FINANCIAL REPORTING COUNCIL

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

HC 1311

ANNUAL REPORT AND FINANCIAL STATEMENTS OF THE FINANCIAL REPORTING COUNCIL LIMITED

– INCLUDING THE REPORT OF THE INDEPENDENT SUPERVISOR YEAR TO 31 MARCH 2018

The Report of The Financial Reporting Council Limited (‘FRC’ or ‘Company’) as the body designated by a delegation order under section 1252 of the Companies Act 2006 and the Report of the Independent Supervisor is presented to Parliament pursuant to sections 1231(3) and 1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006.

The Report of the Independent Supervisor is also presented, pursuant to section 1231(2), to:

— The First Minister in Scotland;

— The First Minister and Deputy First Minister in Northern Ireland; and,

— The First Minister for Wales and is laid before the National Assembly for Wales pursuant to section 1231(3A) of the Companies Act 2006.

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OUR MISSION IS TO PROMOTE TRANSPARENCY AND INTEGRITY IN BUSINESS

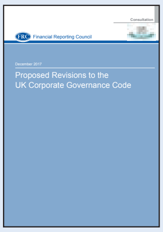
HIGH QUALITY CORPORATE GOVERNANCE AND REPORTING IN THE PUBLIC INTEREST PROMOTES LONG-TERM SUCCESS IN BUSINESS

IN THIS REPORT

2017/18 HIGHLIGHTS

FRC MISSION AND VALUES

We have revised our mission and refined our values, to respond to changes in the external environment and ensure our culture supports our mission and role. This process was carried out with a significant amount of staff input.



ISSUED A CONSULTATION ON PROPOSED REVISIONS TO THE UK CORPORATE GOVERNANCE CODE

Our consultation, issued in December 2017, was the result of a wide-ranging review, responded to wider developments affecting corporate governance as well as proposing a shorter and sharper Code that continues to encourage high standards in governance. Over 270 respondents engaged with this consultation.

AUDIT QUALITY

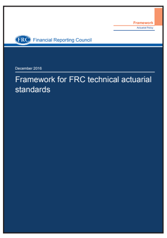
This was our first full year as Competent Authority for statutory audit in the UK (Competent Authority). This role encompasses a variety of activities relating to the entire statutory audit market, including setting standards and related requirements and monitoring the quality of the audits of public interest entities. There has been a decline in audit inspection results this year, with declines observed at all the largest firms and most significantly at one firm. We are taking actions including: assessing responses to our concerns over various aspects of bank audits in particular, reviewing the effectiveness of audit firms' root cause analysis, agreeing actions with firms on all audits where shortcomings were identified and taking enforcement action under the Audit Enforcement Procedure when appropriate. We have also implemented a new audit firm monitoring and supervisory approach, focusing on five key pillars of leadership and governance, firm values and behaviours, business models and financial soundness, risk management, and evidence of audit quality.

ENFORCEMENT CASES

The speed of investigations is improving; we have reviewed our sanctions; and, as Competent Authority the revised test for new audit cases is now a breach of relevant requirements and not solely misconduct, although that remains the test for members of the profession in business.

A number of cases were closed this year, with significant fines awarded, including the largest fine at the time of £5.1million for PwC in relation to its audit of RSM Tenon Group plc.

Our report about our closed investigation into KPMG's audit of HBOS explains what we did as part of that investigation and the lessons we learned, including the need to be more proactive and open about progress with cases.



PROMOTION OF TECHNICAL ACTUARIAL STANDARDS

Our outreach programme, to raise awareness of the new technical actuarial standards (that were issued in December 2016) was judged a success, reaching over 2,000 actuaries across the UK.

TRIENNIAL REVIEW OF FRS 102 COMPLETED

Following significant consultation with stakeholders the *Triennial review 2017* amendments were issued in December 2017. These responded to stakeholder feedback, making UK and Ireland accounting standards (FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* in particular) simpler to apply and more cost-effective.

CHAIRMAN'S STATEMENT

SIR WINFRIED BISCHOFF CHAIRMAN

This has been a year marked by uncertainty in the external environment in which we operate. There have been calls for changes to the way in which businesses are run, and for the FRC itself to operate in different ways.

A few high-profile business failures, including Carillion, continue to shine a spotlight on corporate governance, reporting and auditing. The economy relies on companies and directors taking managed risks transparently and business failures ultimately are the responsibilities of boards and management. Our role, which we carry out in the public interest, and our mission to promote transparency and integrity in business, seek to contribute to confident investors, sound decisions in the long-term interest of businesses and the wider economy, and effective capital markets and trust in business. Public and investor expectations change over time in response to economic, societal, technological and environmental developments. We, as much as businesses and the accounting and actuarial professions, need to respond to these changes.

Over time the FRC has had to evolve and during this year also we have made a number of changes. In particular our Enforcement activities have changed significantly in the last few years. An increasing number of staff are dedicated to this role; we have stronger powers as Competent Authority; we have followed up on recommendations to increase efficiency and timeliness; and we have become more open about how we reach our decisions. We have also recently updated our Sanctions Guidance. Cases necessarily take time to conclude, which has meant that the impact of the investment in these changes to our operations has taken time to be visible. The fact that there has been a notable increase in concluded cases over the last 18 months is the outcome of actions taken over the last three years. Generally current cases continue to progress in line with our new target for timeliness.

A significant change this year, relevant to all the FRC's activities, was the review of our mission. This was part of our culture project. We also updated our values and supporting behaviours. Our resultant new mission is to promote transparency and integrity in business. As well as guiding our regulatory decision-making, this affects how we communicate with those we regulate and our wider stakeholders.

Our current and future projects, which reflect our response to the external environment, include:

- a review of the UK Corporate Governance Code designed to promote further improvements in the quality of governance. This involved input, largely very positive, from a broad range of stakeholders.
- reinvigoration of the Stewardship Code.
- consideration of how audit should evolve and how future corporate reporting models might develop.
- overseeing the work of the Institute and Faculty of Actuaries (IFoA) as it develops a scheme to monitor the quality of actuaries' work. The new regime has been developed in the public interest and, subject to the outcome of the IFoA's consultation, will be implemented in 2019.

The Government has announced a review of the FRC to be led by Sir John Kingman. Our work, as well as sound stewardship from investors, is important to the functioning of capital markets and public confidence. There have been calls for us to operate in different ways, including criticism of our effectiveness in holding auditors, in particular, to account. The Kingman Review aims to make the regulatory system as effective and credible as needed, a beacon for the best in governance, transparency and independence. We welcome it and its intention to ensure that the FRC is equipped with the best regulatory practice, processes and powers to meet changing public expectations, and to enable us to take on any new responsibilities after the UK's exit from the EU.

During the year we made changes to the composition of our Board in order to strengthen further its breadth of skills. We have retained investor experience and appointed two new Non-Executive Directors with broad public sector and stakeholder experience. We have reduced the number of executive appointments with Paul George and Melanie Hind standing down from the Board on 31 March 2018. Both continue to lead their functions in their executive capacity. I thank them for their contribution to our Board deliberations over the years and I welcome Julia Unwin and Jenny Watson who joined us from 1 April 2018.

The FRC Board is supported in achieving its mission by our committed and skilful executive team and our excellent staff. The FRC is a relatively small organisation, with fewer than 200 staff, yet it has delivered much over the years and aims to do so in the future. On behalf of the Board I place on record our gratitude and appreciation for the staff's commitment in a year which can be characterised as challenging. I would like to thank them for their continued contribution to our work.

