW for the year was £0.1m (2018: £nil). As a mutual membership organisation, the significant majority of our income is exempt from corporation tax.

## FINANCIAL POSITION

ICAEW net assets at 31 December 2019 were £92.1m – an increase of £30.4m on the 2018 position.

During 2019, the market value of our long-term investments rose to £54.2m from £48.9m in 2018. This includes sums made available from unused cash reserves awaiting market placement, offset in part by a fall in market value in the final quarter of the year.

Trade and other payables were £60.9m (2018: £70.3m). Trade and other receivables were £30.1m (2018: £25.0m). Deferred income obligations relating to the benefit obtained from admission fees over expected membership durations was £31.0m (2018: £29.8m).

We have provided £11.8m (2018: £11.9m) of costs relating to FRC Conduct Committee cases at 31 December 2019, reflecting the 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.

The most recent professional valuation of Chartered Accountants' Hall was completed as at 31 December 2017 following completion of the major refurbishment project, which enhanced both the public and office space. The next valuation will take place as at 31 December 2022.

## CASH FLOW

Cash balances at 31 December 2019 were £34.5m. Net cash outflow was £1.6m compared to £19.6m inflow in 2018. The key elements related to our result for the year, together with the movement in our investments. Our current cash profile fluctuates on an annual cycle, this year peaking at £69.0m in March and a minimum of £26.6m in October.

Funding of the FRC Conduct Committee case costs resulted in a cash outflow of £7.0m (2018: £6.2m).

ICAEW paid £1.6m (2018: £1.6m) of deficit funding to the Staff Pensions Fund, in line with the current agreement.

Capital expenditure was £8.7m (2018: £9.8m) reflecting the expansion of our business systems review and additional works in Chartered Accountants' Hall. We expect to incur

£10.6m of capital expenditure in 2020, reflecting the continued investment in our business systems, together with the development of our qualifications programme.

## RESERVES POLICIES

Our reserves policies ensure that ICAEW reserves excluding FRC fine balances 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.

Reserves exceeded this range at the end of the year but are expected to revert to the policy range in the short term as we invest in business development, enhance our business systems and manage short-term operational demands. We are managing our capital investment programme, our pension commitments and our financial position in order to maintain these reserve needs, taking account of IFRS 15 impacts, and mitigate any impact on members and member services.

## CHARITABLE TRUSTS

The difference between the result and financial position 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 £0.5m (2018: £0.6m). ICAEW's charitable trusts continued to run the Library and Information Service and also approved grants in the year of £0.2m (2018: £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 £12,000 (2018: £76,000), the majority of which related to party conference activities.

## 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 we 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 Capitals Coalition.

## 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 2019 operational plan that encompasses 2020 and 2021 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. ICAEW retains strong reserves as well as a long-term membership relationship and a secure pipeline of students.

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 and the forecasts 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. 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 2022.

## BREXIT

The board and council have considered the response required as a result of the UK's exit from the EU. While there will be an impact on financial and operational matters, the effects are not considered to be material in the short to medium term. ICAEW is not required to obtain additional registrations in EU member states and business development activities within Europe can continue to operate on their current basis. The group is continuing to closely monitor the legal and political developments in the process of the UK's exit from the EU ('Brexit'). The absence of an agreed and binding post-Brexit trade arrangement with the EU means that Brexit remains a principal risk for the group.

## CORONAVIRUS

In light of the emergence and spread of the coronavirus (COVID-19), ICAEW is monitoring the situation closely to assess the potential impact on its operations. Management believe that there may be potential impact in areas around the business including reduced student recruitment in affected areas, cancellation of events scheduled at Chartered Accountants' Hall and more widely across the UK and in international regions, and disruption of examination sittings with consequent impact on the timing and numbers of members joining ICAEW. Further details can be found under the principal risks section at the front of this document.

## 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 in the corporate governance statement. 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.

# Corporate governance statement

## OUR APPROACH TO GOVERNANCE

The Institute of Chartered Accountants in England and Wales is a chartered body incorporated by Royal Charter RC000246 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 July 2019.

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. This report includes additional disclosures, as required under the revised code. We operate within regulatory oversight of the FRC, as a recognised supervisory body, a recognised qualifying body, a designated professional body,

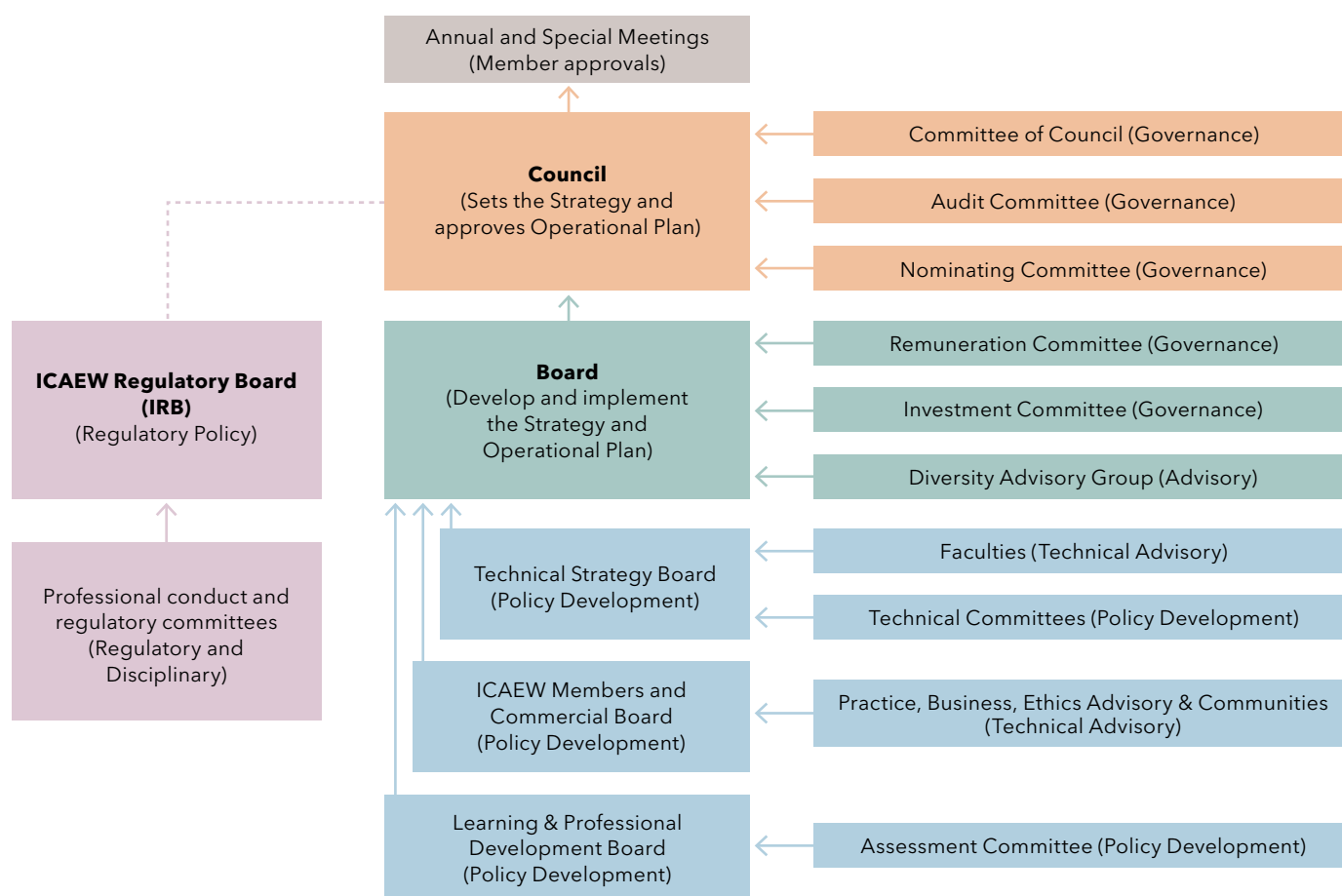
and as a licensor of insolvency practitioners. We are also regulated for reserved legal activities by the Legal Services Board. Further information on our governance structure can be found at [icaew.com/governance](https://www.icaew.com/governance)

## ANNUAL GENERAL MEETING

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. The 2020 AGM will be held on Tuesday 2 June. Members are invited to ask questions related to the business at the AGM and have an opportunity to meet with council after the meeting.

## 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

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. In 2019, council discussed matters such as Trust in the Profession, ICAEW's governance structure, Audits of Less Complex Entities, the Code of Ethics and recommendations on amendments to the Charter and bye-laws. It also carried out its role through the review and approval of the operational plan. Council members have three distinct roles:

### The representative role

- Ensuring the views across our profession are heard in helping to set the strategy.

### The holding to account role

- Upholding the public interest and holding the board to account for the delivery of our strategic priorities.

### The approvals role

- Approving annually the operational plan and budget and satisfying itself that our principal risks are being addressed 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 2019, 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. As at 31 December 2019, council comprised 94 members.

The powers of the office-holders are primarily in relation to 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. Some members 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 OFFICE-HOLDERS

	To 5 June 2019	From 5 June 2019
President	Paul Aplin	Fiona Wilkinson
Deputy-President	Fiona Wilkinson	David Matthews
Vice-President	David Matthews	William Brooks



## ICAEW 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 has four distinct roles:

### Develop, supervise and implement strategy

- Responsible for supervising the development of the ICAEW strategy and all matters relating to its implementation.

### Holding to account

- Holding the executive to account in the performance of their duties, taking into account the views of council.

### Monitoring risk at a strategic level

- Overseeing a risk framework designed to provide adequate assurance as to the protection of ICAEW's assets including the maintenance of the reputation of ICAEW, taking into account the recommendations and advice of the audit committee.

### The approvals role

- Recommending the operational plan for approval by council and taking responsibility for all matters (other than those reserved for the ICAEW regulatory board) relating to policy in support of ICAEW's strategy.

The board reports on its activities at each council meeting. The chief executive reports monthly to the board on principal risks and on the implementation of the operational plan. The duties of the board and of each of its committees are set out in their respective terms of reference.

## S.172 STATEMENT (THE COMPANIES (MISCELLANEOUS REPORTING) REGULATIONS 2018)

To support governance best practice, ICAEW is voluntarily applying the Regulation. The duty to promote the success of ICAEW under section 172 was complied with by members of council and the board through their approval of the three-year operational plan. Each member brings his or her individual judgement and considerable experience of business decisions to weigh up the course of action they considered most likely to support ICAEW in the longer term. We also regularly refresh and review the strategy, with current considerations taking place up to 2030, the 150<sup>th</sup> Anniversary of ICAEW. ICAEW also set up an Employee Engagement Forum in 2019 to support good governance and the employee voice at the boardroom. To support these discussions the public, members, firms, employees, and other relevant stakeholder groups are considered. Furthermore, matters such as risk, remuneration outcomes and any reputational impact were either addressed in the papers or were within the reflections and considerations weighed by the council and the board.



STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE
Our people	<ul style="list-style-type: none"> <li>• Training and development</li> <li>• Health and safety and working conditions</li> <li>• Diversity and inclusion</li> <li>• Human rights and modern slavery</li> <li>• Fair pay, benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Employee Engagement Forum</li> <li>• Staff quarterly briefings</li> <li>• Meet the CEO</li> <li>• Staff inductions</li> <li>• Intranet</li> <li>• Intranet; all-staff emails and newsletter-style updates</li> <li>• Whistleblowing services</li> <li>• Board monthly reports on HR matters</li> <li>• Office-holder engagement</li> </ul>
The public	<ul style="list-style-type: none"> <li>• Impartial advice</li> <li>• Technical know-how</li> <li>• Trust in the profession</li> <li>• Brexit</li> </ul>	<ul style="list-style-type: none"> <li>• Public events</li> <li>• Faculties and communities</li> <li>• Annual Review and Financial Statements</li> <li>• Professional Standards and complaints</li> <li>• Input into government consultations</li> <li>• Development of the Brexit Hub on the website</li> <li>• Find a Chartered Accountant</li> </ul>
		<b>Industry events</b> <b>Website</b> <b>Direct marketing and communications</b>
Members and member firms	<ul style="list-style-type: none"> <li>• Faculties</li> <li>• Communities</li> <li>• Qualifications</li> <li>• Technical know-how</li> <li>• Reputation and influence</li> <li>• International</li> <li>• Support and advice</li> </ul>	<ul style="list-style-type: none"> <li>• Faculties</li> <li>• Communities</li> <li>• Evolution of the qualification to meet their future needs</li> <li>• Industry events and conferences</li> <li>• Website</li> <li>• Direct marketing and communication</li> <li>• Annual Review and Financial Statements</li> <li>• Input into government consultations</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Success of the business</li> <li>• Fair trading</li> <li>• Payment terms</li> <li>• Collaboration</li> <li>• Anti-bribery and corruption</li> <li>• Anti-slavery</li> <li>• Ethical behaviour</li> <li>• Long-term partnerships</li> <li>• Terms and conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Tender and Contracts policy</li> <li>• Board approval of significant contracts</li> <li>• Executive director engagement with senior executives of suppliers</li> <li>• KPIs and feedback</li> </ul>
Regulatory bodies	<ul style="list-style-type: none"> <li>• Governance best practice</li> <li>• Corporate governance code</li> <li>• Compliance with regulations</li> <li>• Worker pay and conditions</li> <li>• Waste and environment</li> <li>• Gender pay</li> <li>• Reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Website</li> <li>• Annual Review and Financial Statements</li> <li>• Meetings and input into consultations</li> </ul>

## BOARD EVALUATION

The effectiveness of the board is vital to the success of ICAEW. The board undertakes a rigorous evaluation process each year to assess how it, and individual directors, are performing. The usual process is for an evaluation to be undertaken by way of an internal questionnaire, supported by individual discussions with the chair, with an external evaluation conducted periodically as determined by the board. The last external evaluation was in 2015. During the year the non-executive directors, led by the chair, met to discuss the executives' performance. The non-executive directors also provided feedback on the chair's performance.

