



The ICAEW – a professional accounting institute - has benefitted by £148 million from fines and cost recoveries paid by its members who have done substandard work since 2015.

Accounting campaigners and academics suggest this money should be used to advance the financial literacy of all young people, including accounting students.

Press Release from the Corporate Accountability Network and The Audit Reform Lab at Sheffield University Management School

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New research on the accounts of the Institute of Chartered Accountants in England (ICAEW) and Wales by researchers at the Corporate Accountability Network and academics at the Sheffield University Management School has shown that the ICAEW has benefitted from £148 million of fines and related cost recoveries in excess of expenditure incurred since 2015.

The penalties in question have all been paid by chartered accountants who are members of the ICAEW in respect of substandard work that they have done at cost to members of society at large.

Under an arrangement between the ICAEW and the UK Financial Reporting Council (FRC) reached in 2004 that institute guaranteed to underwrite the cost of its members being disciplined by the FRC. The ICAEW imposes a levy on its members to cover the costs the

FRC bills to it for doing this. In exchange the FRC returns fines on ICAEW members to that institute.

As the scale of accounting scandals, and public and political anger about them, has grown in recent years so too has the level of fines charged on ICAEW members. They averaged £13 million a year, or £104 million in total, over the period. Costs paid by those who have been fined also exceed those the ICAEW incurs, adding more than £40 million of additional funds to the ICAEW's coffers.

There is no evidence that the ICAEW has spent any of this money, which now sits on its balance sheet. The ICAEW says that the funds form a strategic reserve but its current strategic plans all look to relate to issues that should be funded by its members and none look to have any significant cost attached to them.

As a result campaigners at the Corporate Accountability Network and academics at Sheffield University Management School suggest that the funds should be transferred to a new accounting education and research charity to be used in two ways:

- Around £40 million should be invested in developing new curricula and training methods for accounting undergraduates so that they are familiar with:
 - The ethical demands on chartered accountants.
 - The required role of auditors within society.
 - The way in which accountancy has failed, most especially with regard to tax abuse, the use of tax havens, the abuse of regulations and the failure of accounting standards to meet public needs.
 - The demands that accounting for climate change will create.
 - How accounting must change to meet the needs of society and not just financial markets.
- Around £100 million to be spent over ten years to provide education for young people in the financial skills that they will need when they either leave home or enter the world of work, including:
 - Budgeting.
 - The basics of tax and how it impacts them.
 - Types of employment and self-employment.
 - How banking works.
 - Saving, borrowing, interest rates and related issues.
 - Insurance.
 - Renting and mortgages.
 - How to avoid being conned and online security.
 - How and when to ask for help, and who from.

It is suggested that an online certificate on these issues should be made available by the charity funded by the ICAEW for at least ten years using these funds. The benefit of students taking it should be promoted to schools, universities and employers, who should encourage job applicants to take it. The certificate should be open to anyone, free of charge.

Richard Murphy, Professor of Accounting Practice at Sheffield University Management School and lead author of this research said:

“It is wholly unreasonable that the Institute of Chartered Accountants in England and Wales should be enriched every time one of its members is fined for harming the public by delivering substandard work. It is just as unacceptable that to date none of those fines have been put to use to compensate society for the harm that chartered accountants have caused and that the ICAEW has not published plans as to how it will do this. This proposal addresses both these issues. It suggests passing this money to an independent charitable body and tasks that body with improving the financial education of young people – a goal wholly consistent with that of the ICAEW.”

John Christensen, a director of Corporate Accountability Network and formerly of the Tax Justice Network, said:

“As a parent, I know that my sons did not get the guidance that they needed to manage money from their formal education. That’s a massive issue when most adults spend most of their life worrying about money and how to manage it. The Institute of Chartered Accountants in England and Wales now needs to be open, transparent and accountable about the funds it has received as a result of disciplinary actions against its members. It could make good their failure by funding education for all young people on money related issues as they approach adulthood. That is an essential preparation for life.”

Adam Leaver, Professor of Accounting and Society at Sheffield University Management School said:

“Given many of these fines result from accounting failures, it makes sense to invest those fines in ways that improve accounting ethics. University accounting degrees are often shaped by the exemptions to professional accounting exams they offer students. But there is currently no stand-alone audit or accounting ethics module which is granted an exemption. Given the scale of the problem, the ICAEW could use those funds to work with universities and develop better, more in-depth, stand-alone ethical and environmental accounting modules that would carry exemptions, ensuring student cohorts would be

better equipped to meet the moral and ethical dilemmas of the real world when they graduate.”

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Notes to editors

- 1. The work on this issue was led by Richard Murphy FCA, Professor of Accounting Practice, Sheffield University Management School. He is also a director of the Corporate Accountability Network.*
- 2. The analysis was based on the accounts of the ICAEW from 2015 to 2022. The data and the report that has been prepared have all been shared with the ICAEW prior to publication for checking and their comments.*
- 3. The ICAEW already has a charitable foundation, but the researchers suggest a new body, significantly more independent of ICAEW control, would be required to undertake the proposed research and education programmes.*
- 4. The ICAEW currently has cash and saleable investments on its balance sheet of £177 million and has, therefore, sufficient excess funds available to it to transfer £148 million to a new charitable body as this research proposes and still meet its public obligations.*
- 5. The report that supports this press release is available at <http://www.taxresearch.org.uk/Blog/icaewfunding>*