SIR WINFRIED BISCHOFF
CHAIRMAN
4 July 2018

CHIEF EXECUTIVE'S REPORT

STEPHEN HADDRILL CHIEF EXECUTIVE

This report discusses progress against the priorities set out for 2017/18 and then looks forward to 2018/19 and beyond.

PROGRESS DURING 2017/18

Much has been achieved during the year. Our programme for the year included a number of specific projects as well as our programmes of reviews of corporate reporting and auditing and casework relating to enforcement. Key reports issued this year include *Developments in Audit 2016/17*, *Annual Review of Corporate Reporting 2016/17* and *The FRC's enquiries and investigation of KPMG's 2007 and 2008 audits of HBOS*. During the course of the year the FRC made significant progress in leading a comprehensive review of the UK Corporate Governance Code; in establishing ourselves as the Competent Authority and in accelerating our work on enforcement (bringing a significant number of cases to conclusion). We also and consulted on our strategy for 2018/21.

Corporate reporting

This year, we completed 220 reviews (2017: 203 reviews) of corporate reports, an increase of 8% over the previous year. We continued to find a generally good quality of reporting. We wrote to 44% of companies reviewed, for further explanation and information which in many cases will lead to change in future reports. In a small number of cases (6, 2017:4), when a reporting improvement was of greater significance, this was highlighted by an FRC press notice or in the company's financial statements. We review accounts where change has been necessary in future years.

Building on the positive feedback we received in relation to our thematic review of tax reporting in 2016, we conducted three thematic reviews in the year: judgements and estimates, pension disclosures and alternative performance measures. We pre-informed companies of our plan to review a specific aspect of their accounts and published the best of the disclosures we saw, indicating 'what good looks like'. This enables other companies to measure the quality of their own reporting and review and revise their disclosures to meet FRC expectations.

We continue to contribute to the development of International Financial Reporting Standards (IFRS), its endorsement for use in the European Union (EU) and its application in the reports and accounts of companies listed on UK markets. The International Accounting Standards Board (IASB)'s Conceptual Framework was finalised in March 2018 and clarified a number of matters, including the roles of prudence and stewardship, that we had raised with the IASB during its development.

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In addition to large public interest companies, the FRC has roles that relate to smaller businesses, which are also important to innovation and growth in the economy. This year we completed our first periodic review of UK accounting standards. As a result we were able to make a number of targeted changes to the standards that improved their cost-effectiveness without compromising on information that is useful to users.

Audit

This was our first full year as Competent Authority. That role includes setting standards, monitoring audit quality, taking enforcement action and delegating, under the direction of the Secretary of State, various oversight tasks to the Recognised Supervisory Bodies (RSBs). Our role continues to strengthen, with further implementation of the new statutory regime and innovation in the way we monitor firms and seek to encourage continuous improvement in audit quality.

We report on our activities as Competent Authority (including enforcement) through this report, our annual *Developments in Audit 2016/17* report and reports on individual audit firms, casework and thematic reviews. Our annual work programme is set out in our annual plan.

In 2017 we set the auditors of FTSE 350 companies a target that, by 2018/19, at least 90% of those audits inspected should require no more than limited improvements. This year our assessment of the reviews we carried out was that 73% (2017: 81%) achieved this standard. This is a decline in audit inspection results this year, with an unacceptable deterioration in quality at one firm, KPMG. The quality of audits must be improved, and quickly if the target we set is to be met. All firms have proved themselves capable of delivering high quality audits, but to varying degrees have not delivered this consistently across the range of audits we have reviewed. We are holding KPMG to account, in relation to its action plans, and have increased our planned inspections of its work for 2018/19. We have highlighted shortcomings to all the firms, including looking for a renewed focus on group audits, challenge of management and the audit of pension balances. We are reviewing the effectiveness of firms' root cause analysis, and whether their action plans will effectively address our concerns. We have also referred a number of cases of significant adverse findings for consideration for enforcement action.

Our audit quality thematic review *Materiality* issued in December 2017 noted that the majority of messages for firms from our last report on the topic (in 2013) had been addressed, including an increased emphasis on the role of judgement in determining materiality. However, more can be done to explain the concept of materiality in audit reports.

This year, in addition to our reviews of audits, we have focused on the quality of the leadership in the largest audit firms. Our report Audit Culture Thematic Review issued in May 2018 was based on work that was substantially carried out during 2017/18. It is important that firms create a culture where achieving high quality audit work is valued and rewarded, and which emphasises the importance of 'doing the right thing' in the public interest. We found evidence that the firms we reviewed were investing considerable time and effort in their firm-wide culture. We identified areas of strength and areas where more should be done to establish and embed an appropriate audit culture. We plan to follow up on the findings of this review within three years and will test whether there is evidence of success such as improved stakeholder confidence and improved audit quality findings.

There is considerable public discussion about competition in the audit market, including the impact of the reforms relating to tendering and the impact of non-audit services. Our Developments in Audit 2016/17 report noted that the big four firms had increased their share of the FTSE 350 audit market, although there has been some redistribution between them and some evidence of less concentration by particular firms in certain sectors. Concentration at the top end of the audit market remains a serious concern. Any of the largest firms leaving the audit market under current conditions would lead to serious shortcomings in its operation and we are discussing this issue with the Competition and Markets Authority. However, there is no easy solution and it is essential that any potential remedies do not result in further market concentration or reduce audit quality.

In April 2018 we announced innovative plans to enhance our monitoring of the six largest audit firms; in addition to our work on audit quality we will be seeking evidence about leadership and governance, firm values and behaviour, business models and financial soundness, risk management as well as evidence of audit quality. This audit firm monitoring and supervisory approach aims to avoid systemic deficiencies that could impact on audit quality and ultimately the stability of the financial markets. Although we do not have specific powers in this area it is supported by the firms and we believe it will inform our supervision of the firms and contribute to high quality audit.

Enforcement

Our Enforcement Division has implemented the recommendations from an internal review aimed at increasing efficiency and timeliness, and is making use of enhanced powers in relation to audit investigations. This includes improved interaction with other regulators. Complex investigations need to be undertaken thoroughly and must take time, but we are committed to meeting our target to complete new investigations within two years. This has been set to reflect the often complex and extensive nature of the cases, and to allow for detailed and rigorous legal and evidential analysis necessary for a tribunal.

As Competent Authority the Audit Enforcement Procedure has given us stronger powers for effectively holding auditors to account for failings in their audit work and changed the threshold required from misconduct to a breach of relevant requirements. The Accountancy Scheme, which applies to accountants in business, is still based on misconduct. We believe that the Accountancy Scheme should be replaced with a new statutory regime aligned with and similar to the Audit Enforcement Procedure.

In March 2017 we announced that an independent review of our sanctions would be undertaken, led by Lord Justice Christopher Clarke. This review was conducted during the year and reported in October 2017. Since 31 March 2018 we have announced that we have implemented the recommendations, including increased periods of exclusion from the profession and greater use of non-financial penalties. We have also increased the levels of fines. The sanctions available are intended to be effective and proportionate in respect of promoting high standards of audit quality.

A number of cases have been concluded this year with significant fines resulting, including a fine of:

- £5.1 million for PwC in relation to its audit of RSM Tenon Group plc;
- £5.0 million for PwC in relation to its audit of Connaught plc; and
- £1.8 million for EY in relation to its audit of Tech Data.