Overall the board is considered to be effective and working well. It has a respectful but challenging board culture, that is also collaborative and collegiate. The review also highlighted a number of focus areas for the board to consider during 2020, based around the strategy and its communication to our stakeholders, succession planning and clarity of our governance structure.

Good progress was also made in considering the actions arising from the 2018 board evaluation. The board held discussions on Competitor Horizon Scanning, now an annual standing agenda item to give board members time to consider the external landscape. A bespoke induction programme was created for the independent non-executive directors. Board members were also able to refresh their skills, through access to activity among the corporate governance community and academy courses.

## BOARD ACTIVITIES RELATING TO CULTURE

We recognise that our success is partly attributed to our culture and the board recognises the importance of this success attributed to the work of our staff. To support best practice and demonstrate leadership in corporate governance, in 2019 ICAEW set up the Employee Engagement Forum. The forum supports the objectives set out in the Corporate Governance code to provide the 'employee voice at the boardroom' and reports annually to the board. The forum since being established has fed into the development of the staff survey, reviewed general staff feedback from the quarterly staff meetings for action and fed back to the board, chief executive officer and executive directors on initiatives to support the strategy and culture of ICAEW.

## BOARD PRIORITIES FOR 2019 AND INTO 2020

The board comprises 17 members, principally ex-officio council members, two independent non-executive members (non-chartered accountants) and the chief executive and executive directors. Council also elects three of its members directly to the board for a two-year term. Board members receive an induction and training to support them in their role.

In 2019, our two independent non-executive members of the board, Jill May and Michael Stewart retired. They were replaced by Mary Hockaday, Controller, BBC World Service English and Malcolm Wood, formerly Group Company Secretary at Lloyds Banking Group.

Nathan Steinberg was also elected to the council-elected board position.

The board made considerable progress during 2019 on the objectives set at the beginning of the year. Areas discussed included Brexit contingency planning, climate change, trust in the profession (Kingman, Brydon and CMA reviews), growth, international, IFRS 15 and the implementation of our business systems transformation programme. ICAEW succession plans were also reviewed. The ICAEW board also showed leadership in corporate governance in setting up the Employee Engagement Forum.

During 2020, the board's agenda will continue to focus on The Kingman, CMA and Brydon reviews, our business systems transformation programme, and also focus on ICAEW's governance structure; climate change and sustainability; development of the ACA to meet the needs of the future professional; delivery of demand led content; implementation of changes to the regulatory landscape; and sustainable growth.

The board met 10 times in 2019.

The members of the board during 2019 are outlined below. The board gender split for 2019 is 70% male 30% female.

	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin*	President and Chair (to 5 June)		5 June	5/5
William Brooks*	Vice-President (from 5 June) Council member elected to the Board (to 4 June)			9/10
Mark Coles*	Council member elected to the Board			9/10
Sharron Gunn	Executive Director, Members, Commercial and Shared Services			8/10
Mary Hockaday	Independent non-executive member	4 June		5/5
Robert Hodgkinson	Executive Director, Technical Strategy			10/10
Michael Izza	Chief Executive			10/10
Kate Mathers*	Chair, Learning and Professional Development Board			7/10
David Matthews*	Deputy-President (from 5 June) Vice-President (to 5 June)			10/10
Jill May	Independent non-executive member		4 June	4/5
Julia Penny*	Council member elected to the Board			8/10
Mark Protherough	Executive Director, Learning and Professional Development			8/10
Mark Rhys*	Chair, Technical Strategy Board			9/10
Vernon Soare	Chief Operating Officer			9/10
Clive Stevens*	Chair, Members and Commercial Board			10/10
Nathan Steinberg*	Council member elected to the Board	4 June		5/5
Michael Stewart	Independent non-executive member		4 June	3/5
Duncan Wiggetts	Executive Director, Professional Standards			8/10
Fiona Wilkinson*	President and Chair (from 5 June) Deputy-President (to 5 June)			10/10
Malcolm Wood	Independent non-executive member	4 June		4/5

\* 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.

## 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. They are represented on the ICAEW board through their chair's ex-officio membership.

## 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. Key judgement areas in 2019 include:

- 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 five times in 2019 and welcomed four new members due to retirements by rotation. An open recruitment process took place, with a diverse range of members appointed to provide experience in risk management, cyber and data security, International Financial Reporting Standards, internal audit and business. Both the internal and external auditors attend its meetings and have direct access to its chair. The external auditors attend all meetings. At part of a meeting each year, the external auditors and the committee meet 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.

The members of the audit committee during 2019 were:

	POSITION	APPOINTED	RETIRED	ATTENDANCE
Richard Bint MA, ACA	Non-executive committee member		4 June	2/2
William Brooks* BA, BFP, FCA, CTA	Vice-President, non-executive committee member	4 June		2/3
David Canning-Jones* BA, ACA	Chair, non-executive committee member			4/5
Nigel Jones MA (Cantab), FCA	Non-executive committee member	5 December		1/1
George Quigley BA, ACA	Non-executive committee member		4 June	2/2
Alison Smith BA, BSc	Non-executive committee member			4/5
Alison W Smith BSc, ACA, ACIB	Non-executive committee member		4 June	2/2
Piers Clinton-Tarestad BSc, MBA	Non-executive committee member			5/5
Henry Wallis BSc, MBA, FCA	Non-executive committee member			5/5
Dr Sarah Walsh BEng., MSc, PhD	Non-executive committee member			5/5
Carol Warburton* FCA, CMIIA, CIA	Deputy-Chair, non-executive committee member	4 June		3/3
Fiona Wilkinson* BA, BFP, FCA	President, non-executive committee member		4 June	1/2

\* 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 appropriate accounting treatment under IFRS 15 and IFRS 16;
- considered the external auditor's management letter including their observations made in respect of any deficiencies in or potential improvements in the operation of ICAEW's systems and internal controls arising during the course of their audit work;
- agreed the fees and terms of appointment of the external auditors; and reviewed 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.

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. The committee undertakes a rigorous review of its effectiveness annually.

Significant areas of review by the audit committee in the year included 'deep dives' into principal risks and mission-critical projects such as Brexit contingency planning, loss of trust in the profession, business systems transformation and GDPR. It also reviewed internal audit reports and sought assurance from management on ICAEW's internal controls.

## AUDITORS

Haysmacintyre LLP is ICAEW's appointed external auditor. Current policy is to tender the external audit at least every 10 years. Haysmacintyre was appointed as external auditor at the AGM on 7 June 2016. The audit partner is Mr. Richard Weaver and has been in post since ICAEW appointment.

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 auditor the committee reviewed the external auditor's:

- fulfilment of the agreed audit plan and variations from it;
- report of major issues arising during the course of the audit; and
- 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, management override of controls, risk of fraud and error in revenue recognition and the key assumptions adopted in respect of the actuary's valuation of ICAEW's defined benefits pension scheme.

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. They 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 2019 financial year.

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 the independence of the external auditors.

## NOMINATING COMMITTEE

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

Nominating committee also discusses and makes recommendations to co-opt members to council to address gaps in representation of significant and strategically important groups or regions.

Membership of the nominating committee includes the office-holders, immediate past president, past president, chief executive and three members elected from council. The immediate past president is chair of the committee and retires annually by rotation.

Nominating committee has delegated the annual review of committee memberships to the committee review working party, which is chaired by the deputy-president. The committee review working party is a subset of nominating committee, and ensures that a smaller group of members is able to meet and review committee membership in greater detail.

The committee review process is designed to support committee chairs in identifying vacancies, gaps in skills and representation and managing succession planning for their committees. Vacancies identified are advertised across available communication channels to invite interest from a wide and diverse field of candidates. For the past few years, the focus has been on encouraging greater gender diversity, participation from younger and recently qualified members, and opportunities for members from across the world to be involved in ICAEW committees. Non-accountant and non-ICAEW members are welcome on committees where the terms of reference allow in line with the governance good practice of inviting lay perspective, external insight and challenge into committee operations. Nominating committee receives recommendations for approval from the working party at their meeting in April, for appointments to take effect in June following the AGM. The nominating committee reports to council on appointments approved to committees and also on the committee review process.

Nominating committee met six times in 2019, including one teleconference. The committee also made two decisions out of meeting and its members attended a workshop on unconscious bias.

The members of the nominating committee during 2019 were:

	POSITION	APPOINTED	RETIRED	ATTENDANCE
Paul Aplin	President (until 5 June) Immediate Past President and Chair (from 5 June)			5/6
Derek Blair	Council member elected to the committee	4 June		2/3
William Brooks	Vice President (from 5 June)	5 June		2/3
David Matthews	Vice President (until 5 June) Deputy President (from 5 June)			5/6
Nick Parker	Immediate Past President (until 5 June) Past President (from 5 June)			5/6
Hilary Lindsay	Past President and Chair (until 5 June)		5 June	3/3
David Crackett	Council member elected to the committee			5/6
Graeme Gordon	Council member elected to the committee		4 June	2/3
Michael Izza	ICAEW Chief Executive			4/6
Susan Smith	Council member elected to the committee	4 June		3/3
Jeffrey Unerman	Council member elected to the committee		4 June	2/3
Fiona Wilkinson	Deputy President (until 5 June) President (from 5 June)			5/6

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

The remuneration committee met six times in 2019. The chair regularly consults with the non-executive members of the board, being our members, during the pay review process to support the judgements made and ensure the objectives set are consistent with the operational plan, as agreed with council.



The members of the remuneration committee during 2019 were:

	POSITION	APPOINTED	RETIRED	ATTENDANCE
Sophie Symons	Chair (from 5 June)			5/6
Noel Clehane*	Member, council			6/6
David Matthews*	Deputy-President (from 5 June) Vice-President (to 5 June)			5/6
David Mellor	Chair		4 June	3/3
Marcus Peaker	Independent non-executive member			3/6
Mark Freebairn	Independent non-executive member	4 June		3/3

\* Council member

## PAY POLICY

The key element of ICAEW's pay policy is to award those staff who have achieved their objectives and who are living our values, determined with reference to market value. All our positions are benchmarked against market salaries. Under its terms of reference the remuneration committee is responsible for agreeing, on the recommendation of the president, any changes to the remuneration package of the chief executive and executive directors including any deferred element.

We believe that staff should be appropriately rewarded in relation to:

- the wider economic and commercial environment;
- the value placed on comparable jobs in other organisations;
- the value placed on comparable jobs within ICAEW;
- the contribution they make towards achieving ICAEW's objectives and to the long-term success of the organisation; and
- the results they achieve and the degree to which they meet our behaviours.

A key element of the pay policy is to recognise those staff who made a significant and/or consistent contribution to the achievements of ICAEW's operational plan in 2019 while at the same time living the ICAEW values and working in a collaborative, agile and innovative manner. This can be recognised by a non-consolidated lump sum 'added value' bonus award.

## REMUNERATION FRAMEWORK

Employee remuneration is composed principally of fixed and variable elements of reward as follows:

(a) Fixed reward:

- fixed remuneration: base salary
- benefits (including pension)

(b) Variable reward:

- discretionary or contractual bonus for eligible employees.

## OPERATION OF REMUNERATION

### Base salary

To provide a core reward for undertaking the role, positioned at a level needed to recruit and retain the talent required to develop and deliver the operational plan.

