

## Why the ICAEW has an issue with its strategic reserves

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The [Mail on Sunday](#) has covered [the report I have published today](#) on the Institute of Chartered Accountants in England and Wales's hoarding of the funds it has obtained as a result of penalties and charges being imposed on its members as a consequence of them undertaking inadequate and substandard work at cost to society.

The Mail notes:

### **Powerful accountancy body accused of blocking reform of crisis-hit industry accused of 'hoarding' cash from a series of major auditing scandals**

By [ADAM LUCK, FINANCIAL MAIL ON SUNDAY](#)  
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A powerful accountancy body accused of blocking reform of the crisis-hit industry has been accused of 'hoarding' cash from a series of major auditing scandals.

The Institute of Chartered Accountants in England and Wales (ICAEW) has amassed £127 million in penalties levied on firms for bungled audits.

But a study by Prof Richard Murphy of Sheffield University into its accounts accuses the body of lacking transparency and failing to use the money to clean up the industry.

The ICAEW stands accused of acting as cheerleader for big auditors despite scandals such as the high-profile collapse of BHS and Carillion.

Murphy said: 'The worse the conduct of its members, the richer it becomes. Its charter says it must use this money 'in the public interest', but it seems to be hoarding it.'

'I find it ironic that this body, which is meant to encourage best practice, should have accounts that are so unclear.'

The ICAEW rejected the findings, saying it was 'transparent' and used the money to make it a 'resilient and enduring force for good'.

Murphy found that the fines had been attributed to the ICAEW's 'retained funds', without explaining this included the fines.

However, in a letter to Parliament the body referred to the money as 'strategic reserves' – a term not mentioned in the accounts.

As this report makes clear by implication, there has already been a great deal of discussion between me, the ICAEW and journalists with regard to this matter. The entire report that I have written was shared with the ICAEW in advance, more than a week ago.

The ICAEW has challenged my work, saying that they have only profited by £127 million instead of the £148 million that I suggest. The difference between the two numbers is that they have used data from 2004, which is unavailable to me because much of the information in earlier years was not separately disclosed in their accounts, whereas I have used the period from 2015, from when the data was made explicit in their financial statements. I requested a copy of the ICAEW's workings, but they were never provided to me although I did provide them with mine:

Institute of Chartered Accountants in England and Wales									
FRC fines and penalties and related costs and revenues from 2015 to 2022 and related data									
Membership fee income	2022 £'m	2021 £'m	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m	Totals £'m
FRC conduct committee charges to members	6.9	7.6	11.6	4.4	4.6	4.5	4.5	8.5	52.6
FRC conduct committee costs	-7.0	-4.5	-10.3	-6.9	-5.1	-6.0	-5.5	-7.1	-52.4
FRC Conduct Committee cost recoveries	8.2	8.9	12.8	3.5	0.0	0.0	0.0	0.0	33.4
Net FRC conduct committee	8.1	12.0	14.1	1.0	-0.5	-1.5	-1.0	1.4	33.6
FRC Fines	14.8	13.5	15.7	18.3	16.3	14.6	6.7	4.7	104.6
FRC cost recoveries	0.0	0.0	0.0	0.0	1.9	2.8	3.8	1.9	10.4
Total FRC Income	14.8	13.5	15.7	18.3	18.2	17.4	10.5	6.6	115.0
Net FRC income	22.9	25.5	29.8	19.3	17.7	15.9	9.5	8.0	148.6
Cumulative net FRC income	148.6	125.7	100.2	70.4	51.1	33.4	17.5	8.0	
ICAEW Group Reserves	178.0	171.0	136.0	109.7	77.7	90.4	62.6	57.8	120.2
ICAEW reserves	159.9	151.9	116.9	92.1	61.7	74.1	46.7	43.2	116.7
Difference	18.1	19.3	19.1	17.6	16.0	16.3	15.9	14.6	3.5
Reserves from charitable trusts included in Group Reserves	15.4	16.9	15.2	15.4	14.2	15.3	14.4	13.5	1.9
% of ICAEW reserves due to fines and related issues	92.9%	82.8%	85.7%	76.4%	82.8%	45.1%	37.5%	18.5%	74.4%
Number of ICAEW members ('000)	166.4	161.4	157.8	154.5	151.8	149.3	147.5	145.7	20.7
ICAEW reserves per member £	960.9	941.1	740.8	596.1	406.5	496.3	316.6	296.5	664.4
Reserves excluding cumulative fines and related issues per member	67.9	162.3	105.8	140.5	69.8	272.6	198.0	241.6	-173.7