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	2017/18 £m	2016/17 £m	2015/16 £m
Total financial penalties imposed	13.1	9.3	1.3
	2017/18 Number	2016/17 Number	2015/16 Number
Number of financial penalties imposed	11	13	6
Number of non-financial penalties imposed	11 (including 2 exclusions)	16 (including 7 exclusions)	12 (including 5 exclusions)

Since the year end we have announced the conclusion of further cases, including fines for KPMG of £3.15 million in relation to its audit of Quindell plc and for PwC of £6.5 million in relation to its audit of BHS and the Taveta Group. These fines are stated after settlement discounts – the fine for PwC was £10.0 million before the settlement discount, which is the highest ever awarded by the FRC.

Our report *The FRC's enquiries and investigation of KPMG's 2007 and 2008 audits of HBOS*, issued in November 2017, discussed our work on this investigation and the lessons learned. Our investigation into KPMG's audit of HBOS was closed as we concluded that a successful case could not be brought. Our report explains what we did as part of that investigation and how the decision was reached. The lessons learned included a need to be more proactive, not waiting for others to conclude their investigations first, and to increase openness in communicating information about and progress with cases. We have since made a number of steps to address this, for example in relation to Carillion we provided an update on our investigations in May 2018 highlighting key activities that were underway.

UK Corporate Governance Code

The consultation on proposed changes to the UK Corporate Governance Code attracted over 270 responses from a variety of stakeholders with an interest in corporate governance, demonstrating a high degree of engagement with our aim to ensure UK-listed companies achieve the highest standards of governance. The finalisation of the revised UK Corporate Governance Code will be informed and shaped by the views we have heard and we hope that a sharper Code will encourage Boards to re-engage with the principles and, when necessary, take action to improve governance. In our work to revise the Strategic Report Guidance we are also considering the reporting needs of a wider group of stakeholders. How companies can respond to these within the context of the legal framework for the strategic report and non-financial reporting is an important concern for many companies, investors and other stakeholders.

In addition to our work on the UK Corporate Governance Code, the FRC is the secretariat of the Coalition Group, chaired by James Wates CBE, that was established to develop new corporate governance principles for large privately-owned companies, recognising the impact that such companies can have on society and the economy.

It is shareholders that monitor a company's compliance with corporate governance principles through scrutiny of its reporting; UK legislation does not provide for regulatory monitoring and sanctions. Nevertheless, we are considering how we might develop more active monitoring in this area. We are also planning consultation on how the Stewardship Code covering investors' engagement with companies should be strengthened.

Actuarial

We issued new technical actuarial standards in 2016, which became effective from 1 July 2017. This year we have focused on communication to the profession and others to help ensure that they are implemented effectively. We have also been overseeing the work of the IFoA on a new monitoring regime for actuaries and the development of a new Actuaries Code. We concluded that the IFoA's proposals to monitor actuarial work were capable of being effective in the public interest and engaged with the IFoA to promote its development of appropriate consultation material.

As part of the Joint Forum on Actuarial Regulation (JFAR), we published the fourth annual *Risk Perspective: 2017 Update* in January 2018. It raises awareness of current risks to actuarial work and generate discussion about those risks. Nine risk hotspots were recognised including political and legislative risk, market performance and uncertainty, environmental impact and technological change.

INTERNATIONAL INFLUENCE

Remaining influential internationally continues to be one of our priorities because of the international dimension to capital markets with cross-border investment, and the international nature of standards and regulation that can influence audit and corporate reporting quality, for example the role of the global networks of audit firms and separately the implications of the UK's exit from the EU.

The UK is highly regarded internationally, and our work has influenced the development of requirements in other jurisdictions around the world. We continue to work with regional and international bodies and other regulators, building relationships and sharing good practice. For example, we play a major role in the International Forum of Independent Audit Regulators (IFIAR) and contribute strongly to its initiatives to promote good and consistent regulation of the audit networks. IFIAR provides a platform for its members to share information, experience and insights to enhance high-quality audit.

We continue to play a full role with the European Financial Reporting Advisory Group (EFRAG) and are involved in the International Actuarial Association's work on actuarial standards. During the year we have chaired a working group of the Monitoring Group, which has been consulting on proposals for the future of international auditing standard-setting.

TRANSPARENCY

During the year we have been adapting some of our processes and how we interact with stakeholders, including:

- listening to and understanding a wider group of stakeholders;
- enhancing our openness to stakeholders; and
- examining our own culture and values, revising our mission and updating our values.

Examples of openness in how we operate include the detailed reports we publish on our activities.

This year we commissioned stakeholder research to understand better stakeholders' views, motivations, priorities and interests. It involved online surveys and interviews and gathered views from a large number of senior stakeholders. Stakeholders identified strengths in our work on corporate governance and reporting and felt improvements could be made in the transparency of our processes and decision-making. As noted above, we have improved the transparency of our communications this year.

The FRC has been confirmed as a public body by the Office for National Statistics (ONS), with a central government classification, and operates in the public interest. I was appointed by the Department for Business, Energy and Industrial Strategy (BEIS) as Accounting Officer in August 2017. As Chief Executive and Accounting Officer of the FRC I am personally responsible for safeguarding the public funds under my control, for ensuring propriety and value for money in the handling of those public funds, and for the day-to-day operations and management of the FRC.

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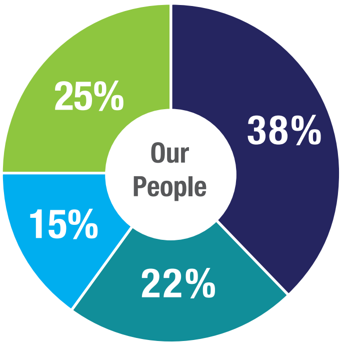


- Audit and Actuarial Regulation
- Corporate Governance and Reporting
- Enforcement
- Corporate

Corporate includes the CEO's office, Governance and Legal and Strategy and Resources

As a result we operate within the principles and guidance set out in HM Treasury's *Managing Public Money*. From 2018/19 the Government Internal Audit Agency (GIAA) will be providing us with internal audit services intended to help provide assurance over our effectiveness in managing public money.

SURPLUS FOR THE YEAR AND RESERVES

The FRC is funded mainly through a combination of compulsory levies, backed by statute, and voluntary contributions.

This year our surplus was £3.9million, which includes a planned contribution of £0.7million to reserves. This was the result of actuarial case costs being lower than budgeted due to costs awarded in the year, recruitment not taking place as quickly as anticipated partly due to difficulty in finding candidates of a suitable calibre for specialist roles and greater cost-effectiveness. We have now achieved our target of having six months operating costs in reserves, more quickly than anticipated. This target has been set to provide a buffer in the event of unexpected costs arising, so that we can continue to deliver our regulatory responsibilities in the public interest. However, as a public body this target will be reviewed and may result in some reserves being released in the future. We will continue to consult annually on our plan and budget.