Base salaries are set taking into account a range of factors including:

- The individual's skills, performance and experience
- Wider workforce salary levels
- External benchmark data
- The size and responsibility of the role
- The complexity of the business and geographical scope
- Economic indicators.

### Benefits (including retirement benefit as appropriate)

To provide market competitive monetary and non-monetary benefits, in a cost-effective manner, to assist employees in carrying out their duties efficiently.

Benefits provided may be made up of core benefits and extra voluntary benefits (as appropriate).

### Discretionary or contractual bonus

To reward the achievement of performance targets in a range of key performance areas.

### Pay review and stakeholder consultation

The outcome of the staff pay review and how salaries and recognition awards are spread across the organisation are published to all staff. This supports transparency and aligns with our values and culture. The staff pay policy is also published on the staff intranet. Listening to and consulting with our employees is very important and includes the staff feedback survey, all staff breakfasts, two members of staff appointed to the executive committee and from October 2019 we have in place an Employee Engagement Forum. These initiatives support our culture and talent management initiatives. We do not consult directly with employees on the

executive remuneration policy. However, when determining the policy for executive directors, we have been mindful of the pay and employment conditions of employees in ICAEW as a whole, with particular reference to the market in which the executive is based.

### Discretion

The remuneration committee also has discretion to award one-off payments to staff, where it is recognised that they have gone over and above their objectives and has applied this policy with the awards for 2019.

### Chief executive and executive directors

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.

The chief executive notice period is 12 months and the executive director notice period is 6 months. They receive a basic package, and in addition to the basic package there is a deferred pay element opportunity of up to 35% of base salary for the chief executive and 30% for the executive directors (this is a non-consolidated payment). Their performance is to be judged on the basis of the deferred pay scorecard.

### Executive Pay Gap Reporting Regulations

To demonstrate governance best practice, ICAEW is voluntarily applying the Companies (Miscellaneous Reporting) Regulations 2018. The tables below set out the total pay of the chief executive officer and UK employee population as a whole at median, lower quartile and upper quartile using the methodology applied to the single figure of remuneration:

1st percentile – 20:1

2nd percentile – 14:1

3rd percentile – 9:1

A key principle underlying our remuneration approach to the executive remuneration policies is that reward should be aligned to the performance outcomes of ICAEW and

the competencies, behaviours and values exhibited. The weightings are reviewed annually and will change in 2020. The deferred pay calculation brings together the performance from the following elements.

BUSINESS AREA	WEIGHTING
ICAEW operational plan	40%
Business area objectives	40%
Behaviours	20%
Total	100%
% salary	Total of 30% (EDs) Total of 35% (CEO)

### Basic salary

The increase of 2% in 2019 is consistent with the budget applied for average increases in the annual pay review for other ICAEW employees in the UK. These increases are in line with expectations around market movements and inflation in the UK and are consistent with overall increases being applied across our UK-based employees. The remuneration policy operated as intended in 2019.

### ICAEW REGULATORY BOARD (IRB)

The IRB is responsible for overseeing much of the professional standards activities and statutory regulatory role of ICAEW. The role of the board is to initiate and develop strategic priorities pertaining to professional standards regulation such as keeping changes to regulations and bye-laws under review and setting regulatory fees. It does not become directly involved with individual disciplinary or regulatory matters.

The IRB has regard to the objectives of the profession, as set out in ICAEW's Royal Charter. It is expected to have the interests of the public at the forefront of everything it does. To support this, board members are expected to act with independence and avoid conflicts of interest. The board ensures the ICAEW professional standards department runs the processes that underpin licensing and disciplinary work effectively and efficiently.

The IRB chair is paid £30,000 per annum and the lay members of the IRB are paid a day rate of £350.

The IRB has 12 members including the chair and is formed of an equal number of lay members (someone who is not and never has been a member, affiliate or employee of ICAEW or any other accountancy body) and non-lay members (ICAEW Chartered Accountants). The current IRB chair is a lay member, Michael Caplan QC. The chair and IRB members are all appointed using an independent selection process. Further information is available at [icaew.com/irb](https://www.icaew.com/irb). In 2019, the IRB met five times.

	POSITION	ATTENDANCE
Steve Barrow	Lay	5/5
Michael Caplan (Chair)	Lay	5/5
David Chitty	Non-lay	3/5
Chris Fraser	Lay	2/5
Philip Nicol Gent (Vice Chair)	Lay	5/5
Andrew Goldsworthy	Non-lay	5/5
Ian Leigh	Lay	5/5
John Milsom	Non-lay	5/5
Mike Sufrin	Non-lay	5/5
Jane Titley	Non-lay	5/5
Pauline Wallace	Non-lay	4/5
Ann Wright	Lay	5/5

During 2019, the IRB considered, among other things, a new approach to the disciplinary bye-laws, the introduction of sanctioning powers for the Practice Assurance committee, the creation of an AML project board and the quality assurance of the audit registration committee. There is more information about the matters considered at the IRB's meetings at [icaew.com/irb](https://www.icaew.com/irb)

## 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 including the digitalisation of BASE, ICAEW 100 and Access Accountancy.

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, and making recommendations to the board.

ICAEW's mean gender pay gap reduced from 30.5% in 2018 to 25.8% in 2019. While gaps at role levels are generally low, the overall gap represents an historic higher proportion of long-serving male senior management positions and the proportions of contractors employed. ICAEW has committed to a number of initiatives which are expected to reduce this gap over time.

## WOMEN IN FINANCE CHARTER

ICAEW committed to having 40% women in senior management by March 2020. As of 31 December 2019, we have exceeded this target with 44% women in senior management.

## MODERN SLAVERY

In compliance with the Modern Slavery Act 2016, ICAEW council and senior management are committed to ensuring ICAEW 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 has policies, privacy statements and procedures to comply with the GDPR; and provides training to all staff as appropriate. ICAEW 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 it 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, and an Employee Engagement Forum to support the 'employee voice' at the boardroom. This forum reported to the board in February 2020 to support the two-way communication between the staff and the board.

**FINANCIAL RESPONSIBILITIES OF THE 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 non-executive directors by council.

# ICAEW five-year summary

	2019 <sup>1</sup>	2018	2017	2016	2015
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Operating income	114.0	107.6	104.9	99.2	96.0
ICAEW services	(104.1)	(101.5)	(95.9)	(89.7)	(85.0)
Funding of regulatory and other professional associations	(10.5)	(8.5)	(9.4)	(8.6)	(10.1)
Gift aid, library funding and taxation	(0.6)	(0.6)	(0.6)	(0.9)	(1.5)
FRC fines and cost recoveries	21.8	18.2	17.4	10.5	6.6
strategic projects	(2.4)	(2.1)	-	-	-
<b>Net result after taxation</b>	<b>18.2</b>	<b>13.1</b>	<b>16.4</b>	<b>10.5</b>	<b>6.0</b>
<b>Statement of financial position</b>					
Non-current assets excluding Staff Pensions Fund	112.6	103.2	93.2	76.9	64.4
Non-current assets - Staff Pensions Fund asset	24.0	12.4	5.7	1.5	9.3
Current assets	65.5	62.0	41.4	34.8	21.4
Current liabilities	(67.0)	(75.3)	(54.3)	(57.1)	(43.2)
Non-current liabilities	(43.0)	(40.6)	(40.2)	(37.0)	(35.6)
<b>Total net assets</b>	<b>92.1</b>	<b>61.7</b>	<b>45.8</b>	<b>19.1</b>	<b>16.3</b>
<b>Member and student numbers</b>					
Members	154,531	151,761	149,298	147,538	145,746
ACA students	30,241	28,700	27,866	25,822	24,149
	<b>184,772</b>	<b>180,461</b>	<b>177,164</b>	<b>173,360</b>	<b>169,895</b>

<sup>1</sup> ICAEW has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information presented for prior years (2015 to 2018) is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

# *Independent auditor's report to the members of The Institute of Chartered Accountants in England and Wales (ICAEW) for the year ending December 2019*

## **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 2019 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 2019, 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 10 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 2019.

### **3. 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.

### **4. Our approach to planning our audit**

#### **UNDERSTANDING ICAEW**

We continued to develop our 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 6 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.

## **5. 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 Financial Reporting Council (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 and challenged 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. We challenged a number of the provision estimates based on a comparison of historic costs and the case notes provided by the FRC and validated the FRC case notes as being an accurate account of the progress made on each individual case.

What we reported to the audit committee: We have reviewed and confirmed our agreement to the methodology employed in calculating the appropriate provision and verified these to supporting evidence of historic case costs and details of current ongoing cases on a case-by-case basis. We have reviewed the disclosures included in the financial statements in respect of the uncertainties faced by management in estimating an appropriate provision and the contingent liabilities arising from ongoing cases. We have considered the latest discussions with the FRC up to the date of this report.

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;
- non-sampling substantive procedures in relation to membership fee income including comparisons to budget and trends analysis;
- we reviewed and tested the key estimates regarding historic admission fees and membership applied by management to appropriate data sources for reasonableness to deferred admission fees.
- reviewed the accounting treatment applied by ICAEW in respect of new income streams, to ensure that management's conclusions as to whether ICAEW acts as an agent or principal were appropriate and in accordance with applicable IFRSs.

What we reported to the audit committee: From the audit work undertaken we have concluded that the financial statements are not materially misstated due to errors or improper revenue recognition.

## 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 considered whether there had been any changes to the legal basis underpinning the recognition of the pension surplus as an asset in the financial statements. We obtained and reviewed the actuary's report on the estimated impact of GMP equalisation on the pension scheme's liabilities and agreed this to the valuation report used to prepare 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 IFRS and consistent with our expectations, having considered all relevant factors as at 31 December 2019.

## 6. 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 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.

## 7. 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 LLP 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.

## 8. 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.

## 9. Responsibilities of council for the financial statements

As explained more fully in the financial responsibilities of the council statement set out on page 46, the council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## 10. 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). The description forms part of our auditor's report.

## 11. Use of our report

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.



**Haysmacintyre LLP**  
Statutory Auditor  
10 Queen Street Place  
London  
EC4R 1AG  
UK

19 March 2020

# *Group income statement for the year ended 31 December 2019*

		2019			2018		
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		50.5	-	50.5	48.1	-	48.1
Learning and professional development		14.9	(24.1)	(9.2)	13.6	(22.1)	(8.5)
Professional standards		20.8	(20.2)	0.6	20.1	(19.3)	0.8
Commercial and shared services		13.6	(18.6)	(5.0)	12.6	(16.5)	(3.9)
Members		0.8	(18.0)	(17.2)	1.0	(17.3)	(16.3)
Technical strategy		4.7	(9.9)	(5.2)	4.5	(9.7)	(5.2)
Central activities		-	(13.1)	(13.1)	0.2	(16.0)	(15.8)
Charitable trusts		0.1	(0.7)	(0.6)	-	(0.9)	(0.9)
One off pension past service cost			-	-		(0.6)	(0.6)
		<b>105.4</b>	<b>(104.6)</b>	<b>0.8</b>	<b>100.1</b>	<b>(102.4)</b>	<b>(2.3)</b>
FRC Conduct Committee	16	4.4	(6.9)	(2.5)	4.6	(5.1)	(0.5)
Other regulatory and professional associations		1.7	(3.6)	(1.9)	1.6	(3.4)	(1.8)
		<b>6.1</b>	<b>(10.5)</b>	<b>(4.4)</b>	<b>6.2</b>	<b>(8.5)</b>	<b>(2.3)</b>
<b>Operating result</b>	<b>1</b>	<b>111.5</b>	<b>(115.1)</b>	<b>(3.6)</b>	<b>106.3</b>	<b>(110.9)</b>	<b>(4.6)</b>
Investment income	2	3.1	-	3.1	2.4	-	2.4
Interest expense		-	(0.1)	(0.1)	-	-	-
		<b>114.6</b>	<b>(115.2)</b>	<b>(0.6)</b>	<b>108.7</b>	<b>(110.9)</b>	<b>(2.2)</b>
<b>Result before taxation</b>		<b>114.6</b>	<b>(115.2)</b>	<b>(0.6)</b>	<b>108.7</b>	<b>(110.9)</b>	<b>(2.2)</b>
Taxation	6	-	(0.2)	(0.2)	-	(0.1)	(0.1)
<b>Net result from operations after tax</b>		<b>114.6</b>	<b>(115.4)</b>	<b>(0.8)</b>	<b>108.7</b>	<b>(111.0)</b>	<b>(2.3)</b>
FRC fines and cost recoveries		18.3	3.5	21.8	16.3	1.9	18.2
Strategic projects		-	(2.4)	(2.4)	-	(2.1)	(2.1)
<b>Net result after taxation for the year</b>		<b>132.9</b>	<b>(114.3)</b>	<b>18.6</b>	<b>125.0</b>	<b>(111.2)</b>	<b>13.8</b>

