



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SCOTLAND

Annual Review 2010





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President's Statement

For CAs in practice or in business, 2010 was the year when economic normality began to return. It was also a year in which we chose to re-examine the Institute's strategic purpose, the result of which is our strategic plan, 'Building a Professional Community'.

A Strong Strategic Foundation

The core theme is the reinforcement of professionalism. Successful delivery of the strategy will ensure that the Institute can support CAs throughout their careers while also instilling even greater confidence in those individuals and organisations that members and the Institute serve. Whilst 2011 will be about tangible delivery of the strategic plan, strong foundations have been laid and a clear direction for delivery set by the six strategic objectives of relevance, community, building trust, influence, pre-eminence and sustainability. I am grateful to the many members who contributed their views to the strategy working group. These views shaped the final document and provided valuable input to the work of the group as they developed the plan.

With a new UK government and continuing reflection on the financial crisis, this was a year in which ICAS made a number of important contributions to policy-making on behalf of members and the general public.

A Year of Influence

Perhaps the greatest external scrutiny of the profession in 2010 was directed at the statutory audit. The auditor's role was examined by the Financial Services Authority and the Financial Reporting Council, the House of Lords launched its own inquiry into the audit market and the role of auditors while

the European Commission released a Green Paper examining a wide range of audit-related issues. ICAS has engaged effectively with UK regulators and at an EU level to shape the terms of the debate. Recently, a high-level ICAS working group produced a well-received report entitled 'The Future of Assurance' which emphasises that the external audit is merely one part, albeit an important one, of a wider assurance framework which encompasses company directors, shareholders and stakeholders. The report has been welcomed by many inside and outside the profession as a forward-looking contribution to a debate that has been characterised to date by identifying problems rather than seeking solutions.

Whether we advise or work for businesses, many of us will have recent experience of the difficult environment for accessing finance. To improve the prospects for a private sector led recovery, ICAS, together with Scottish Financial Enterprise, submitted 43 recommendations to the Department for Business, Innovation and Skills seeking to improve access to finance, and dialogue with officials on measures to increase business growth continues.

ICAS has engaged effectively this year in pushing an important theme for members – tax simplification. The setting up of the Office of Tax Simplification has provided a welcome fresh opportunity for ensuring that our views on reducing complexity in the system are being heard and acted upon. ICAS was also invited to sit on the group advising the Scotland Office and Treasury on the practicalities of making changes to the tax system which will be introduced when the Scotland Bill becomes law.

Upholding Standards

Upholding standards through the Institute's regulatory function is a vital way of enhancing public confidence in the work of all CAs. As in 2009, ICAS received a higher volume of complaints against members in 2010 when compared to levels prior to the financial crisis. The Institute has three cases under investigation which are handled by the independent public interest discipline scheme, the Accountancy and Actuarial Discipline Board (AADB). The cost of pursuing these cases necessitated a further levy on members this year of £40.

Recognising Commitment

To achieve its objectives, the Institute relies heavily on a highly committed group of staff and member volunteers. Over the last twelve months I have been able to gain a real insight into the efforts that are made to support members and provide quality services and information to all who come into contact with ICAS. My thanks go to them all. Specifically, I would like to thank Adrienne Airlie, Bill Lockwood, David Rutherford and Huw Thomas as they prepare to stand down from the ICAS Council. Their commitment to the Institute has been outstanding and warmly appreciated. Ruthven Gemmill, a public interest member of Council, is also standing down. Ruthven's positive contribution to the work of Council and to ICAS has been hugely important. Public interest members bring enormous value to the work of the Institute's governing body.

Alan Thomson
President



Chief Executive's Report

Business Review and Key Achievements

As the economy began a slow recovery in 2010, the Institute was in a position to drive forward the strategic plan to which the President referred in his statement. Implementation of the plan will be driven by every division within the business.

Progress in CA Education

In 2010, the CA Education division had a successful year. The return of economic confidence was reflected in the recruitment needs of major training firms. There was a substantial increase in students starting CA training contracts, from 740 in 2009 to 825 in 2010. This has been driven by higher demand for services in the areas of taxation and transactions. There was little change in the number of students training in the areas of assurance and general practice.