CULTURE AND PEOPLE

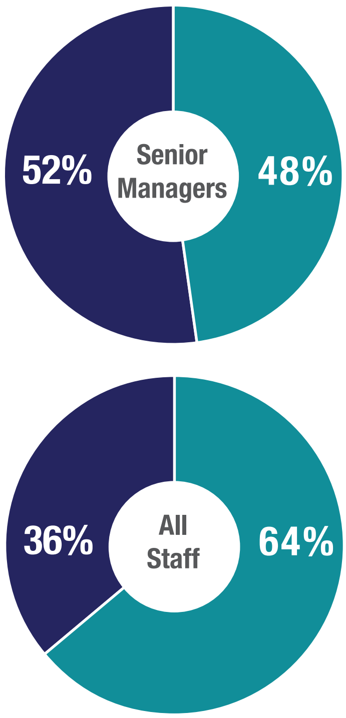
How we behave is important in delivering the long-term success of an organisation. We have been developing our culture this year and will continue working on a number of projects in 2018/19. Our aim is for a culture of high performance in which we develop our people to be decisive, speedy, firm and fair, as well as engaged with a broad set of stakeholders. We have already updated our mission and reviewed our values and behaviours and we will make more progress in 2018/19 especially around wider stakeholder engagement.

Our annual employee survey continues to show high levels of employee engagement, 84.4% (2017: 80.9%) of our employees responded, and 94% (2017: 97%) said they were proud to work for the FRC. Areas that scored positively included having the skills to do the job effectively, 99% (2017: 96%) and believing the FRC makes a difference in the public interest, 96% (2017: 95%). However, feedback in some areas was less positive than previously and we have developed an action plan to respond to this, which includes improved communication to our people from the members of the Executive Committee.

At 31 March 2018 the FRC had 192 employees (2017: 171 employees). This increase in employees was to deliver our strategy, particularly on enforcement and audit quality.

In terms of gender balance:

- 60% (2017: 50%) of the members of the Executive Committee are female;
- 48% (2017: 53%) of senior managers (including the Executive Committee) are female (there are 25 female and 27 male senior managers as at 31 March 2018); and
- 64% (2017: 60%) of all staff are female.



- Male
- Female

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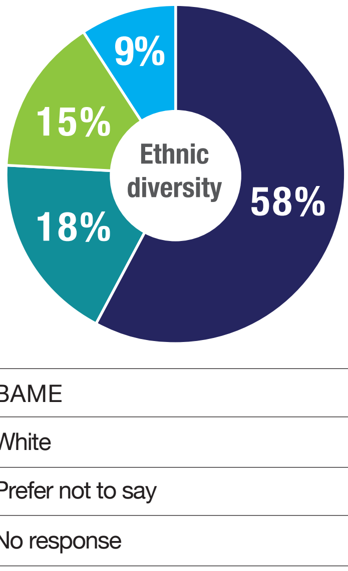
This year we have carried out a pay review, with the support of independent consultants. We want to promote the highest levels of performance and effectiveness and ensure that our people strategy attracts, inspires and develops high calibre people with the right skill sets for our regulatory role. Our review included benchmarking with both the public and private sectors. Due to delays in the availability of the public sector pay guidance for 2018 we have not yet been able to implement the pay aspects of the review.

During the year we have further strengthened our engagement with employees. Building on the People Forum, which was established in 2016/17, the Deputy Chairman has taken on the role of liaison between the Board and the FRC's employees.

There are a number of people-related challenges for us, including:

- the recruitment and retention of experienced and skilled people. It can often take time to recruit people to specialist roles and this may be more challenging in an environment of change and public body pay restrictions; and
- taking action to address our gender pay gap. We have voluntarily reported our gender pay gap. Our mean hourly gender pay gap is 23.3% as at 31 March 2017. It represents a notably higher proportion of women in lower paid roles. We are taking a number of actions to address this, we have reviewed our pay structures, we are supporting staff with mentoring and development training and continuing to support flexible working and home working. However, it will take time to fully address the gap.

In order to improve ethnic diversity at Board and staff level we are taking a number of steps. This year we collected information from staff, on a voluntary basis, on ethnicity as part of our staff survey, ran training on unconscious bias and established a Diversity and Inclusion Group.



STRATEGY 2018/21

This year we conducted a review of our strategy for the next three years, including consultation with stakeholders. In response to changes in the external environment we carried out this review earlier than initially planned. We issued our strategy for 2018/21 in March 2018. It builds on our previous priorities, takes account of wider developments and the current spotlight on corporate governance and audit issues, and positions the FRC with a set of strategic priorities that aim to deliver our mission and respond to current challenges. Key priorities include:

- driving improvement in audit quality;
- finalising the revised UK Corporate Governance Code and consulting on a revised UK Stewardship Code;
- continuous improvement in corporate reporting; and
- ensuring that our enforcement action continues to be robust and proportionate.

Finally, I would like to echo the Chairman's comments and thank my colleagues on the Executive Committee and all other FRC staff for their continued hard work and contributions to our mission to promote transparency and integrity in business. I would particularly like to thank Melanie Hind, who is leaving the FRC shortly, for her contribution over the past six years.

STEPHEN HADDRILL
CHIEF EXECUTIVE OFFICER AND ACCOUNTING OFFICER
4 July 2018

OUR REGULATORY MODEL

OUR MISSION IS TO PROMOTE TRANSPARENCY AND INTEGRITY IN BUSINESS

WHAT WE PROMOTE

- Investor engagement
- True and fair reporting
- Good governance
- High quality audit
- High quality actuarial work
- Trustworthy professions

HOW WE DO IT

OUTCOME

- Confident investors
- Sound decisions
- Effective Capital Markets
- Enhanced trust in business

Our Values	Our People	Our Role
Effective Fair Independent Influential	Attract, inspire, develop and reward high calibre people High levels of employee engagement Of our 192 staff (2017: 171) 64% (2017: 60%) are female	Competent Authority for statutory Audit in the UK Issue UK and Ireland accounting standards Monitor financial reporting by public and large private companies Enforcement Set technical actuarial standards Set UK corporate Governance Code and Stewardship Code Oversight of the accountancy and actuarial professions

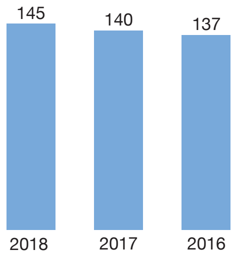
More details about our role can be found at https://www.frc.org.uk/Role-and-Responsibilities.

STRATEGIC PRIORITIES

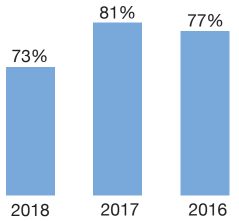
Each year we develop a series of priorities that support our strategy, and which evolve over time to respond to changes in the external environment and to reflect the impact of actions taken in earlier years. These are set out in our *Plan & Budget and Levies 2017/18* document and our *Strategy 2018/21, Budget and Levies 2018/19* document. Our plan includes a large number of specific activities that we intend to undertake during the year including our regular programmes of corporate reporting reviews and audit quality reviews, as well as managing enforcement cases. From these our key priorities for the year are identified.

Promoting high quality audit and assurance

KPIs



Total number of reviews



Proportion of Audits of FTSE 350 reviewed as requiring no more than limited improvements (assessed by our monitoring programme)

Key priority 2017/18

Drive further improvements in the quality of audit, including through a thematic review of audit firm culture.

Performance in 2017/18

As Competent Authority we have powers and obligations relating to the quality of audit. This year we carried out 145 audit quality reviews, which are supported by thematic reviews and other data, research and analysis in forming our views about audit quality and the audit market overall. We also carried out our oversight of the registered supervisory bodies (RSBs) – see Appendix 1.