# ICAEW income statement for the year ended 31 December 2019

		2019			2018		
	Note	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m
Subscriptions and fees		50.5	-	50.5	48.1	-	48.1
Learning and professional development		15.0	(24.1)	(9.1)	13.6	(22.1)	(8.5)
Professional standards		20.4	(20.2)	0.2	19.2	(19.3)	(0.1)
Commercial and shared services		13.6	(18.6)	(5.0)	12.6	(16.5)	(3.9)
Members		0.8	(18.4)	(17.6)	1.0	(17.7)	(16.7)
Technical strategy		4.7	(9.9)	(5.2)	4.5	(9.7)	(5.2)
Central activities		-	(12.8)	(12.8)	0.2	(15.6)	(15.4)
One off pension past service cost			-	-		(0.6)	(0.6)
		<b>105.0</b>	<b>(104.0)</b>	<b>1.0</b>	<b>99.2</b>	<b>(101.5)</b>	<b>(2.3)</b>
FRC Conduct Committee		4.4	(6.9)	(2.5)	4.6	(5.1)	(0.5)
Other regulatory and professional associations		1.7	(3.6)	(1.9)	1.6	(3.4)	(1.8)
		<b>6.1</b>	<b>(10.5)</b>	<b>(4.4)</b>	<b>6.2</b>	<b>(8.5)</b>	<b>(2.3)</b>
Gift aid and library funding	10	-	(0.5)	(0.5)	-	(0.6)	(0.6)
<b>Operating result</b>	<b>1</b>	<b>111.1</b>	<b>(115.0)</b>	<b>(3.9)</b>	<b>105.4</b>	<b>(110.6)</b>	<b>(5.2)</b>
Investment income	2	2.9	-	2.9	2.2	-	2.2
Interest expense		-	(0.1)	(0.1)	-	-	-
<b>Result before taxation</b>		<b>114.0</b>	<b>(115.1)</b>	<b>(1.1)</b>	<b>107.6</b>	<b>(110.6)</b>	<b>(3.0)</b>
Taxation		-	(0.1)	(0.1)	-	-	-
<b>Net result from operations after tax</b>		<b>114.0</b>	<b>(115.1)</b>	<b>(1.2)</b>	<b>107.6</b>	<b>(110.6)</b>	<b>(3.0)</b>
FRC fines and cost recoveries		18.3	3.5	21.8	16.3	1.9	18.2
Strategic projects		-	(2.4)	(2.4)	-	(2.1)	(2.1)
<b>Net result after taxation for the year</b>		<b>132.3</b>	<b>(114.1)</b>	<b>18.2</b>	<b>123.9</b>	<b>(110.8)</b>	<b>13.1</b>

## *Group and ICAEW statements of comprehensive income for the year ended 31 December 2019*

	Note	GROUP		ICAEW	
		2019 £m	2018 £m	2019 £m	2018 £m
Net result after taxation recognised in the income statement in the year		18.6	13.8	18.2	13.1
Items that may be reclassified subsequently to profit or loss:					
Gains/(losses) on revaluation for available for sale investments	11	4.5	(5.5)	3.3	(4.5)
Gains reclassified on disposal	11	0.3	1.2	0.3	1.2
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gains/(losses) recognised in the year	18	9.6	5.6	9.6	5.6
Deferred tax	7	(0.7)	0.5	(0.7)	0.5
Other comprehensive income in the year		13.7	1.8	12.5	2.8
Total comprehensive income in the year		32.3	15.6	30.7	15.9

# Group statements of changes to reserves for the year ended 31 December 2019

GROUP	Revaluation reserve	Investment revaluation reserve		Other reserves	Charitable trusts	Total
	£m	£m	£m	£m	£m	£m
<b>Reserves at 1 January 2018</b>	<b>16.4</b>	<b>7.1</b>	<b>17.9</b>	<b>5.4</b>	<b>15.3</b>	<b>62.1</b>
Net result after taxation	-	-	13.9	-	(0.1)	13.8
Net change in market value of long-term investments over cost	-	(3.3)	-	-	(1.0)	(4.3)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	5.6	-	-	5.6
Deferred tax attributable to above	0.1	0.6	(0.2)	-	-	0.5
Total other comprehensive income in the year	<b>0.1</b>	<b>(2.7)</b>	<b>5.4</b>	<b>-</b>	<b>(1.0)</b>	<b>1.8</b>
Total comprehensive income in the year	0.1	(2.7)	19.3	-	(1.1)	15.6
<b>Reserves at 31 December 2018</b>	<b>16.5</b>	<b>4.4</b>	<b>37.2</b>	<b>5.4</b>	<b>14.2</b>	<b>77.7</b>
<b>Reserves at 1 January 2019 (as previously reported)</b>	<b>16.5</b>	<b>4.4</b>	<b>37.2</b>	<b>5.4</b>	<b>14.2</b>	<b>77.7</b>
Adjustment on initial application of IFRS 16 (net of tax)	-	-	(0.3)	-	-	(0.3)
<b>Reserves at 1 January 2019 (as restated)</b>	<b>16.5</b>	<b>4.4</b>	<b>36.9</b>	<b>5.4</b>	<b>14.2</b>	<b>77.4</b>
Net result after taxation	-	-	18.4	0.2	-	18.6
Net change in market value of long-term investments over cost	-	3.6	-	-	1.2	4.8
Actuarial gains recognised in year on defined benefit pension scheme	-	-	9.6	-	-	9.6
Deferred tax attributable to above	-	(0.5)	(0.2)	-	-	(0.7)
Total other comprehensive income in the year	<b>-</b>	<b>3.1</b>	<b>9.4</b>	<b>-</b>	<b>1.2</b>	<b>13.7</b>
Total comprehensive income in the year	-	3.1	27.8	0.2	1.2	32.3
<b>Reserves at 31 December 2019</b>	<b>16.5</b>	<b>7.5</b>	<b>64.7</b>	<b>5.6</b>	<b>15.4</b>	<b>109.7</b>

# ICAEW statements of changes to reserves for the year ended 31 December 2019

ICAEW	Revaluation reserve £m	Investment revaluation reserve £m	£m	Other reserves £m	Total £m
<b>Reserves at 1 January 2018</b>	<b>16.4</b>	<b>7.1</b>	<b>16.9</b>	<b>5.4</b>	<b>45.8</b>
Net result after taxation	-	-	13.1	-	13.1
Net change in market value of long-term investments over cost	-	(3.3)	-	-	(3.3)
Actuarial gains recognised in year on defined benefit pension scheme	-	-	5.6	-	5.6
Deferred tax attributable to above	0.1	0.6	(0.2)	-	0.5
Total other comprehensive income in the year	<b>0.1</b>	<b>(2.7)</b>	<b>5.4</b>	<b>-</b>	<b>2.8</b>
Total comprehensive income in the year	0.1	(2.7)	18.5	-	15.9
<b>Reserves at 31 December 2018</b>	<b>16.5</b>	<b>4.4</b>	<b>35.4</b>	<b>5.4</b>	<b>61.7</b>
<b>Reserves at 1 January 2019 (as previously reported)</b>	<b>16.5</b>	<b>4.4</b>	<b>35.4</b>	<b>5.4</b>	<b>61.7</b>
Adjustment on initial application of IFRS 16 (net of tax)	-	-	(0.3)	-	(0.3)
<b>Reserves at 1 January 2019 (as restated)</b>	<b>16.5</b>	<b>4.4</b>	<b>35.1</b>	<b>5.4</b>	<b>61.4</b>
Net result after taxation	-	-	18.0	0.2	18.2
Net change in market value of long-term investments over cost	-	3.6	-	-	3.6
Actuarial gains recognised in year on defined benefit pension scheme	-	-	9.6	-	9.6
Deferred tax attributable to above	-	(0.5)	(0.2)	-	(0.7)
Total other comprehensive income in the year	<b>-</b>	<b>3.1</b>	<b>9.4</b>	<b>-</b>	<b>12.5</b>
Total comprehensive income in the year	-	3.1	27.4	0.2	30.7
<b>Reserves at 31 December 2019</b>	<b>16.5</b>	<b>7.5</b>	<b>62.5</b>	<b>5.6</b>	<b>92.1</b>

ICAEW has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.



# Group and ICAEW statements of financial position as at 31 December 2019

		GROUP		ICAEW	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	42.8	42.1	42.8	42.1
Intangible assets	9	15.6	12.2	15.6	12.2
Investments in subsidiaries and associates	10	0.1	0.1	-	-
Financial assets: Available for sale investments	11	69.7	63.3	54.2	48.9
Pension asset	18	24.0	12.4	24.0	12.4
		<b>152.2</b>	<b>130.1</b>	<b>136.6</b>	<b>115.6</b>
<b>Current assets</b>					
Inventories	12	0.9	0.9	0.9	0.9
Trade and other receivables	13	31.0	25.7	30.1	25.0
Cash and cash equivalents		35.3	36.7	34.5	36.1
		<b>67.2</b>	<b>63.3</b>	<b>65.5</b>	<b>62.0</b>
<b>Total assets</b>		<b>219.4</b>	<b>193.4</b>	<b>202.1</b>	<b>177.6</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	15	(60.5)	(69.9)	(60.9)	(70.3)
Current tax liabilities		(0.1)	-	(0.1)	-
FRC Conduct Committee provision	16	(6.0)	(5.0)	(6.0)	(5.0)
		<b>(66.6)</b>	<b>(74.9)</b>	<b>(67.0)</b>	<b>(75.3)</b>
<b>Non-current liabilities</b>					
Grants payables more than one year		(0.5)	(0.6)	(0.5)	(0.5)
Other payables after more than one year	15	(33.4)	(30.5)	(33.3)	(30.4)
FRC Conduct Committee provision	16	(5.8)	(6.9)	(5.8)	(6.9)
Provisions	17	(1.0)	(1.1)	(1.0)	(1.1)
Deferred tax liability	7	(2.4)	(1.7)	(2.4)	(1.7)
		<b>(43.1)</b>	<b>(40.8)</b>	<b>(43.0)</b>	<b>(40.6)</b>
<b>Total liabilities</b>		<b>(109.7)</b>	<b>(115.7)</b>	<b>(110.0)</b>	<b>(115.9)</b>
<b>Total net assets</b>		<b>109.7</b>	<b>77.7</b>	<b>92.1</b>	<b>61.7</b>
<b>Reserves</b>					
Revaluation reserve		16.5	16.5	16.5	16.5
Investment revaluation reserve		7.5	4.4	7.5	4.4
Accumulated fund		64.7	37.2	62.5	35.4
Other reserves		5.6	5.4	5.6	5.4
Charitable trust funds		15.4	14.2	-	-
		<b>109.7</b>	<b>77.7</b>	<b>92.1</b>	<b>61.7</b>

Approved on behalf of council and authorised for issue

*Fiona H. Wilkinson*      *Michael Izza*

Fiona Wilkinson  
President  
18 March 2020

Michael Izza  
Chief Executive  
18 March 2020

# Group and ICAEW statements of cash flows for the year ended 31 December 2019

		GROUP		ICAEW	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
<b>Cash flows from operating activities<sup>1</sup></b>					
<b>Result after taxation</b>		<b>18.6</b>	<b>13.9</b>	<b>18.2</b>	<b>13.1</b>
Adjustments for:					
Depreciation and amortisation		7.1	5.7	7.1	5.7
Investment income		(3.1)	(2.3)	(2.9)	(2.2)
Interest on lease liabilities		0.1	-	0.1	-
Non-cash movement in provisions		6.5	5.5	6.6	5.5
<b>Cash flows from operating activities before movements in working capital</b>		<b>29.2</b>	<b>22.8</b>	<b>29.1</b>	<b>22.1</b>
Movements in working capital					
Decrease/(Increase) in inventories		-	-	-	-
Increase in trade and other receivables		(5.5)	(0.9)	(4.9)	(1.0)
(Decrease)/increase in trade and other payables		(8.0)	20.8	(8.5)	21.4
Increase in long-term payables		2.9	2.1	2.9	2.0
<b>Cash generated from operating activities after movements in working capital</b>		<b>18.6</b>	<b>44.6</b>	<b>18.6</b>	<b>44.5</b>
<b>Cash flows on provisions</b>					
Tax paid		(0.1)	(0.1)	(0.1)	-
Cash outflow on pension liabilities		(1.6)	(1.6)	(1.6)	(1.6)
Cash outflow on FRC Conduct Committee provision		(7.0)	(6.2)	(7.0)	(6.2)
<b>Net cash generated from operating activities</b>		<b>9.9</b>	<b>36.7</b>	<b>9.9</b>	<b>36.7</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(5.4)	(4.2)	(5.3)	(4.2)
Purchase of intangible assets		(6.4)	(5.6)	(6.4)	(5.6)
Purchase of available for sale investments		(15.8)	(17.2)	(11.7)	(16.7)
Disposal of available for sale investments		15.1	8.5	10.8	8.0
Investment income received		2.1	1.5	2.0	1.4
<b>Net cash outflow from investing activities</b>		<b>(10.4)</b>	<b>(17.0)</b>	<b>(10.6)</b>	<b>(17.1)</b>
<b>Cash flows from financing activities</b>					
Repayment of lease liabilities		(0.8)	-	(0.8)	-
Interest on lease liabilities paid		(0.1)	-	(0.1)	-
<b>Net cash outflow from financing activities</b>		<b>(0.9)</b>	<b>-</b>	<b>(0.9)</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents in the year</b>		<b>(1.4)</b>	<b>19.7</b>	<b>(1.6)</b>	<b>19.6</b>
Net cash and cash equivalents at 1 January		36.7	17.0	36.1	16.5
Net cash and cash equivalents at 31 December	14	<b>35.3</b>	<b>36.7</b>	<b>34.5</b>	<b>36.1</b>