The use of technology in CA Education and Examinations moved ahead significantly in the year. By November, all students following Test of Competence and Test of Professional Skills were connected with the CA Blended Learning Environment (CABLE). Students beginning their training programmes had an element of their classroom time replaced by study from a home or work environment. Other students had pre-course material provided electronically. A record number of final year students sat their TPE examination using their own laptops in 2010. The Institute has invested considerably in technology solutions and this strategy will continue.

Although the style and approach of education delivery and assessment is evolving, the standard of the qualification continues to be upheld. Examination performance has been consistent with previous years and ICAS continues to receive positive assessments of the quality of its overall programme by the Professional Oversight Board.

Commercial Challenges

After a very difficult year for commercial activity in 2009, it was hoped that 2010 would provide better trading conditions. In addition to student education,

ICAS also derives income from business courses, advertising in CA Magazine and camagonline and sponsorship of events. Commercial budgets continued to be challenged throughout 2010 with clients looking for even greater returns on investment than in previous years. This had an impact on commercial revenue streams but despite this, we have seen an increase in contribution from non-education commercial activity.

Building Influence

ICAS continued to work hard at building influence both in the UK and further afield. Institute representatives gave evidence to key committees in the House of Commons and the House of Lords in the last year on the topic of statutory audit. Our technical team had an effective year, producing an influential report on non-audit services which covered the views of investors, industry and auditors. Our research function continued to produce high quality, influential work. Perhaps the highlight of 2010 was a report on Chinese Accounting Reform which was discussed by the Chinese Ministry of Finance and the International Accounting Standards Board at a meeting in Beijing in June.

Regulatory Innovation

In 2010, a number of areas have been strengthened to ensure ICAS retains a leading role in its approach to regulation. These include improving the Quality Review process for practising certificate holders and developing an online application system for practising certificates. ICAS also launched the first mandatory course for Audit Compliance Partners to assist in maintaining and raising standards. Changes in the market for the provision of legal services in both Scotland and England have been triggered by legislation which will allow CAs to work with solicitors and other professionals. ICAS is working with the UK and Scottish governments to ensure an appropriate regulatory structure is in place to enable members to take advantage of new opportunities. For more details on the work of the regulation and compliance division, read their annual review at www.icas.org.uk/randcannrev10.

Improving the Member Experience

Member engagement – at the heart of the new strategic plan – was a key focus in 2010 and a number of initiatives were introduced to improve the member experience. Nearly 170 student and member events were held in 2010, in a wider range of locations than ever before. The contribution of senior CAs to sharing their knowledge and experiences with younger members has been noteworthy, with our Masterclass series of events proving particularly popular. More improvements were made to the ICAS website during the year, with regular podcasts, blogs and ICAS radio added to provide more up to date information and opinion in a wider range of media than before. The website is attracting nearly 40% more visits than in 2008, when the redeveloped site launched. Detailed plans are in place to further improve the digital experience for members in 2011.

Finally, I know from meeting members during 2010 that it has been a year when the contribution of CAs to helping businesses to recover and grow has been immense. The Institute will seek to give you even more support to continue rebuilding confidence.

Principal Risks and Uncertainties

The Institute operates a robust risk management process to identify and mitigate key business risks. In recent years, the potential impact of the slowdown in the economic cycle has been an important factor to consider in our operations, with due focus paid to robust controls and contingency planning.

Membership of the public interest discipline scheme, AADB, which is an important part of meeting our public interest obligations, carries with it the financial risk of funding a case against any member who is actively employed in the UK. The Institute has put in place an AADB levy and has earmarked reserves in order to manage this risk.

A large element of ICAS income comes from the education of CA students, which carries with it the risk of volatility in the graduate recruitment market and competitive risks in respect of training

choices. Ensuring the CA qualification remains the qualification of choice is a key focus of our strategic plan, with investment in the product and its delivery being one of our ongoing priorities.

ICAS is a membership organisation and an important risk lies in the changing demographics of the membership. We need to respond to this demographic change and the differing requirements of the membership that this may bring. Investment in member support and a more personalised engagement with members are central to the strategic plan developed in 2010.

Council

The overall policies and objectives of the Institute are agreed by the Council with day to day management responsibility being delegated to the Executive Team with an overview being taken by the Oversight Board. There is a clear organisational structure detailing lines of authority and the appropriate processes are in place to review the performance of the Oversight Board, Operational Boards and the Executive Team.