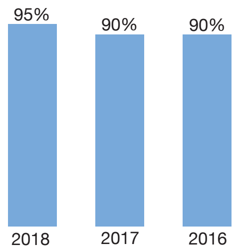
There is a decline in audit inspection results this year. We have highlighted shortcomings to all the firms and are reviewing the effectiveness of firms' root cause analysis, and whether their action plans will effectively address our concerns.

Key priority in 2018/19

Drive improvements in audit quality, including through implementing a new approach to the monitoring and supervision of the six largest audit firms, reviews of firm-wide audit quality processes, thematic reviews, and reviews of audit engagements, focusing on areas of high risk.

Promoting corporate governance and investor stewardship with a long-term focus

KPIs



Proportion of FTSE 350 companies reporting compliance with all, or all but one or two of the Code's provisions

Key priority 2017/18

A comprehensive review of the UK Corporate Governance Code and promote our work on corporate culture.

Performance in 2017/18

cause analysis, and whether their action plans will effectively address our concerns.

We carried out a comprehensive review of the UK Corporate Governance Code and consulted on our proposals for a shorter, sharper Code in December 2017, receiving more than 270 responses.

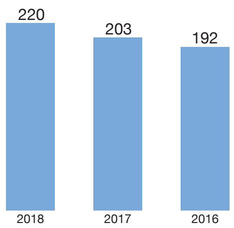
In doing so we have engaged with a wide range of stakeholders and incorporated suggestions from the Government's Green Paper on Corporate Governance Reform as well our own work on corporate culture.

Key priority in 2018/19

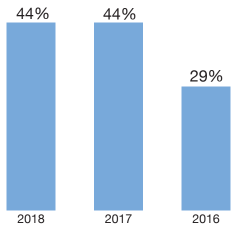
Finalise the revised UK Corporate Governance Code and consult on a revised UK Stewardship Code.

Promoting true and fair reporting

KPIs



Number of reviews



Proportion of companies additional explanation and information was sought from

Key priority 2017/18

Clear and concise reporting by companies, including through a Financial Reporting Lab project on reporting of principal risks and viability statements.

Performance in 2017/18

The aim that good corporate reporting should be clear and concise underpins our work; our *Annual Review of Corporate Reporting 2016/17* issued in October 2017 emphasised the characteristics of good corporate reporting.

We undertook 220 reviews this year, including those forming part of our three thematic reviews. Overall the standard of reporting continues to be generally good, although further explanation and information was sought from 44% of companies reviewed. This year we issued 1 Press Notice and 5 FRC references were required by companies (2017: 4), when a reporting improvement was of greater significance.

Our Financial Reporting Lab delivered reports this year on disclosure of dividends, risk and viability reporting and the digital future of corporate reporting. These all contribute to improving corporate reporting.

Key priority in 2018/19

Continuous improvement in corporate reporting through our monitoring of annual reports and accounts (with a focus on how companies are implementing the new IFRS on revenue, financial instruments and leases), the use of thematic reviews and Financial Reporting Lab projects.

Promoting high quality actuarial work

Key priority 2017/18

Promotion of our new Technical Actuarial Standards and influence effective monitoring of actuarial work by the actuarial profession.

Performance in 2017/18

We completed about 50 presentations reaching over 2,000 actuaries, right across the UK, to promote the revised Technical Actuarial Standards which became effective on 1 July 2017. In addition, four webinars proved an effective way of reaching some actuaries it would otherwise have been difficult to engage with.

Under our oversight, the IFoA further developed its monitoring proposal and developed consultation material to describe a regime that is likely to be beneficial to the public interest.

Key priority in 2018/19

Continue to influence effective monitoring of actuarial work by the actuarial profession.

Effective enforcement

KPI

Complete investigations within two years (from the date on which our Conduct Committee decides to investigate until a Proposed Formal Complaint or Initial Investigation Report is made, or the case is closed).

This target was introduced in 2016/17 and applies to cases where the decision to investigate took place on or after 1 April 2016.

We are, in general, meeting our target.

Key priority 2017/18

Enhance the speed and effectiveness of our enforcement role, including a review of our sanctions.

Performance in 2017/18

We concluded a number of investigations leading to the imposition of sanctions against six individuals and three audit firms including one of the Big Four accepting a fine of £5.1m – the largest fine at the time. Three disciplinary cases were heard before an independent tribunal and we served Proposed Formal Complaints in three other matters.

We have implemented and embedded changes as a result of our internal efficiency review, including further expansion of the Enforcement team. The evidence to date indicates that these have had a positive effect and that new cases are progressing more speedily as well as older cases being concluded. Over the period, we have commenced a number of investigations under the 2016 Audit Enforcement Procedure and have developed and refined our processes in light of experience to ensure best practice.

The report of the independent sanctions review was published in November 2017. Having carefully considered the panel's recommendations, the FRC has revised its sanctions guidance, coming into force on 1 June 2018. The revisions include amended provisions relating to cooperation and settlement which we anticipate will further facilitate the timely and efficient disposal of cases.

Key priority in 2018/19

Ensure that our enforcement action continues to be robust, proportionate and timely.

Operating effectively and efficiently

KPIs

Financial

We aim to operate within resources, breaking even after planned contributions to reserves

	2017/18 £'000	2016/17 £'000	2015/16 £'000
Surplus for the year	3,852	2,525	75
Planned contribution to reserves	(700)	(1,100)	–
Surplus after planned contribution to reserves	3,152	1,425	75

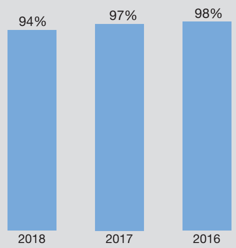
We aim over time, to build reserves to represent six months operating costs.

We have achieved 6 months (2017: 4 months, 2016: 3 months) reserves.

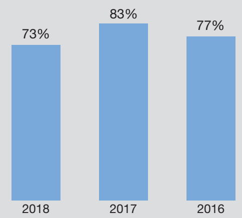
We will revisit this target in the light of our status as a public body, and it may be revised in future years.

Employee engagement and view of FRC leadership

Assessment through the annual staff survey



'I feel proud to work for the FRC'



'I have confidence in the collective leadership of the Executive Committee'

Key priority 2017/18

Use our corporate culture to support our mission and regulatory role, and ensure we are effective and efficient.

Performance in 2017/18

Making considerable use of employee participation we revised our mission and values during the year, as part of a wider project to review and, when necessary, adapt our culture. We formed a Diversity and Inclusion Committee. The wider project will continue in 2018/19.

As a public body we operate within the principles and guidance set by HM Treasury and the Cabinet Office in managing our expenditure. We have continued to make efficiency savings.

Key priority in 2018/19

Further develop our culture of high performance, in which we develop people to be decisive, speedy, firm and fair, as well as engaged with a broad set of stakeholders.

In addition to our major projects there are two further strategic themes that run through our activities.

UK's exit from the EU

Key priority 2017/18
Together with other regulators help stakeholders seize the opportunities and address the challenges of the UK's exit from the EU, including agreeing, with the Government, the FRC's potential role in relation to the endorsement process for international accounting standards should this be necessary as part of the UK's exit from the EU.

Performance in 2017/18
We are working with BEIS, other regulators and stakeholders to respond effectively to the implications of the UK's exit from the EU. We are supporting the Government as it explores the options for the UK's accounting framework for listed groups after the UK's exit from the EU.

Key priority in 2018/19
Help ensure the UK is positioned to maintain high standards of accounting by contributing to the development of the framework for any UK endorsement process for international accounting standards.