The ICAEW described these funds as part of a strategic reserve when corresponding with me and assured me that they were unavailable for use for the purposes of offset against routine operational expenditure when corresponding with me on this issue. They [had also said this to parliament in 2022](#).

There are a number of problems with this claim. The first is that this would imply that in an organisation that is managed for the mutual benefit of its members (which the ICAEW is, which is why much of its income is not subject to tax) this fact should, in my opinion, have been acknowledged in the accounts by the transfer of the sum in question to a separately designated strategic reserve. This should then, again in my opinion, have had a budget attached to it explaining how the funds in question were to be expended. There is, however, no mention of a strategic reserve in the accounts of the ICAEW to December 2022. Nor is there any indication given of the sums to be expended upon its strategic goals, which are mentioned in those accounts, and to which I refer in my report. As such, it is not obvious how the ICAEW can claim that this sum is to be used to make the accounting profession "resilient and [an] enduring force for good." I admit to finding it very hard to believe that an organisation has a strategic reserve for a sum as large as £127 million in its estimate, or £148 million in my

estimate, when it only has £159.9 million of reserves in total without that sum being mentioned in its accounts. This is why I described those accounts as unclear.

This is also not an issue for idle speculation. If, as the ICAEW says, all its reserves are retained for strategic purposes, this does by implication suggest that none of those reserves are available for operational purposes, meaning that if it were to incur a deficit it would not be clear how that sum could be covered out of the funds retained by it without it breaching the suggestion it has made to Parliament, to me and to journalists that the funds from fines and related issues that it has been paid will not be used for operational purposes, which it says it will not do. I believe that this suggests that there are governance issues implicit in this issue that the ICAEW should have addressed, but which it has not.

I have also noted that the ICAEW says in its 2022 financial statements, and [on its website](#), that its strategic objectives for 2020 – 2030 are to:

- \* Strengthen trust in ICAEW Chartered Accountants and the wider profession
- \* Help to achieve the Sustainable Development Goals (SDGs)
- \* Support the transformation of trade and the economy [after Covid]
- \* Master technology and data
- \* Strengthen the profession by attracting talent and building diversity

I have no objection to the ICAEW having any of these goals. I do, however, note that despite this programme having apparently begun in 2020, by the end of 2022 no identified spending on these issues had been noted in the accounts and that in 2022, the ICAEW was still saying to Parliament that it was working out how to expend these funds.

I also have some considerable difficulty in seeing how any of these issues might fall outside the scope of the normal operational functions of the ICAEW. This includes the help to be provided to assist the achievement of the Sustainable Development Goals, on which the only commitment which the ICAEW makes is:

*We will help develop metrics and methodologies to achieve the SDGs, position our members as being in the vanguard of understanding the SDGs, and demonstrate leadership in our own conduct as a business and an employer.*

In my opinion, this would appear to be a totally normal operational activity to be undertaken by an organisation like the ICAEW.

It is for precisely these reasons that my colleagues who have supported this work and I have suggested that the benefit of the accumulated funds that the ICAEW has enjoyed as a consequence of the failings of some of its members should now be transferred to

third parties. The reason for doing so would be to improve the training of undergraduate students in accounting at universities, and to provide a programme of training for young people in finance and related issues to be undertaken both in schools and in broader society, with the latter being a scheme that might be modelled on the Duke of Edinburgh awards with bronze, silver and gold achievements to be accumulated between the ages of 14 and 21 that would provide employees with a clear indication of a young person's understanding of the world of finance that will have significant implications for them as they move into adulthood.

We are looking forward to discussing this with the ICAEW.