Council seeks to ensure good stewardship by having internal control systems across the Institute which cover a broad spectrum of risks. To this effect, Council has delegated its overall responsibility for the Institute's internal controls and risk management to the Executive Team through the Oversight Board. A business plan and detailed budget are prepared annually by the Executive Team for approval by the Oversight Board and Council. Throughout 2010, the financial performance was compared to the approved budget together with the full year projection and reported at each meeting of the Oversight Board and Council.

Going Concern Statement

Council confirms that, after making appropriate enquiries, it has reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis for preparing the financial statements.



Summary Financial Review

The Group (the Institute and the Charitable Trusts) returned a surplus of £887k on ordinary activities before taxation for 2010. Following a decline in income during 2009, 2010 saw a return to modest income growth for the Group and whilst robust cost control was ensured, ICAS also invested in strategic developments during the year.

Council's strategy is to generate sufficient annual surplus to cover not only recurring costs but also annual pension deficit payments and also to build reserves over the medium term to mitigate against the costs of any future public interest discipline cases.

Retirement Benefits Scheme

2010 was a year of significant changes to the Defined Benefit Retirement Benefits Scheme. Despite deficit payments to the Retirement Benefits Scheme of £2.8m between 2005 and 2007, the triennial valuation at 1 Jan 2008 showed a deficit some £1.3 million higher than the previous valuation in Jan 2005. Following a detailed review of the options available to manage the ongoing risks presented by the continued deficit and after consultation, Council took a decision to close the scheme to future accrual for existing members. The closure took effect on 30 September 2010 and members were offered a replacement Defined Contribution scheme from that date.

The Institute has agreed with the Trustees to pay an annual deficit payment of £644k for 10 years and has granted security over ICAS's investment assets to the value of £633k.

The IAS19 valuation as at 31 Dec 2010 shows a deficit of £702k, a favourable movement of £1,923k compared to the previous year. £1,630k of the gain is as a result of the government announcement that future statutory revaluation orders will be based on CPI.

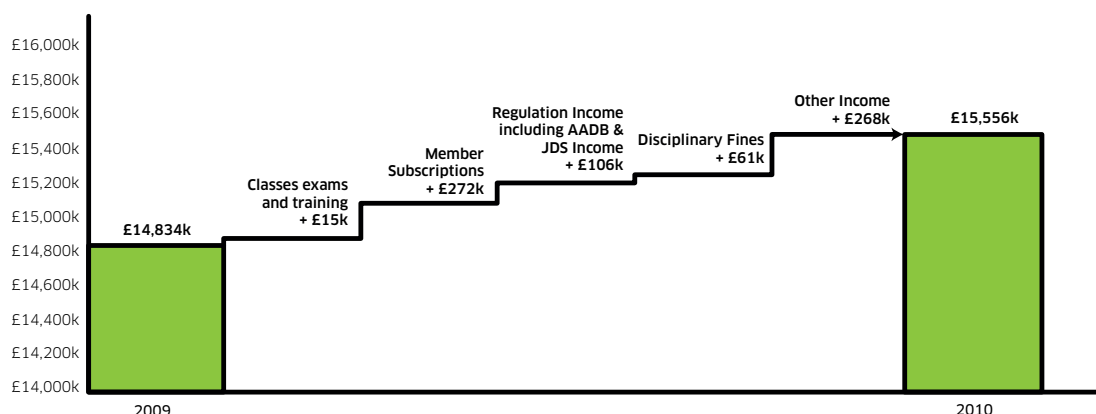
Public Interest Discipline

The Institute is a member of the Accountancy and Actuarial Discipline Board (AADB), which is responsible for investigating public interest discipline cases. The Institute is liable to pay the costs of investigation for cases concerning its members or member firms. During 2009 three cases were called in for investigation to the AADB, and these cases continued into 2010. The potential cost of AADB cases is significant and volatile, therefore ICAS aims to build and earmark an element of General Funds to mitigate against the risk of these costs, and has made progress towards a target level of £1million earmarked within General Funds, with £730k already earmarked for this purpose. ICAS issued a Levy Notice in November 2009 of £50 per active UK member to meet the costs of current cases, and a further Levy Notice was issued in November 2010 at a lower amount of £40 per active UK member. Should these cases continue beyond the current phase, further costs will be incurred.