International influence

Key priority 2017/18
Remain influential internationally, including through our influence over international accounting and auditing standards and our role in IFIAR.

Performance in 2017/18
We continue to work to influence international developments in corporate reporting and auditing. We are playing a major role in IFIAR and the Monitoring Group's work on the future of auditing standard-setting. We continue to play a full role with EFRAG and are involved in the International Actuarial Association's work on actuarial standards.

Key priority in 2018/19
Work closely with international organisations and regulators in other jurisdictions (including through IFIAR) to promote high quality IFRSs and auditing standards.

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LISTENING TO STAKEHOLDERS

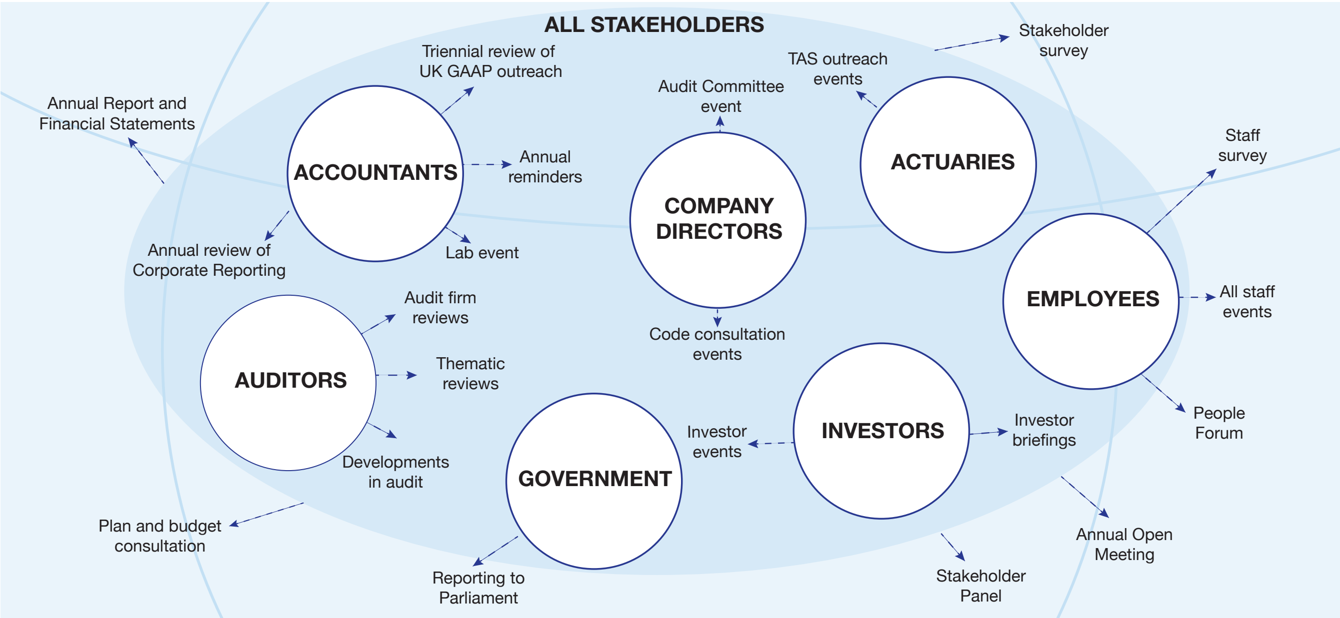
Working with a wide range of stakeholders and listening to their views is very important to us and is a crucial part of ensuring that we are properly acting in the public interest. It provides us with evidence to inform our decision-making in developing and maintaining Codes, Standards and guidance, and information about risks, concerns and challenges relevant to our regulatory frameworks.

The ways in which we listen to stakeholders include public events, our Stakeholder Panel (which has extended our engagement with stakeholders other than investors), meetings with individual or smaller groups of stakeholders and formal and informal consultations on our activities and proposals. As well as events in London, we have held, or participated in, regional events throughout the UK, webinars, and started a series of blogs and podcasts.

We consult formally on our Plan & Budget each year, both in writing and through an Open Meeting. We also consult formally on new, or amendments to, accounting, auditing and actuarial standards and aspects of our procedures. Informal consultation enables us to obtain wider views on various topics that will inform current and future policy development. For example our Stakeholder Panel has provided input into our work on corporate governance and the review of the UK Corporate Governance Code.

After consulting and listening to stakeholders, whose views are weighed carefully with other evidence, any final decisions are taken at the relevant level within the FRC's governance structure. The FRC's governance structure has been designed to maintain its independence from the professions it regulates (see the Governance section for more information).

Stakeholder research commissioned on our behalf provided useful feedback for us. Almost 300 stakeholders were surveyed and the results were published on our website.



RISK MANAGEMENT

Our risk management framework is designed to identify strategic and operational risks; to set our risk tolerance; and to ensure that risks are effectively managed and monitored.

Building on the work done in response to the 2015/16 Board effectiveness review, we have updated our risk management policies and procedures and have worked to further embed risk management across the FRC.

The CEO and the Board have responsibilities for managing risk. The Board's responsibilities include setting the FRC's risk appetite and the risk tolerance boundaries in which it is managed. The Board and CEO, supported by the Audit Committee, are responsible for ensuring the effectiveness of the risk management. Both the Board and Audit Committee are advised by the FRC's executive, its Committees and Advisory Councils. The focus is on risks to the FRC achieving its mission of promoting transparency and integrity in business. In considering risk, we assess the impact of events that could threaten the long-term viability of the FRC and its ability to serve the public interest. The Viability Statement is on page 21.

We will revisit the principal risks and their mitigation in the light of the conclusions of the independent review by Sir John Kingman and the implementation of any changes arising from it.

PRINCIPAL RISK	MITIGATION	CHANGE	REASON FOR CHANGE
Credibility of the UK Corporate Governance regime, including the 'comply or explain' approach, is compromised by poor or ineffective governance or reporting thereon by directors and insufficient engagement and stewardship by investors.	During 2017/18 the FRC undertook a fundamental review of the UK Corporate Governance Code and its associated guidance. A revised Code which is shorter, sharper and takes account of the needs of wider stakeholders including the workforce, will be issued in 2018. We also publish the UK Stewardship Code, to which many investors are signatories, which sets standards for investor engagement with companies to promote challenge and to hold directors to account. We scrutinise and report on the quality of reporting against the Stewardship Code and de-list signatories that fall short of the standard required. We will review the Stewardship Code during 2018/19.	→	

KEY

N New Principal Risk
↑ Improving
↓ Worsening
→ Static

PRINCIPAL RISK	MITIGATION	CHANGE	REASON FOR CHANGE
The quality of audit work by major audit firms falls below the high standards expected because of a failure to comply with auditing standards, shortcomings in firms' governance or culture, or a failure to invest in their audit function.	We have powers as UK Competent Authority for audit. We set UK auditing standards and help develop and adopt international auditing standards, and we publish the Audit Firm Governance Code. We select each year a number of audits and review aspects of them, including particular themes across audits. We report publicly each year on our findings individually in respect of the more significant audit firms and in aggregate. We also promote continuous improvement in standards of auditing through our role in overseeing the audit professional bodies. We have introduced a supervisory regime in the form of the Audit Firm Monitoring and Supervisory Approach, which enables us to assess firms' controls against systematic deficiencies within a major audit firm. We work with auditors, audit committees and investors to highlight good practice and advocate continuous improvement in the effectiveness and quality of audit – including through the use of data analytics and technology. We take enforcement action against individuals and firms where it is believed that audit work may breach the required standards.		The latest round of audit inspection results shows a decline in audit quality across the Big Four.
Audit market is severely disrupted by the failure of a major audit firm or their withdrawal from all or part of the market.	Our audit oversight regime is designed to promote high quality audit work, strong ethical standards and effective risk management, and to address shortcomings. We require each of the major audit firms to have contingency plans in place that would minimise the impact on the quality of audit in the event of a failure, and we work with firms and other regulators on scenario testing. As a problem may not originate in the UK, our work in this area includes consideration of network risk. We have less direct visibility of this but firms are required to notify us of major risks arising elsewhere in their network. We have conducted a detailed review of the firms' contingency plans and recommendations have been put forward in response.		Events in the UK and internationally have increased pressure on audit firms, which is why we consider this risk to be worsening.