The adoption of IFRS 16 on 1 January 2019 has resulted in changes to the way the cash flows in respect of lease rentals paid and received are reported, as, in adopting the modified retrospective method of transition, ICAEW has not restated comparative information in the cash flow statement. In the prior period the net rental expense was presented in the income statement as an operating expense and subsequently an operating cash flow but for 2019 the equivalent charge into the income statement has instead been accounted for as a depreciation charge and net interest expense. In terms of cash flow reporting, the net interest expense of £0.1m is not a component of the operating result and a £0.9m depreciation charge, included in the underlying operating loss, has been added back.

Under IFRS 16 the actual net cash paid and received of £0.8m in respect of lease payments and receipts is now presented as a financing cash flow for 2019.

<sup>1</sup> 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 member 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 2019*

## **BASIS OF PREPARATION**

ICAEW is a body incorporated by Royal Charter and its principal place of business is Chartered Accountants' Hall, 1 Moorgate Place, London EC2R 6EA UK. 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, not control over, the financial and operating policies of the companies.

## **ADOPTION OF NEW AND REVISED STANDARDS**

### **New and amended IFRS that is effective for the current year**

ICAEW has adopted IFRS 16 during the year. The impact of this standard is set out below.

### **IFRS 16 Leases**

IFRS 16 changes how ICAEW accounts for leases previously classified as operating leases under IAS 17, which were subject to the required disclosures of the length and quantity of the financial commitment entered into.

ICAEW has adopted IFRS 16 from 1 January 2019 using the modified retrospective method, therefore the comparatives for 2018 have not been restated, which continue to be presented under IAS 17 and IFRIC 4. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised as an adjustment to the opening balance sheet on 1 January 2019. The standard permits a choice on initial adoption, on a lease-by-lease basis, to measure the right-of-use asset at either its carrying amount as if IFRS 16 had been applied since the commencement of the lease, or an amount equal to the lease liability, adjusted for accruals or prepayments. The majority of right-of-use assets were measured as if IFRS 16 had been applied since commencement of the lease. All of the right-of-use assets were in relation to properties.

On adoption of IFRS 16, ICAEW recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.75%.

ICAEW has used the following practical expedients on transition to leases previously classified as operating leases:

- Applied the exemption not to recognise right of use assets and liabilities with less than 12 months of the lease term remaining at 1 January 2019.
- Excluded initial direct costs from measuring the right of use asset at date of initial application.
- Used hindsight when determining the lease term where the contract contains options to extend or terminate the lease.
- Used the option to grandfather the assessment of which transactions are leases by applying IFRS 16 only to contracts that were previously identified as leases.

Key judgements made in calculating the initial impact of adoption include determining the lease term where extension or termination options exist. In such instances, all facts and circumstances that may create an economic incentive to exercise an extension option, or not exercise a termination option, have been considered to determine the lease term. Extension periods (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Estimates include calculating the discount rate which is based on the incremental borrowing rate.

Following the adoption of IFRS 16, ICAEW has recognised its leased assets and the corresponding liability to make lease payments into its results for the year. The following adjustments were made:

	£m
Recognition of ROU assets	2.2
Recognition of lease liabilities relating to ROU assets	(2.8)
Adjustment to rent free accruals recognised under IAS 17	0.3
Charge to retained earnings on opening balances	(0.3)

For the current period, there was no significant impact on profit before taxation, however, the unwinding of the discount on the lease liabilities has resulted in a £0.1m charge being included in finance costs, whereas under IAS 17 all operating leases were included in administrative expenses. There is no effect on overall cash flows from implementing IFRS 16, however, there is a presentational change in that £0.9m of cash outflows are now disclosed under financing whereas under IAS 17 these would have been shown as operating cash outflows.

The table below provides a reconciliation between the operating lease commitment at 31 December 2018 as reported under IAS 17 and the lease liabilities recognised at 1 January 2019:

	ICAEW £m
Operating lease commitment at 31 December 2018	3.2
Effect of discounting those lease commitments at an annual rate of 2.75%	(0.2)
Effect of electing to account for short-term and low value leases off balance sheet	(0.3)
Other reconciling items (net)	0.1
Lease liabilities recognised at 1 January 2019	2.8

### New and revised IFRS in issue but not effective

At the date of authorisation of these financial statements, there are no new standards or interpretations that have been issued which ICAEW has not applied.

There are no 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 UNCERTAINTY

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 the valuation bases 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. A summary is included below of key sources of estimation uncertainty. Further details in relation to these specific areas are included within the relevant notes to the accounts.

### Valuations of property plant and equipment (note 8)

Freehold buildings – ICAEW policy is to include these in the statements of financial position at their revalued amounts derived from observable market data of comparable buildings in a similar location. Surpluses and deficits on revaluations are transferred to the revaluation reserve to the extent that there are available surpluses relating to the same asset. Estimation of the market value is undertaken through obtaining valuations carried out using a market approach which reflect observed prices for recent market transactions.

Silver, collection and antiques – ICAEW policy, is to recognise silver collection and antiques at cost and subsequently revalue at fair value. They are stated at estimated open market values that are derived from observed prices for recent market transactions through valuations conducted by independent, professionally-qualified valuers. Where the held value of these collections differs materially from the estimates made on the basis of these external valuations, the surpluses and deficits on revaluation are transferred to the revaluation reserve to the extent that there are available surpluses relating to the same asset.

### **Professional Conduct and FRC conduct committee (note 16)**

ICAEW recognises a provision for the estimated costs of conduct committee investigations or disciplinary cases based on the extent to which present obligations arising from past events up to 31 December 2019 can be reliably estimated. ICAEW management carefully considers and exercises some judgement while reviewing the adequacy of the provision. This will typically involve a review of historic completed case costs and a discussion of current cases with the relevant individuals at the FRC. Any updates to the provision amount held are reflected in the income statement. ICAEW also exercises some judgement based on the levels of activity anticipated by the FRC in order to determine how much of the FRC conduct committee provision is expected to be used within one year and that which is expected to be used after more than one year.

### **Retirement benefits, GMP equalisation and IFRIC 14 (note 18)**

The determination of pension net interest income and the defined benefit obligation of ICAEW's defined benefit pension schemes depends on certain assumptions which include the discount rate, inflation rate, pensionable salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. Any surplus arising on valuation is recognised as a scheme asset.

## **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. To the extent possible, ICAEW uses the income received from services provided in other 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. In addition, ICAEW holds accounts in US dollars and euros.

### **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.

IFRS 9 established an approach for the impairment of loans and trade receivables, an expected loss model, which focuses on the risk that a debt will default rather than when a loss has been incurred. Under the 'expected credit loss' model, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. ICAEW has opted to use the simplified approach measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. 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 IFRS 15 - Revenue from Contracts with Customers. 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.
- Non-refundable admission fees charged to new members grant the members the option to obtain and renew professional membership services over the period during which they will remain a member. These are recognised as a material right arising on commencement of membership and income is recognised over the expected membership period of 35 years. While other services are provided to new members, including limited faculty membership, the renewal option has been assessed as being the main performance obligation for the purposes of allocating the admission fee.
- 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 when receivable ie, when the decision has been made and is final after any appeal.
- Receipt of fines 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 £11.8m (2018: £11.8m).

### **Government grants**

In accordance with IAS 20 – Government Grants, ICAEW recognises government grants only when there is reasonable assurance that ICAEW will comply with any conditions attached to the grant and the grant will be received.

- The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis in relation to the performance of agreed objectives under the terms of the grant.
- Grant income received in advance of related costs is recognised within other income in advance.

### **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. Operating result**

The group and ICAEW operating result is stated after charging:

	<b>GROUP</b>		<b>ICAEW</b>	
	2019	2018	2019	2018
	£m	£m	£m	£m
Staff costs (see note 4)	48.1	47.1	44.5	44.0
Depreciation on owned property, plant and equipment (note 8)	3.3	2.9	3.3	2.9
Amortisation of intangible assets (note 9)	3.0	2.7	3.0	2.7
Cost of inventories recognised as an expense	1.3	1.3	1.3	1.3
Amounts payable under operating leases under IAS 17:				
Operating lease rental charge	-	1.0	-	0.7
Amounts payable under operating leases under IFRS 16:				
Operating lease rental charge	0.1	-	0.1	-
Depreciation on right of use assets	0.8	-	0.7	-
Interest on lease liabilities	0.1	-	0.1	-
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	0.1	-	-

No non-audit services have been provided by ICAEW's auditor, Haysmacintyre LLP (2018: nil).

**2. Investment income**

The group and ICAEW operating result is stated after charging:

	<b>GROUP</b>		<b>ICAEW</b>	
	2019	2018	2019	2018
	£m	£m	£m	£m
Interest receivable from investment deposits	0.6	0.4	0.6	0.3
Returns on multi-asset portfolio	1.6	1.3	1.1	0.9
Dividends receivable from subsidiary undertakings	-	-	0.3	0.3
Net realised gains from equities	0.9	0.7	0.9	0.7
	<b>3.1</b>	<b>2.4</b>	<b>2.9</b>	<b>2.2</b>

**3. Leasing commitments**

- IAS 17 – Prior to 1 January 2019, under IAS 17, 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.
- IFRS 16 – After 1 January 2019, under IFRS 16, costs of leases that are short-term ie, those expiring in less than one year or low value leases (low value assets are only those with a value less than \$5k), are charged to the income statement on a straight line basis over the term of the lease.

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

	<b>IFRS 16</b>	<b>IAS 17</b>	<b>IFRS 16</b>	<b>IAS 17</b>
	2019	2018	2019	2018
	£m	£m	£m	£m
Land and buildings				
Minimum lease payments due:				
Within one year	0.2	1.0	0.1	0.7
In two to five years inclusive	-	2.2	-	2.0
After five years	-	-	-	-
	<b>0.2</b>	<b>3.2</b>	<b>0.1</b>	<b>2.7</b>



	GROUP		ICAEW	
Plant and machinery	2019	2018	2019	2018
	£m	£m	£m	£m
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>

The maturity analysis for leases is presented in note 15 for 2019 following the adoption of IFRS 16 and creation of lease liabilities.

#### 4. Staff costs

##### Average number of staff employed during the year

	GROUP		ICAEW	
	2019	2018	2019	2018
Total employees	777	774	727	726
Full-time equivalents	744	741	692	694

##### Employment costs

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Wages and salaries	41.3	39.8	37.8	36.7
Employer's social security costs	3.9	3.9	3.9	3.9
Employer's pension costs	2.9	3.4	2.8	3.4
	<b>48.1</b>	<b>47.1</b>	<b>44.5</b>	<b>44.0</b>

The figures above do not include two members of staff whose employment costs are borne by the Fraud Advisory Panel (2018: two). The charitable trust employees' employment costs are borne by Chartered Accountants' Trust for Education and Research (CATER) although they have contracts of employment with ICAEW.