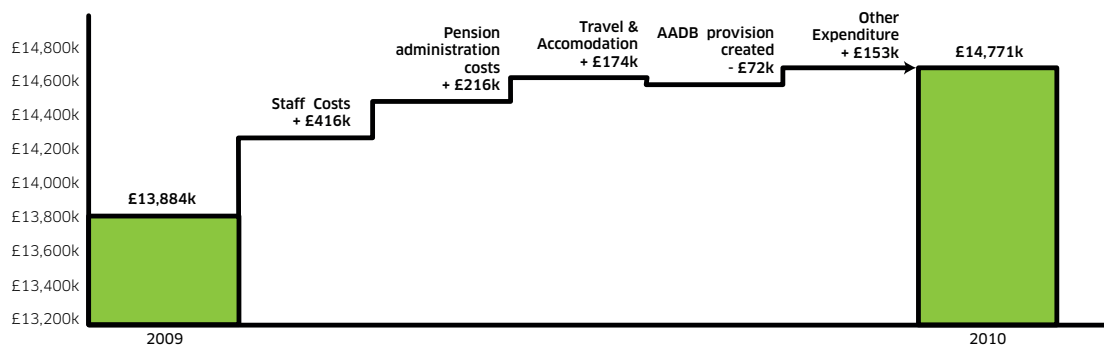
The predecessor scheme to the AADB was the Joint Disciplinary Scheme (JDS) where costs are split amongst the accounting bodies. During 2010 the JDS completed its final cases and income of £346k from JDS fines was received by ICAS.

Financial Results 2010

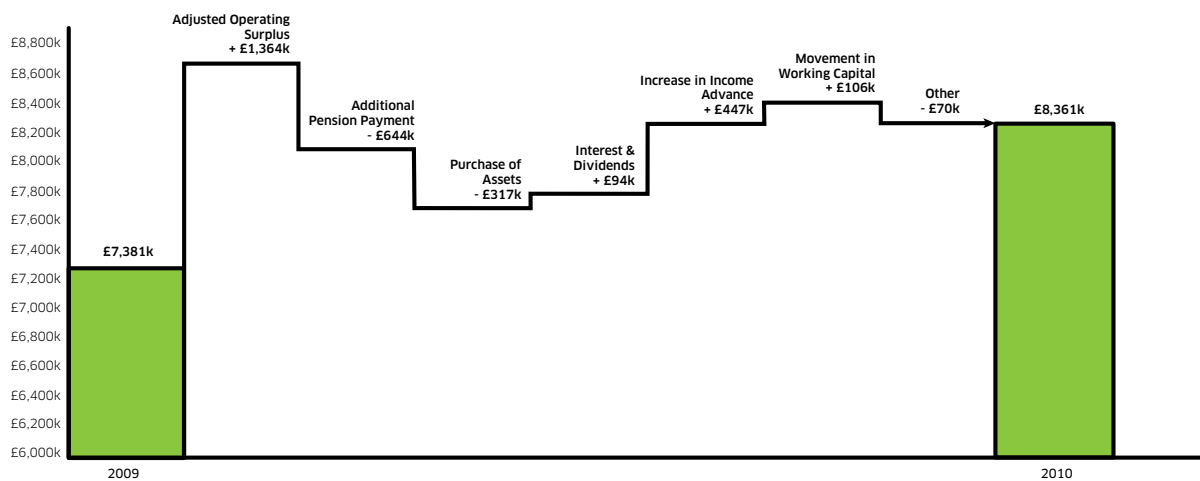
The graph below shows the major movements in Group income since 2009, which has shown an increase of 4.9% to £15,556k.



Group expenditure rose by £887k (6.4%) to £14,771k. The diagram below illustrates the major movements.



The Group ended the year with £8,361k cash at bank and the diagram below demonstrates the major movements in cash over the period.