PRINCIPAL RISK	MITIGATION	CHANGE	REASON FOR CHANGE
The FRC's regulatory framework fails sufficiently to deter or address misconduct or inadequate diligence by directors, professionals and professional bodies, leading to a loss of public confidence in the regulatory regime.	Our monitoring of audit and financial reporting, together with our oversight of the professional bodies' regulation of their members, is a tool for both identification and deterrence. We operate enforcement procedures that enable us to investigate and take enforcement action against audit firms and members of the accountancy and actuarial professions where it is believed that their work may have fallen significantly below the required auditing or professional standards, imposing sanctions and fines through tribunals. The FRC has limited powers in relation to directors, but our enforcement powers do extend to company directors who are chartered accountants or actuaries. During 2017/18 we increased our resources and streamlined our processes to speed up our investigations. An independent review of our enforcement sanctions was conducted during the year and we have now implemented the recommendations of that review.	→	
FRC policy and standards, including those designed to replace current EU regulation, are misguided or ineffective.	We base our overall regulatory approach on the principles of good regulation – including rigorous impact assessment. We consult widely and publicly on our regulatory proposals and publish the feedback and how this has been taken into account in our decision-making. Each year we review the evolving context of our mission and update our strategic priorities; and undertake a public consultation on our strategy and annual plan. We publish detailed reports on our progress against our strategic priorities and on the findings and conclusions of our regulatory activities. We engage extensively in outreach with stakeholders, including through our Stakeholder Advisory Panel. We regularly undertake surveys of stakeholder attitudes to our mission and effectiveness to inform our work. We also continue to engage through our existing networks of international standard-setters and regulators to maintain our influence internationally and to forge stronger direct relationships with regulators in major economies.	→	
Decisions based on the work of actuaries are ill-founded due to a failure of such work to meet the professional standards expected.	Together with the Prudential Regulation Authority, Financial Conduct Authority and the Pensions Regulator we are members of the Joint Forum on Actuarial Regulation, which considers the risks to the public interest related to actuarial work. We issue technical actuarial standards which the IFoA requires its members to follow in carrying out their actuarial work. We oversee the IFoA's ethical standards and its regulation of its members. The IFoA is in the process of developing a new framework for monitoring actuarial work under FRC oversight, which we will review.	→	

PRINCIPAL RISK	MITIGATION	CHANGE	REASON FOR CHANGE
FRC fails to recruit and retain high quality people to pursue its mission and deliver its regulatory responsibilities.	The FRC's confirmed status as a public body imposes certain new operational requirements which will be incorporated in a framework document to be agreed between the FRC and BEIS. We are working with BEIS to address any risk that we fail to meet these requirements, and to ensure that we retain the degree of operational flexibility necessary to fulfil our regulatory role, including in relation to recruitment and resources.	↓	The FRC's confirmed status as a public body may pose risks in relation to our ability to recruit and retain high quality people
FRC fails to maintain data privacy and to prevent unauthorised access to confidential information, including through cyber-attack.	We recently updated our policies and procedures for data privacy and data security. We ensure that all our staff are trained in these. We regularly test the effectiveness of our network security and data handling and continue to invest where needed. A specific project was undertaken to ensure we were fully General Data Protection Regulation (GDPR) compliant in time for its implementation.	→	
The FRC's directors and/or staff are, or are perceived to be, too close to those we regulate or to be otherwise conflicted, or to be insufficiently diverse.	Our Code of Conduct, Register of Interests and working processes and practices are designed to avoid real and perceived conflicts. Requirements are in place such that no Board or Conduct Committee member shall be a practising auditor or an individual who has during the previous three years carried out statutory audits, held voting rights in an audit firm, been a member of an administrative management or supervisory body of an audit firm or been a partner, employee or otherwise contracted by an audit firm, or an officer of any of the accountancy professional bodies. In addition the Nomination Committee pays due regard to this risk when considering Board appointments. There are specific requirements for staff to ensure their independence from the entities they monitor. Our Board, and the Committees and Councils that advise it, are drawn from a wide range of backgrounds and bring diverse experience to our deliberations and decision-making. In addition to this, we have also expanded our diversity targets for the Board. In 2018 we appointed two new directors with particular public interest experience in the not for profit and social sectors to bring further insight into the FRC's strategic thinking, and will in future recruit from a wider spectrum of experience for our Committees and our advisory Councils as well as for the Board.	N	Heightened public concern on the relationship between the regulator and the regulated.

2017/18 – VIABILITY STATEMENT

The Board considers that the three years to 31 March 2021 is the appropriate period to take into account in making this Statement because it aligns with the period covered by our current strategy, which was issued in March 2018. It is also consistent with the expected time horizon for any changes to our operation, roles and responsibilities that may arise as a result of the UK's exit from the EU or from the implementation of any recommendations from the Kingman review. In assessing the FRC's viability for this period the Board, advised by the Audit Committee, has considered the risks to the FRC.

As a partner organisation of BEIS we have made two key assumptions:

(a) we will retain the powers and authority we derive from Government and Parliament (our 'licence to operate'); and

(b) the Government would take action to support the FRC if our current funding arrangements failed to provide the necessary resources for us to:

(i) carry out our regulatory functions;

(ii) respond to claims against us; or

(iii) adapt to take on any new roles, including any arising from the UK's exit from the EU.

In relation to assumption (a), the outcome of the independent review of the FRC by Sir John Kingman gives rise to potential opportunity and uncertainty about our future role and supporting powers and potentially the validity of this assumption. The review is expected to report by the end of 2018, after which any recommendations might be implemented. At present we consider assumption (a) to be reasonable over the period.

In relation to assumption (b):

(a) we have considered our principal risks and identified two severe but plausible events that could lead to additional calls on our resources. These are:

(i) a tribunal considering that no reasonable person would have pursued a particular enforcement case, and making a costs award against the FRC (which could not be recovered from the professional bodies); and

(ii) we find ourselves subject to a claim for damages which is not covered by statutory exemption.

In assessing these risks, individually and in aggregate, the impact is expected to be manageable within existing levels of reserves over the period.

(b) we expect that any significant new roles will be matched by appropriate funding arrangements, agreed with BEIS, and our existing levels of reserves will enable us to manage any reasonable transitional period.

On the basis of its assumptions and assessment of the risks the Board has a reasonable expectation that the FRC will continue in operation and meet its liabilities as they fall due over the three-year period.