#### 5. Key management compensation - executive directors

	GROUP and ICAEW			GROUP and ICAEW		
	Salary	Deferred variable pay	Total	Salary	Deferred variable pay	Total
	2019	2019	2019	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Sharron Gunn	256	66	322	248	64	312
Robert Hodgkinson	283	75	358	279	67	346
Michael Izza	456	148	604	447	137	584
Mark Protherough	249	73	322	228	58	286
Vernon Soare	291	78	369	285	69	354
Duncan Wiggetts	251	73	324	228	59	287
	<b>1,786</b>	<b>513</b>	<b>2,299</b>	<b>1,715</b>	<b>454</b>	<b>2,169</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 £300,000 (2018: £294,000).

Independent non-executive directors (those who are not ICAEW members) receive a director's fee of £15,500 per annum. No other non-executive directors are remunerated.

## 6. Tax

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

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Current tax	(0.2)	(0.1)	(0.1)	-

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

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
<b>Factors affecting the tax charge for the year</b>				
Net result before taxation	18.8	13.8	18.3	13.1
Add back: result on transactions with members	(15.0)	(10.6)	(15.3)	(10.9)
Net result before taxation on transactions with non-members	<b>3.8</b>	<b>3.2</b>	<b>3.0</b>	<b>2.2</b>
Net result above at the standard rate of corp tax of 19%	(0.7)	(0.6)	(0.6)	(0.4)
Effects of:				
Items not chargeable/deductible for tax purposes	0.5	0.5	0.5	0.4
Unutilised losses	-	-	-	-
	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>-</b>

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

## 7. 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.

	GROUP and ICAEW			
	Revaluation of available for sale investments	Revaluation of properties and historical collections	Defined benefit pension scheme deficit	Net
	£m	£m	£m	£m
Liability at 1 January 2018	(1.6)	(0.5)	(0.1)	(2.2)
Movement in year				
Recognised in OCI	0.6	0.1	(0.2)	0.5
Liability at 1 January 2019	(1.0)	(0.4)	(0.3)	(1.7)
Movement in year				
Recognised in OCI	(0.5)	-	(0.2)	(0.7)
Liability at 31 December 2019	(1.5)	(0.4)	(0.5)	(2.4)

## 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.

### 8. 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 recognised at cost and revalued regularly, at least every five years, at open market value by independent, professionally-qualified valuers. ICAEW policy is to include these 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.
- Estimation of the market value is undertaken through obtaining valuations carried out using a market approach which reflect 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 that are considered to be significant by management 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.

A professional valuation of Chartered Accountants' Hall was carried out in line with the above accounting policy at 31 December 2017.

### Silver collection and antiques

- Under ICAEW accounting policy, silver collection and antiques are recognised at cost and subsequently revalued at fair value. 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 regularly, at least every five years, by independent, professionally-qualified valuers. They are stated at estimated open market values that are 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 last 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 line with the accounting policy.
- 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 2 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.

### Right-of-use assets

- The group implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the standard. The group elected to apply exemptions for short-term leases in relation to leases of cars or for leases for which the underlying asset is of low value as management does not estimate the impact of these leases to be significant
- Based on the accounting policy applied the group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time.
- The lease term determined by the group generally comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.
- At lease commencement date, the group recognises a right-of-use asset and a lease liability on the balance sheet. In accordance with IFRS 16, the right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.
- After the commencement date the lease is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

At 31 December 2019 there were no contracts for capital expenditure not provided for in these financial statements (2018: £nil). There is a charge over Chartered Accountants' Hall in favour of the trustee of ICAEW's defined benefit pension scheme (see note 18).

	Freehold Property	Right of Use Assets	Short Leasehold Property	Silver Collection and Antiques	Furniture Computers and Equipment	Total
	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>						
<b>At 1 January 2018</b>	<b>34.8</b>	-	<b>3.2</b>	<b>4.5</b>	<b>11.9</b>	<b>54.4</b>
Additions	1.5	-	0.1	-	2.2	3.8
Disposals at cost or valuation	-	-	-	-	(0.2)	(0.2)
<b>At 1 January 2019 per 2018 accounts</b>	<b>36.3</b>	-	<b>3.3</b>	<b>4.5</b>	<b>13.9</b>	<b>58.0</b>
Adjustment on adoption of IFRS 16	-	10.0	(3.1)	-	-	6.9
<b>At 1 January 2019 (as adjusted)</b>	<b>36.3</b>	<b>10.0</b>	<b>0.2</b>	<b>4.5</b>	<b>13.9</b>	<b>64.9</b>
Additions	1.0	-	-	0.1	1.3	2.4
Disposals at cost or valuation	-	-	(0.2)	-	(0.1)	(0.3)
<b>31 December 2019</b>	<b>37.3</b>	<b>10.0</b>	-	<b>4.6</b>	<b>15.1</b>	<b>67.0</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2018</b>	<b>4.7</b>	-	<b>2.0</b>	-	<b>6.5</b>	<b>13.2</b>
Depreciation for the year	1.4	-	0.2	-	1.3	2.9
Depreciation on disposals	-	-	-	-	(0.2)	(0.2)
<b>At 1 January 2019 per 2018 accounts</b>	<b>6.1</b>	-	<b>2.2</b>	-	<b>7.6</b>	<b>15.9</b>
Adjustment on adoption of IFRS 16	-	6.9	(2.2)	-	-	4.7
<b>At 1 January 2019 (as adjusted)</b>	<b>6.1</b>	<b>6.9</b>	-	-	<b>7.6</b>	<b>20.6</b>
Depreciation for the year	1.5	0.8	-	-	1.4	3.7
Depreciation on disposals	-	-	-	-	(0.1)	(0.1)
<b>31 December 2019</b>	<b>7.6</b>	<b>7.7</b>	-	-	<b>8.9</b>	<b>24.2</b>
<b>Carrying amount</b>						
<b>31 December 2019</b>	<b>29.7</b>	<b>2.3</b>	-	<b>4.6</b>	<b>6.2</b>	<b>42.8</b>
31 December 2018	30.2	-	1.1	4.5	6.3	42.1
On an historical cost basis the comparable amounts for property, plant and equipment are:						
Cost	<b>28.7</b>	<b>3.1</b>	-	<b>0.2</b>	<b>15.1</b>	<b>47.1</b>
Accumulated depreciation	<b>13.2</b>	<b>0.8</b>	-	-	<b>9.1</b>	<b>23.1</b>
<b>Net historical cost at 31 December 2019</b>	<b>15.5</b>	<b>2.3</b>	-	<b>0.2</b>	<b>6.0</b>	<b>24.0</b>
Net historical cost at 31 December 2018	15.7	-	1.1	0.3	6.3	23.4

Upon adoption of IFRS 16, right-of-use assets which all relate to properties of £3.1m were recognised on transition. During the period, these assets were depreciated by £0.8m.

## 9. 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 ten years). The estimated useful economic life has been increased from eight to ten years in 2019 to better reflect the true useful life of the IT assets observed. 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.

		GROUP and ICAEW	
		2019	2018
		£'m	£'m
<b>Cost</b>			
At 1 January		22.2	16.6
Additions		6.5	5.6
Disposals		(0.1)	-
At 31 December		28.6	22.2
<b>Accumulated amortisation</b>			
At 1 January		10.0	7.3
Amortisation for the year		3.0	2.7
Amortisation on disposals		-	-
At 31 December		13.0	10.0
Carrying amount at 31 December		15.6	12.2

The impact of increasing the useful economic life from 8 to 10 years in 2019 was a reduction in the amortisation charge for the year of £0.1m.

Principally the assets are software for ICAEW's internal systems and external digital resources. The main additions in the year related to the development of ICAEW's business systems transformation programme as well as supporting digital infrastructure. Amortisation charges are allocated to departments on the basis of use of ICAEW's systems through the overhead allocation. At 31 December 2019 there were £0.9m of contracts for capital expenditure not provided for in these financial statements (2018: £0.9m).

## 10. 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 £0.2m (2018: £0.3m). At the year-end, the trusts owed ICAEW £nil (2018: £nil).

ICAEW made payments of £0.5m (2018: £0.6m) 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.

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. The international companies provide marketing services for ICAEW and the ICAEW Legal Services Compensation Scheme Ltd activity is set out below. The value of these services during 2019 was £6.3m (2018: £5.6m). At the year-end £1.7m (2018: £1.4m) was owed by ICAEW and £nil (2018: £0.5m) was owed to ICAEW.

		2019 dividends paid £m	2018 dividends paid £m
Activity and cost of investment			
ICAEW Malaysia Limited	Representative office for ICAEW in Malaysia, Indonesia and Vietnam. Cost £1	0.1	0.1
ICAEW China Limited	Representative office for ICAEW in China. Cost £2	-	-
ICAEW Middle East Limited	Representative office for ICAEW in the Middle East. Cost £1	0.1	0.1
ICAEW SEA Limited	Representative office for ICAEW in South East Asia. Cost £1	-	-
ICAEW Europe Limited	Representative office for ICAEW in Europe. Cost £1	0.1	0.1
ICAEW Legal Services Compensation Scheme Ltd - a company limited by guarantee	Evaluates and administers claims for compensation arising from the obligations in relation to member firms authorised or licensed under ICAEW's Legal Services Regulations.	-	-

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.

	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)	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. ICAEW shareholding 60.5%.
Chartered Accountants' Compensation Scheme Limited (CACS)	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. ICAEW shareholding 80.0%.
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](https://www.icaew.com/review)



Financial information relating to the associates is summarised below:

	<b>JIEB</b>	<b>FAP</b>	<b>CCAB</b>	<b>CACS</b>	<b>CAW</b>	<b>Total</b>	<b>Total</b>
	2019	2019	2019	2019	2019	2019	2018
	£m	£m	£m	£m	£m	£m	£m
Assets	0.2	0.3	1.0	0.1	0.5	<b>2.1</b>	<b>2.0</b>
Liabilities	-	(0.1)	(1.0)	(0.1)	(0.5)	<b>(1.7)</b>	<b>(1.8)</b>
Net assets	0.2	0.2	-	-	-	<b>0.4</b>	<b>0.2</b>
Revenue	0.2	0.3	5.3	0.1	0.4	<b>6.3</b>	<b>5.8</b>
Result from continuing operations and total comprehensive income	0.1	-	-	-	-	<b>0.1</b>	<b>0.1</b>
Services provided by ICAEW during the year, including grant funding	-	0.2	0.1	-	0.1	<b>0.4</b>	<b>0.3</b>
Balances due from associates at 31 December	-	0.1	-	0.2	-	<b>0.3</b>	<b>0.2</b>
Balances due to associates at 31 December	-	-	-	-	-	<b>-</b>	<b>-</b>
Group share of net assets at 31 December	-	0.1	-	-	-	<b>0.1</b>	<b>0.1</b>

Share of profit or loss of the associates is accounted for using the equity method.

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

## 11. Financial assets

- 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 are indicators that an available for sale equity instrument is impaired and a loss allowance is required. Judgement is used to determine whether a significant or prolonged decline in the fair value of the security below its cost could represent impairment and also consider any risk of default. Impairment charges are recognised in the income statement.

	GROUP					
	Interest-bearing investments 2019	Equities and unit trusts 2019	Total 2019	Interest-bearing investments 2018	Equities and unit trusts 2018	Total 2018
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.9	57.4	<b>63.3</b>	5.4	52.6	<b>58.0</b>
Additions	1.0	14.8	<b>15.8</b>	0.6	16.6	<b>17.2</b>
Disposals	(1.0)	(14.2)	<b>(15.2)</b>	(0.1)	(8.4)	<b>(8.5)</b>
Gains on disposal	-	1.0	<b>1.0</b>	-	0.9	<b>0.9</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	4.8	<b>4.8</b>	-	(4.3)	<b>(4.3)</b>
<b>At 31 December</b>	<b>5.9</b>	<b>63.8</b>	<b>69.7</b>	<b>5.9</b>	<b>57.4</b>	<b>63.3</b>

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

At 31 December	<b>5.9</b>	<b>52.7</b>	<b>58.6</b>	<b>5.9</b>	<b>50.3</b>	<b>56.2</b>
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	ICAEW					
	Interest-bearing investments 2019	Equities and unit trusts 2019	Total 2019	Interest-bearing investments 2018	Equities and unit trusts 2018	Total 2018
	£m	£m	£m	£m	£m	£m
<b>Fair value</b>						
At 1 January	5.0	43.9	<b>48.9</b>	5.0	37.7	<b>42.7</b>
Additions	-	11.7	<b>11.7</b>	-	16.7	<b>16.7</b>
Disposals	-	(10.9)	<b>(10.9)</b>	-	(8.0)	<b>(8.0)</b>
Gains on disposal	-	0.9	<b>0.9</b>	-	0.8	<b>0.8</b>
Change in market value of investments:						
Recognised in other comprehensive income	-	3.6	<b>3.6</b>	-	(3.3)	<b>(3.3)</b>
<b>At 31 December</b>	<b>5.0</b>	<b>49.2</b>	<b>54.2</b>	<b>5.0</b>	<b>43.9</b>	<b>48.9</b>

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

At 31 December	<b>5.0</b>	<b>40.2</b>	<b>45.2</b>	<b>5.0</b>	<b>38.4</b>	<b>43.4</b>
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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 £15.5m (2018: £14.3m) which are maintained independently of ICAEW, and for which the trustee sets investment policies and monitors performance. ICAEW investments include cash balances of £3.7m (2018: £6.6m).