Key Metrics

	2010	2009
▶ Group Surplus	£887k	£1,030k
▶ Cash	£8,361k	£7,381k
▶ Number of members	18,842	18,278
▶ Student Intake	825	740

Anton Colella
 Chief Executive & Secretary
 25 March 2011



Group Income Statement and Group Statement of Comprehensive Income

Group Income Statement	2010 £'000	2009 £'000
Subscriptions and operating income	15,556	14,834
Employment costs	(6,588)	(6,172)
Other operating charges	(8,183)	(7,712)
Operating surplus	785	950
Gain/(loss) on sale of investments	8	(25)
Finance income	94	105
Profit	887	1,030
Taxation (charge)/credit	(32)	111
Profit for the year	855	1,141
Group Statement of Comprehensive Income	2010 £'000	2009 £'000
Profit for the year	855	1,141
Other comprehensive income:		
Gain on revaluation of investments taken to equity	326	405
Actuarial gain/(loss) recognised in the retirement benefits scheme	1,405	(3,238)
Gain on revaluation of land and buildings	265	258
Taxation relating to components of other comprehensive income	(48)	(53)
Other comprehensive income/(loss) for the year net of tax	1,948	(2,628)
Total comprehensive income/(loss) for the year	2,803	(1,487)

Summary Group Statement of Financial Position and Reserves Note

Summary Group Statement of Financial Position	2010		2009	
	£'000	£'000	£'000	£'000
Non-current assets		8,938		8,449
Current assets	10,492		9,000	
Current liabilities	<u>(7,045)</u>		<u>(5,954)</u>	
Net current assets		3,447		3,046
Retirement benefits obligation	(702)		(2,625)	
Other non-current liabilities	<u>(800)</u>		<u>(790)</u>	
Non-current liabilities		(1,502)		(3,415)
Net assets		<u>10,883</u>		<u>8,080</u>
Reserves		<u>10,883</u>		<u>8,080</u>

Reserves Note	General Funds £'000	Restricted Funds £'000	Property Revaln Reserve £'000	Investment Revaln Reserve £'000	Total Reserves £'000
At 1 January 2010	4,650	181	2,171	1,078	8,080
Transfer from Income Statement	731	124	-	-	855
Net actuarial gain recognised in SOCI*	1,405	-	-	-	1,405
Unrealised gain on investments	-	-	-	326	326
Revaluation of freehold land & buildings	-	-	265	-	265
Transfer for revaluation depreciation	54	-	(54)	-	-
Deferred tax arising on revaluation	-	-	13	(61)	(48)
Reallocation between funds	182	(154)	-	(28)	-
At 31 December 2010	<u>7,022</u>	<u>151</u>	<u>2,395</u>	<u>1,315</u>	<u>10,883</u>

*Statement of Comprehensive Income



Council and Executive Directors

Council 2010/2011

President

Alan Thomson MA CA, Solihull

Vice-Presidents

Iain McLaren BA CA, Edinburgh

Sir David Tweedie BCom PhD DSc LLd CA, London

Public Interest Members

Ruthven Gemmell WS

Nick Kuenssberg OBE BA (Hons) FCIS

Niall Scott LLB

Council Members

Adrienne Airlie BAcc CA, Glasgow

Rod Ashley BAcc CA, Glasgow

Graeme Bissett BA CA, Edinburgh

Jann Brown MA (Hons) CA, Edinburgh

Bruce Cartwright BCom CA, Edinburgh

Anna Coutts Donald BSc CA, London

Martin Darroch BA CA, Glasgow

Robert Dick LLB CA, Edinburgh

Elizabeth Gammie DIPm BA CA PhD, Aberdeen

Jock Lennox LLB CA, London

Bill Lockwood MA CA, Luxembourg

Gavin MacKenzie BA CA, Inverness

David Morrison MA CA CTA, Dundee

Raymond Pennie CA, London

Marta Phillips OBE MSc BA (Hons) CA, London

Bruce Pritchard BA CA, Cambridge

David Rutherford BA CA, Edinburgh

John Sharkey BAcc (Hons) CA MBA, Glasgow

Graeme Sheils BA CA, Aberdeen

Jandy Stevenson FCA, Edinburgh

Huw Thomas MA (Oxon) CA, Bath

Jacqui Thomson BCom CA, Dundee

Rob Waddelow BSc CA, Virginia Water

Geoff Walker CA, London

Ronnie Wilson CA, Ayr

Chief Executive & Secretary

Anton Colella BA (Hons) DipEd

Executive Directors

Mark Allison MA CA – Executive Director, Education

Lesley Glen LLB (Hons) CPFA –
Executive Director, Finance & Resources

Vivienne Muir LLB (Hons) DipLP NP –
Executive Director, Regulation & Compliance

Jonathan Milne MA (Hons) –
Executive Director, Communications

Stuart Riddell – Executive Director, Members Services

David Wood MA (Cantab) FCA –
Executive Director, Technical Policy

Corporate Responsibility

As part of our commitment to promote responsible behaviour, we continued to support the ICAS Corporate Responsibility Policy. The policy guides our activities internally, with our members and our wider community in four key areas:

- ▶ Workplace
- ▶ Environment
- ▶ Marketplace, and
- ▶ Community

Workplace

Our policies and procedures set out standards and contain a strong element to safeguard and improve the wellbeing of staff. We encourage and provide an environment which promotes a work life balance and to this end we provide gym membership, annual influenza vaccination and a healthy working lives awareness week, incorporating blood pressure checks and stress awareness sessions. We are also working towards achieving the Healthy Working Lives Bronze Award status for 2011.

Environment

Delegated to the Sustainability Working Group we continued to implement initiatives to reduce the impact of ICAS' activities on the environment. The Sustainability Group focuses on initiatives to reduce energy use, use of resources, control waste and reduce the impact of travel. ICAS has introduced a wide range of initiatives with some examples including, awareness raising, recycling facilities, the offer of a cycle scheme, use of default printer settings, increased availability of video and web conferencing and installation of energy efficient lighting.

The Sustainability Group has seen some successes over 2010 including a 15% reduction in paper usage since 2009, and a decrease in the proportion of waste going to landfill from 39% to 36%. After several successive years of energy use reductions, the cold weather in early 2010 saw our energy consumption rise overall, although falling to reduced levels again in the remaining months. We continue to raise awareness to encourage staff to switch off lights and equipment.

Marketplace

Through our activities in the marketplace we strive to provide excellent customer service in all areas of our business and to treat our suppliers fairly and with respect. We adhere to the principles of prompt payment for all suppliers.

Community

Each year the Staff Committee, in consultation with ICAS staff, choose a local charity to which we donate the proceeds of events such as weekly dress-down and e-Christmas card donations. In addition, we have supported a number of other charities through clothes collection and fund-raising events. We also facilitate a programme of regular blood donation by ICAS staff.

In June 2010 ICAS invited a number of young people to spend a day in the Edinburgh office, with a view to them gaining an insight into the work environment. This was an initiative co-ordinated by Scottish Business in the Community.

Additionally, ICAS teamed up with a local training provider, working with 16 and 17 year olds, to provide work experience in several departments within the ICAS head office. We also hope to participate in this initiative in 2011.

We support and encourage volunteering by staff and during 2010 a number of staff took part in two Water of Leith clean up events. This is an area we aim to develop further during 2011.

Outwith the UK our CA International Services continue to support the accountancy profession in developing countries. In 2010 two members of the CA Education team visited the accountancy body in Uganda to provide training on all aspects of the examinations process.



Independent Auditors' Report

To the Members of the Institute of Chartered Accountants of Scotland

We have examined the summary Consolidated Financial Statements for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the summary Financial Position and the related Reserves note.

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

Respective responsibilities of Council and Auditor

Council is responsible for preparing the Annual Review and the summary Consolidated Financial Statements. Our responsibility is to report to you our opinion on the consistency of the summary Consolidated Financial Statements within the Annual Review with the full annual Consolidated Financial Statements. We also read the other information contained in the Annual Review and consider the implications for our Auditors' Statement if we become aware of any apparent misstatements or material inconsistencies with the summary Consolidated Financial Statements.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The auditor's statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board.

Opinion

In our opinion the summary Consolidated Financial Statements are consistent with the full annual Consolidated Financial Statements of the Institute of Chartered Accountants of Scotland for the year ended 31 December 2010.

Alan Donaldson (Senior Statutory Auditor)

For and on behalf of Scott-Moncrieff,

Statutory Auditor

Chartered Accountants

Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

Exchange Place 3

Seample Street

Edinburgh

EH3 8BL

25 March 2011



THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



The Institute of Chartered Accountants of Scotland
CA House • 21 Haymarket Yards • Edinburgh • EH12 5BH
Tel: 0131 347 0100 • Fax: 0131 347 0105 Email: enquiries@icas.org.uk • Website: www.icas.org.uk