

Funding the Future

Why has every chartered accountant had an £89 subsidy ...

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The Institute of Chartered Accountants in England and Wales has, according to page 8 of its [2022 annual report](#) that has just been published, 166,397 members. I am one of them and have been for 40 years now.

This is the income statement from the annual report:

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GROUP INCOME STATEMENT for the year ended 31 December 2022

Note	31 December 2022			31 December 2021 ¹			
	Income £m	Expenditure £m	Net £m	Income £m	Expenditure £m	Net £m	
Subscriptions and fees	55.3	-	55.3	53.6	-	53.6	
Education & training	18.5	(24.5)	(6.0)	17.4	(23.8)	(6.4)	
Professional Standards	22.1	(21.6)	0.5	22.1	(21.9)	0.2	
Belonging & supporting	14.3	(32.0)	(17.7)	12.1	(29.4)	(17.3)	
Reputation & influence	3.7	(8.6)	(4.9)	4.8	(9.3)	(4.5)	
Central support functions	-	(30.2)	(30.2)	-	(21.2)	(21.2)	
Charitable trusts	-	(1.3)	(1.3)	-	(1.0)	(1.0)	
	113.9	(118.2)	(4.3)	110.0	(106.6)	3.4	
FRC Conduct Committee and cost recoveries	22	6.9	1.2	8.1	7.6	4.4	12.0
Other professional association activities		4.0	(6.2)	(2.2)	2.7	(5.2)	(2.5)
		10.9	(5.0)	5.9	10.3	(0.8)	9.5
Operating result	6,7	124.8	(123.2)	1.6	120.3	(107.4)	12.9
FRC fines		14.9	-	14.9	13.5	-	13.5
Investment returns	8	2.0	(7.2)	(5.2)	9.5	-	9.5
Share of loss of associates	16	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Result before tax		141.7	(130.5)	11.2	143.3	(107.5)	35.8
Tax credit / (expense) for the year	11	-	2.4	2.4	-	(1.8)	(1.8)
Net result after tax for the year		141.7	(128.1)	13.6	143.3	(109.3)	34.0

¹ ICAEW has undertaken a reclassification of income and expenditure between its activities, including reclassification of members results, which are now included within Belonging & supporting. These changes have been made to better reflect the nature of the reported income and expenditure. Accordingly, the prior year comparatives have been re-presented on the same basis to ensure comparability and consistency of presentation. There is no impact on the result before tax. An explanation of the changes and the effect on the income statements is provided in note 4.

The line I have highlighted is the one I want to discuss.

As I have mentioned before on this site, the Institute of Chartered Accountants in England and Wales receives the fines paid by its members and firms under what is called the Financial Reporting Council Accountancy Scheme, [about which it says](#):

The FRC will commence an investigation into a Member or a Member Firm if:

- * *the case raises or appears to raise important issues affecting the public interest in the UK; and*
- * *there are reasonable grounds to suspect that there may have been Misconduct.*

The decision to investigate is made by the Board or its Conduct Committee. Public interest considerations as to whether to start an investigation include (but are not limited to):

- * *the impact on a significant number of people in the UK;*
- * *the loss / potential loss of significant sums of money;*
- * *whether the conduct undermines confidence in financial reporting or corporate governance in the UK.*

In other words, the Institute of Chartered Accountants in England and Wales profits from fines on its most wayward members whose work is likely to have brought the profession into disrepute. In 2022 its entire net income came from this source. And each member benefitted by £89 as a result.

I have previously asked the Institute of Chartered Accountants in England and Wales about the ethics of this arrangement and they have never given me an adequate reply.

So, I ask again, why should chartered accountants benefit from the costs that their own failings impose upon society? I wish I could answer that. I suspect that no one can reasonably do so.

Update at 16.30 on 27 April 2023:

The Institute of Chartered Accountants in England and Wales has responded to this blog post, saying:

Until quite recently, many audit-related investigations undertaken by the FRC were funded by the mechanism set out in the Accountancy Scheme established by the regulator in 2004. Any money received by ICAEW from fines levied by the FRC in cases conducted under this arrangement has not been used to offset our operational expenditure but has been allocated to our strategic reserves and it supports our wider commitment to serve the public interest, as required by the terms of our Royal Charter.

Audit-related investigations by the FRC are now usually conducted under its Audit Enforcement Procedure, introduced in 2016, by which all fines pass to HM Treasury.

I have concerns about this statement but to explore the issues that they give rise to I need access to an archive of their accounts, which does (rather oddly) not seem to be available on their website. I have requested data and I am assured I will be supplied with it. I will withhold further comment until then.