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 18).

## 12. 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.

	GROUP and ICAEW	
	2019	2018
	£m	£m
Learning materials	<b>0.9</b>	<b>0.9</b>

There was no provision against learning materials at the year end (2018: £nil).

## 13. Trade and other receivables – current

- Trade receivables and other receivables are categorised as loans and receivables as required by IFRS 9. 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.
- Trade receivables are grouped based on shared credit risk characteristics. Impairment of receivables is based on expected credit losses for each group based on historic credit losses and any other indicators that ICAEW will not be able to collect all amounts due to it. The loss allowance is recognised in the income statement.

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Trade receivables and other receivables	24.0	18.3	23.2	17.3
Amounts owed by subsidiaries	-	-	-	0.5
Amounts owed by associates	0.2	0.2	0.2	0.2
Prepayments	4.5	4.2	4.4	4.0
Accrued income	<b>3.1</b>	<b>3.8</b>	<b>3.1</b>	<b>3.8</b>
	31.8	26.5	30.9	25.8
Less: provision for impairment of trade and other receivables	(0.8)	(0.8)	(0.8)	(0.8)
	<b>31.0</b>	<b>25.7</b>	<b>30.1</b>	<b>25.0</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 loss allowance of £0.8m (2018: £0.8m) has been made. The movement in the provision for trade and other receivables can be reconciled as follows:

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Balance at 1 January	0.8	0.4	0.8	0.4
Additional loss allowance arising from first time adoption of IFRS 15	-	0.5	-	0.5
Impairment losses recognised during the year	0.4	0.2	0.4	0.2
Previous impairment losses reversed	(0.4)	(0.3)	(0.4)	(0.3)
	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

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

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
More than one month but not more than three months	1.0	1.3	1.0	1.3
More than three months	0.2	0.2	0.2	0.2
	<b>1.2</b>	<b>1.5</b>	<b>1.2</b>	<b>1.5</b>

## 14. 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, and which are subject to an insignificant risk of changes in value.

Forward contracts are used to cover known foreign currency exposures. Forward contracts for the purchase of foreign currency totalling £6.9m were in place at the year-end (2018: £5.2m) and there were no material fair value differences at the end of either period. US dollar and euro bank accounts stood at £0.3m (2018: £0.7m) equating to 1% (2018: 2%) 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 £96,000 (2018: £107,000). All other variables are held constant.

## 15. Trade and other payables

- Trade and other payables are categorised as current financial liabilities measured at amortised cost as required by IFRS 9. 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 2019 but relating to 2020 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 income in advance.
- Admission fees are treated as a material right under IFRS 15 and income recognised over the expected duration of membership with income deferred accordingly.
- Grant income received is held within other income and advance and long-term grant liabilities and will be taken to the income statement to match the expenditure.

## Current

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Subscriptions and admission fees in advance	28.7	31.8	28.7	31.8
Admission fee deferred income obligations	1.6	1.5	1.6	1.5
Amounts owed to subsidiaries	-	-	1.7	1.4
Other income in advance	0.7	13.3	0.7	13.3
Trade payables	3.7	3.6	3.4	3.2
Other payables	14.1	9.2	13.6	9.2
Lease liabilities	0.8	-	0.7	-
Income tax and social security payables	1.0	1.3	1.0	1.3
Accruals	9.9	9.2	9.5	8.6
	<b>60.5</b>	<b>69.9</b>	<b>60.9</b>	<b>70.3</b>

## Non-current

	GROUP		ICAEW	
	2019	2018	2019	2018
	£m	£m	£m	£m
Admission fee deferred income obligations	29.3	28.3	29.3	28.3
Lease liabilities	1.6	-	1.4	-
Subscriptions and other income in advance	2.1	2.1	2.1	2.1
Other payables	0.4	0.1	0.5	-
	<b>33.4</b>	<b>30.5</b>	<b>33.3</b>	<b>30.4</b>

- The group implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the standard. The group elected to apply exemptions for short-term leases in relation to leases of cars or for leases for which the underlying asset is of low value.
- The lease term determined by the group generally comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.
- Under IFRS 16, ICAEW has recognised an asset reflecting its right to use the leased asset for the lease term (referred to as the 'right of use' asset) and a lease liability reflecting its obligation to make lease payments. Both the asset and the liability are recognised on-balance sheet at the commencement of the lease ie, the date on which the underlying asset becomes available for use by ICAEW.
- The lease payments included in the measurement of the lease liability comprise payments for the right to use the underlying asset during the lease term that are not paid at the commencement date. In subsequent years the lease liability is increased by the unwinding of the discount and reduced by lease payments. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in payments.
- In accordance with IFRS 16, the net present value of the rental payments due on these leases has been disclosed as lease liability under current and non-current liabilities in the balance sheet.

- As ICAEW does not have any borrowings, an indicative borrowing rate has been obtained to represent the amount of rentals payable for the duration of leases. This rate of 2.75% has been determined using the LIBOR rate at the date of transition (1 January 2019) and then applying a risk factor in basis points. As international offices and therefore leases are funded centrally by the UK, the indicative borrowing rates used are based on the funding source based in the UK and denominated in GBP.

Upon adoption of IFRS 16, lease liabilities of £2.1m were recognised on transition. Lease payments and interest costs expensed in the year were £0.8m and £0.1m respectively.

The table below shows the split of lease liabilities recognised between current and non-current and the also provides further maturity analysis of the lease liability.

Lease Liabilities		Maturity Analysis	
	£m		£m
Current	0.7	2020	0.7
Non-current	1.4	2021	0.7
	2.1	2022	0.7
		2023	-
		2024	-
			2.1

## 16. FRC Conduct Committee provision

- ICAEW is required to indemnify the FRC for the costs incurred in relation to an investigation or disciplinary action against an ICAEW member, or member firm registered by ICAEW to conduct audit work. ICAEW therefore recognises a provision for the estimated costs of conduct committee investigations or disciplinary cases based on the extent to which present obligations arising from past events up to 31 December 2019 can be reliably estimated. The estimated costs of completing the current stage of each current investigation or disciplinary case at 31 December 2019 has been recognised as a provision.
- ICAEW management carefully considers and exercises some judgement while reviewing the adequacy of the provision. This will typically involve a review of historic completed case costs and a discussion of current cases with the relevant individuals at the FRC. However, the accuracy of both the provision estimation 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 financial penalty or costs that would be due to ICAEW as a result of sanctions imposed by the conduct committee on the current cases. The provision is not discounted.
- ICAEW exercises some judgement based on the levels of activity anticipated by the FRC in order to determine how much of the FRC conduct committee provision is expected to be used within one year and that which is expected to be used after more than one year.

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. These disciplinary schemes cover 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*.

At the year-end, the provision covers a total of 29 current cases involving ICAEW members and member firms (2018: 30) 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 reasonably estimated at 31 December 2019. However, the ICAEW indemnity extends to any case costs incurred by the FRC, which may exceed the extent of the FRC's work which could be reasonably estimated at 31 December 2019, for example if the FRC decides to escalate a case to the next stage. This additional obligation will form part of the contingent liability outlined in note 21.

In making this provision there is uncertainty on the potential costs arising on all cases, but as yet there have only been six cases investigated under the AEP which have reached a conclusion. Consequently we cannot yet say with great certainty whether case costs under AEP will be on average higher or lower than under the Accountancy Scheme. In addition the costs of the very large complex cases are continuing to escalate, this uncertainty is reflected in the provision. At the year-end, 17 of the 29 cases were AEP matters with a further six being investigated under the Accountancy Scheme and six under both AEP and the Accountancy Scheme.

ICAEW meets the provision, together with any obligations arising from new investigations as they arise, through additional charges to the 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.

	GROUP and ICAEW	
	2019 £m	2018 £m
Balance at 1 January	11.9	13.0
Charge to income statement	6.9	5.1
Other income in advance		
Amounts paid	(7.0)	(6.2)
	<b>11.8</b>	<b>11.9</b>
Provision expected to be used within one year	6.0	5.0
Provision expected to be used after more than one year	5.8	6.9
Balance at 31 December	<b>11.8</b>	<b>11.9</b>

## 17. 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.

	GROUP and ICAEW	
	2019	2018
	£m	£m
Balance at 31 December	<b>1.0</b>	<b>1.1</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.

## 18. Pension benefits

### 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 2019 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 £210.1m, which represented 100% of the value of the benefits that had accrued to members, after allowing for expected future increases in inflation.

A recovery plan was agreed in 2016 with the trustee whereby ICAEW had undertaken to make monthly payments totalling £1.6m per year until the deficit was eliminated. This was reviewed at the triennial valuation in 2019 together with employer contributions required under the trust deed and rules. Total payments by ICAEW to the scheme during 2019 for past service costs amounted to £1.6m (2018: £1.6m). As the scheme is now fully funded as at 31 December 2019, contributions to the scheme in 2020 are estimated to be £0.3m, together with contributions in kind in relation to the administration costs of the scheme. The next triennial review will be as at 31 March 2022.

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 2019 valuation of the scheme, ICAEW agreed to continuation of a charge 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 2019. This review estimated that the surplus, based on assumptions consistent with the 2019 triennial valuation, was £7.3m, reflecting a funding level of 104% (2018: £14.7m deficit with a 93% funding level). This includes the impact of GMP equalisation of 0.3% of the liabilities.

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 based on the 2018 CMI projection model and a long-term rate of 1.5% pa (improvements are assumed to have peaked and decline at older ages)

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 buy-in 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 Surplus £m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 7%	14.7
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 5%	10.4
Longevity	Increase by 1 year	Decrease by 3%	6.2

## 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 2019 by the board on the advice of the scheme's actuary were:

	2019	2018
Discount rate	2.00%	2.80%
Rate of inflation	2.95%	3.20%
Pension 5% LPI increase rate (% pa)	2.90%	3.10%

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 17 years.

The mortality tables used to calculate the pension liabilities imply an expected future life expectancy of current pensioners at age 65 of 23.2 years (men) and 24.3 years (women); and for current non-pensioners of 24.6 years (men) and 26.3 years (women).

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	280	42.7%	20.1
Pensioners	430	57.3%	12.4
Total/weighted average	<b>710</b>	<b>100.0%</b>	<b>15.7</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 buy-in annuities held, the change in assumptions affects both the liabilities and assets of the scheme.

	Change in assumption	Effect on scheme liabilities	Net effect on deficit
		%	£m
Discount rate	Increase/(decrease) by 0.5% pa	Increase/(decrease) by 8%	15.9
Rate of inflation	Increase/(decrease) by 0.5% pa	(Decrease)/increase by 6%	11.8
Longevity	Increase by 1 year	Decrease by 4%	7.6

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

	2019	2018
	£m	£m
Present value of funded obligations	(190.7)	(179.8)
Fair value of plan assets	214.7	192.2
Scheme surplus	<b>24.0</b>	<b>12.4</b>

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. The directors have made the judgement that these amounts meet the requirements of recoverability and a surplus of £24.0m has been recognised as a scheme asset.

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

	2019	2018
	£m	£m
Opening defined benefit obligation	179.8	194.9
Past service cost	-	0.6
Interest on obligation	5.0	4.8
Actuarial gains/(losses) arising from changes in financial assumptions	11.9	(14.5)
Benefits paid, including expenses	(6.0)	(6.0)
Closing defined benefit obligation	<b>190.7</b>	<b>179.8</b>

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

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

	2019	2018
	£m	£m
Opening defined benefit obligation	192.2	200.6
Past service cost	5.3	5.0
Interest on obligation	1.6	1.9
Actuarial gains/(losses) arising from changes in financial assumptions	21.6	(8.9)
Benefits paid, including expenses	(6.0)	(6.4)
Closing defined benefit obligation	214.7	192.2
Actual return on assets	<b>26.9</b>	<b>(3.9)</b>

Contributions by the employer include deficit funding payments, together with contributions in kind of £0.4m (2018: £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:

	2019	2018
Equities	32%	34%
Debt securities - Government bonds	12%	7%
Debt securities - Corporate bonds	11%	4%
Insurance contracts	23%	25%
Absolute return bond	21%	20%
Cash and cash equivalents	1%	10%
	<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.

As part of the continued process to manage scheme volatility, the trustee has purchased two buy-in annuities 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	Unquoted	Total
	£m	£m	£m
Equities	68.2	-	68.2
Debt securities	48.7	-	48.7
Insurance contracts	-	49.6	49.6
Absolute return bond	45.2	-	45.2
Cash and cash equivalents	3.0	-	3.0
	<b>165.1</b>	<b>49.6</b>	<b>214.7</b>

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

	2019	2018
	£m	£m
Administration cost	-	(0.4)
Past service costs	-	(0.6)
Net interest income on plan assets	5.3	5.0
Interest on obligation	(5.0)	(4.8)
	<b>0.3</b>	<b>(0.8)</b>

Amounts recognised as other comprehensive income:

	2019	2018
	£m	£m
Return on plan assets (excluding amounts included in net interest)	21.6	(8.9)
Actuarial gain/(loss) on changes in demographic assumptions	1.5	7.1
Actuarial gain/(loss) on changes in financial assumptions	(17.3)	7.6
Experience re-measurements	3.8	(0.2)
Actuarial gain	<b>9.6</b>	<b>5.6</b>

### 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 £2.8m (2018: £2.6m). There were no contributions payable to the scheme at the year-end date (2018: £nil).

## 19. 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 2019 these payments in aggregate amounted to £2.0m (2018: £2.1m). Of this, £352,000 (2018: £473,000) 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 £nil (2018: £nil) in total.

Transactions and balances between ICAEW and its subsidiaries and associates is set out in note 10 above.

ICAEW provides accounting and operational support to the Capitals Coalition (CC), an unincorporated multi-stakeholder collaboration bringing together initiatives and organisations to harmonise approaches to natural capital. ICAEW hosts the secretariat and Michael Izza is a member of the CC's Board of Directors. The amount held by ICAEW as agent of the CC at the year-end date was £1.1m; amounts owed to ICAEW were £0.7m (2018: £0.4m and £0.1m respectively).

## 20. 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. The balance at the end of 2019 exceeded this range but this is expected to be a short-term matter as ICAEW completes its investment in business development and systems.

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 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 £3.2m 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 member firms authorised for investment business. This compensation scheme exists to deal with claims received about work carried out by authorised member 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 member firms under the DPB regime. ICAEW has reserved the right to make further levies on member firms authorised under the RPB regime before 1 December 2001 should additional funds be required.

## 21. 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 member firms licensed by ICAEW under the Financial Services and Markets Act 2000 and those member firms previously authorised by ICAEW under the Financial Services Act 1986 as appropriate.

As a recognised supervisory body (RSB) ICAEW is required to indemnify the FRC for the costs incurred in relation to investigations and disciplinary action against an ICAEW member, or member firm registered by ICAEW to conduct audit work under the Audit Enforcement Procedure and the Accountancy Scheme. This indemnity 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 an investigation. The estimated cost of completing the current stage of each case has been recognised in the FRC case cost provision – see note 16. However, it is possible that a number of the current cases could progress to subsequent stages which cannot be reasonably foreseen. The contingent liability, over and above the year-end FRC case cost provision of £11.8m (2018: £11.9m), based on the average costs to progress the current cases at 31 December 2019, amounts to a contingent liability in the range £15.0m to £20.0m. This contingent liability range reflects the continuing escalation of costs for very large complex cases and the current uncertainty in relation to the average costs of cases under AEP when compared to the Accountancy Scheme. ICAEW will meet these potential costs through a programme of levies on member firms and charges to the income statement.

## *List of council members (both retired and ongoing) and their attendance during 2019*

George Acquah	Co-opted	5/5
Victoria Andrew	Elected (UK - London) from 4 June 2019	4/4
Paul Aplin	President to 5 June 2019 Immediate Past President from 5 June 2019	5/5
Nicola Arnold	Elected (UK - London) to 4 June 2019	1/1
Lee Aston	Elected (UK- West of England)	3/5
Mohammad Faiz Azmi	Co-opted from 6 June 2019	3/3
Jan Babiak	Co-opted to 4 June 2019	0/1
Malcolm Bacchus	Elected (UK - London)	5/5
Catherine Bateman	Co-opted from 4 June 2019	4/4
Andy Batty	Elected (UK- London)	5/5
Clive Bawden	Elected (UK - Birmingham & West Midlands)	5/5
Carl Bayley	Elected (UK - Scotland)	4/5
Thomas Bell	Elected (UK - West Yorkshire) from 4 June 2019	4/4
Rebecca Benneyworth	Elected (UK - West of England)	5/5
Clare Bewsher	Elected (Oceania)	5/5
David Blair	Elected (UK - East Anglia)	5/5
Derek Blair	Elected (UK - Beds, Bucks & Herts)	5/5
Jeremy Boss	Ex-officio (Chair of Information Technology Faculty) to 4 June 2019	1/1
Evie Bowyer	Elected (UK - London) to 4 June 2019	1/1
Helen Brennan	Elected (UK - London)	5/5
Kathryn Britten	Elected (UK - London)	3/5
William Brooks	Elected (UK - London) to 4 June 2019 Vice-President from 5 June 2019	5/5
Ben Cairns	Co-opted to 4 June 2019	1/1
Angela Caldara	Elected (UK - London)	5/5
David Canning-Jones	Co-opted	3/5
David Carr	Ex-officio (Chair of the Business & Management Faculty)	3/5
Richard Cartwright	Elected (UK - Southern)	5/5
Jagdeep Chaggar	Elected (UK - London) from 4 June 2019	3/4
Heather Cheesman	Elected (UK - South Eastern)	2/5
Ian Cherry	Chair of Council Elected (UK - North West)	5/5
Edward Chow	Co-opted to 4 June 2019	1/1



Noel Clehane	Co-opted	5/5
Simon Cobbin	Elected (UK - South Essex) from 4 June 2019	3/4
Mark Coles	Elected (USA)	5/5
Andrew Coulson	Elected (UK - Birmingham & West Midlands) from 4 June 2019	4/4
David Crackett	Elected (Europe & Eurasia)	5/5
Ede Dafinone	Co-opted from 4 June 2019	4/4
Ian Davies	Elected (UK - Southern)	5/5
Andrew Dawson	Elected (UK - East Anglian) from 4 June 2019	2/4
Jonathan Downer	Co-opted from 4 June 2019	3/4
Peter Duffield	Elected (UK - Humberside & District)	5/5
Graham Durgan	Elected (UK - Thames Valley)	5/5
Laura Dymott	Elected (UK - London)	5/5
Lydia Ebdon	Elected (UK - West Yorkshire) to 4 June 2019	1/1
Susan Field	Elected (UK - London) to 4 June 2019	1/1
Dato' Ah Tee Gan	Co-opted	3/5
Graeme Gordon	Elected (UK - Thames Valley) to 4 June 2019	0/1
Nicola Granger	Ex-officio (Chair of the Tech Faculty) from 4 June 2019	3/4
Simon Gray	Ex-officio (Chair of the ICAEW Business Committee) from 4 June 2019	4/4
Howard Gross	Elected (UK - London)	5/5
David Grunberg	Elected (UK - London) from 4 June 2019	3/4
Oliver Grundy	Co-opted to 4 June 2019	1/1
San Gunapala	Co-opted	5/5
Stephanie Henshaw	Ex-officio (Chair of Financial Reporting Faculty)	5/5
Jake Holdroyd	Ex-officio (Chair of ICAEW Student Council) from 4 June 2019	4/4
Peter Hollis	Elected (UK - Sheffield)	5/5
Nigel Hughes	Elected (UK - Beds, Bucks & Herts) to 4 June 2019	0/1
Alan Hyams	Elected (UK - Manchester)	4/5
Constantine Ioannou	Elected (UK - London)	4/5
Peter Jenkins	Elected (UK - London) to 4 June 2019	1/1
Gemma Jones	Elected (UK - London)	5/5
Pam Kaur	Ex-officio (Chair of Financial Services Faculty) to 4 June 2019	1/1
George Kourris	Elected (Cyprus)	5/5
Vincenzo Leporiere	Co-opted	3/5

Esther Leung	Ex-officio (Chair of ICAEW Student Council ) to 4 June 2019 Co-opted from 4 June 2019	5/5
David Lim	Co-opted to 4 June 2019	1/1
Hilary Lindsay	Past-President to 4 June 2019	1/1
Gilly Lord	Ex-officio (Chair of Audit & Assurance Faculty)	4/5
John Malthouse	Elected (UK - Liverpool) to 4 June 2019	1/1
Kate Mathers	Co-opted	4/5
David Matthews	Vice-President to 5 June 2019 Deputy President from 5 June 2019	5/5
David McBride	Elected (UK - London)	5/5
Carol McLachlan	Elected (UK - Liverpool) from 4 June 2019	4/4
Andrew Mead	Elected (UK - Beds, Bucks & Herts) from 4 June 2019	4/4
Mo Merali	Ex-officio (Chair of Corporate Finance Faculty)	4/5
Roger Merchant	Elected (UK - Leicester & Northants)	5/5
Sheilagh Moffat	Elected (UK - Birmingham & West Midlands) to 4 June 2019	0/1
Mary Monfries	Ex-officio (Chair of Tax Faculty)	4/5
Mike Morgan	Ex-officio (Chair of Financial Services Faculty) from 4 June 2019	4/4
Martin Muirhead	Co-opted	5/5
Jeremy Mumby	Elected (UK - Nottingham, Derby & Lincoln)	5/5
Richard Nunn	Co-opted to 4 June 2019	1/1
Jeannie Okikiolu	Elected (UK - London) from 4 June 2019	4/4
Alison Ollier	Elected (UK - Staffs, Salop & Wolverhampton)	4/5
Eddie Ouko	Co-opted to 4 June 2019	1/1
Harry Pampiglione	Co-opted	3/5
Nick Parker	Immediate Past-President to 4 June 2019 Past-President from 5 June 2019	5/5
Julia Penny	Elected (UK - London)	5/5
Michael Quinlan	Elected (UK - Croydon)	3/5
Rohit Rajvanshi	Co-opted from 4 June 2019	3/4
Matthew Rees	Co-opted from 4 June 2019	4/4
Mark Rhys	Co-opted	4/5
Brian Ricketts	Elected (UK - Liverpool)	5/5
Paul Rolison	Elected (UK - South Essex) to 4 June 2019	1/1
Samantha Russell	Elected (UK - London)	5/5

Jessica Rutland	Co-opted	5/5
Anis Sadek	Co-opted to 4 June 2019	1/1
Julia Seppa	Elected (Europe & Eurasia) from 4 June 2019	3/4
John Sheehan	Elected (UK - Beds, Bucks & Herts) from 4 June 2019	4/4
Caroline Smale	Elected (UK - South West)	4/5
Jeffrey Smith	Elected (UK - Thames Valley)	5/5
Susan Smith	Elected (UK - South Eastern)	5/5
Nathan Steinberg	Elected (UK - London)	5/5
Clive Stevens	Elected (UK - South Eastern)	5/5
John Stout	Elected (UK - Thames Valley) from 4 June 2019	3/4
Matthew Stroh	Elected (UK - West Yorkshire) from 4 June 2019	4/4
Wilma Teviotdale	Elected (UK - West Yorkshire) to 4 June 2019	1/1
Rob Thompson	Ex-officio (Chair of ICAEW Business Committee) to 4 June 2019	1/1
Rob Tindle	Elected (UK - Northern)	5/5
Phillip Tsai	Co-opted from 4 June 2019	3/4
Peter Tucker	Elected (UK - Beds, Bucks & Herts) to 4 June 2019	1/1
Jeffrey Unerman	Co-opted	4/5
Carol Warburton	Elected (UK - South Wales)	5/5
Juan Watterson	Co-opted. Resigned July 2019	1/2
Rhodri Whitlock	Elected (UK - London)	3/4
Fiona Wilkinson	Deputy President to 5 June 2019 President from 5 June 2019	5/5
Martin Williams	Co-opted	4/4
Jeremy Willmont	Elected (UK - London)	4/4
Anthony Woodings	Elected (UK - Manchester)	4/5
Emil Yiannopoulos	Elected (Europe & Eurasia) to 4 June 2019	1/1

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students around the world, and more than 184,500 of them are members and students of ICAEW.

We believe that chartered accountancy can be a force for positive change. So we attract the brightest and best people and give them the skills and values they need to ensure businesses are successful, societies prosper and our planet's resources are managed sustainably.

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