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FINANCIAL REVIEW

We consult publicly on our budget and funding each year. We aim to operate effectively and efficiently. In financial terms this means setting our budget and funding at a level that allows us to carry out our role and responsibilities effectively, whilst spending our resources efficiently. Our target is usually to break even so that we are not collecting amounts from our funders that are not needed to carry out our activities. However, for the last two years we consulted on a budgeted increase to reserves, in order to ensure that we hold a suitable level of general reserves. Our target has been to achieve an appropriate level of reserves to mitigate possible detrimental scenarios and we considered that a level equivalent to six months operating costs was the appropriate amount to sufficiently counter the plausible scenarios indicated in our Viability Statement (page 21). As a result of underspending in certain areas and managing operating costs efficiently we have contributed more to reserves than planned both this year and last year, and have now met our target.

	2017/18 £'000	2016/17 £'000
Surplus for the year	3,852	2,525
Planned contribution to reserves	(700)	(1,100)
Surplus after planned contribution to reserves	3,152	1,425

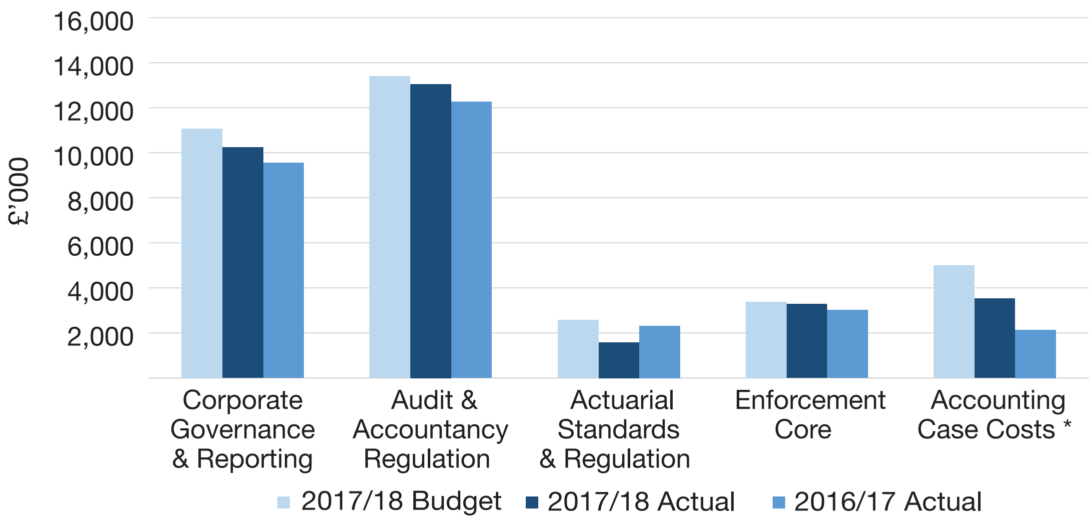
As our precise status is confirmed we will be reviewing our policy in relation to reserves, and in future years may decide that it is no longer necessary to maintain reserves at their current level.

Expenditure

Our total expenditure for the year was £31.7m (2017: £29.3m), in comparison to a budget of £35.3m (2017: £33.5m). Expenditure across our main areas of responsibility is summarised below.

The main factor that influenced our savings in comparison to budget was that our budget includes an estimate of the amount we will spend on enforcement case costs. The budget of £5.5m indicated the expected cost of accountancy and actuarial cases after any costs awards. In 2017/18 the FRC incurred case costs of £6.6m which was reduced by £3.3m because of costs awarded in the year.

Expenditure



* Case Costs are net of any cost award received in the year

Excluding case costs our total expenditure for the year was £28.4m (2017: £26.8m), in comparison to a budget of £29.8m (2017: £28.0m). Other significant factors that influenced our savings were:

(a) Although we recruited additional staff during 2017/18, this was lower than budgeted. This meant that we underspent in relation to new roles and filling positions that arose as a result of natural staff turnover, partly due to difficulty in finding candidates of a suitable calibre for specialist roles.

(b) Cost and fine awards of £0.4m from actuarial cases during the year have enabled us to add this to reserves to be able to offset any increases in actuarial funding requirements for 2018/19 and support IFoA's actuarial monitoring in the public interest.

(c) We have saved money through improved procurement. Being able to take advantage of online training resources available to public bodies has seen training costs lower than expected. A continued focus on using teleconferencing facilities, when possible, as well as booking well in advance has seen travel and conference costs £0.2m lower than budget.

Funding

The amounts collectable, either as compulsory levies (including for our role as Competent Authority) or voluntary contributions, from the accountancy and actuarial professional bodies, are set each year following the consultation process. The voluntary contributions we collect from accounts preparers, insurance companies and pension schemes are set on the basis of the latest available data on levy population. The amount actually collected can vary, principally because of changes in the population. The contribution from Premium and Standard Listed companies is collected on our behalf by the FCA.

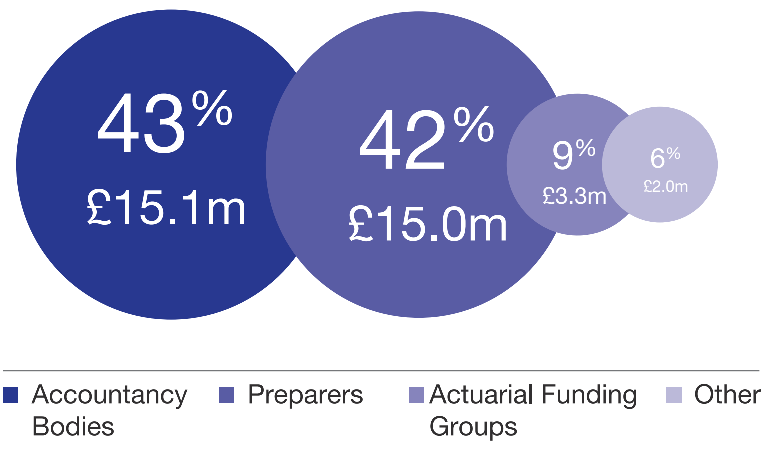
During the 2017/18 year, the FRC received total funding of £35.5m as shown below.

Reserves

In line with our risk management strategy which carefully considers the voluntary nature of some of our funding as well as the risk that a large unbudgeted funding requirement could potentially need to be met, and the length of time taken to collect the funds, reserves equivalent to six months operating costs have been established over time. Our reserves are primarily held as cash or risk-free short-term deposits with a number of different banks, which have had an average interest rate of 0.7% (2017: 1.0%) and varying maturity dates.

The surplus for the year was £3.9m and as a result we increased general reserves by £3.9m (£3.2m greater than planned). This is an increase from an amount equivalent to four months core operating costs to around six months core operating costs, although £4m of our reserves is designated as the Corporate Reporting Review Legal Costs Fund (£2.0m) and the Actuarial Case Costs Fund (£2.0m). As a public body we will be reviewing our policy in relation to reserves and we will continue to consult each year on the level of reserves.

Funding



The Directors consider that the Strategic Report set out on pages 1 to 23 is fair, balanced and understandable and that it is comprehensive and contains the information necessary for the user to assess the position, performance, business model and strategy of the FRC. It was approved by the Board of Directors on 4 July 2018 and signed on its behalf by:

STEPHEN HADDRILL
CHIEF EXECUTIVE OFFICER AND ACCOUNTING OFFICER

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GOVERNANCE AND TRANSPARENCY

THE BOARD IS COMMITTED TO HIGH STANDARDS OF GOVERNANCE AND CONSIDERS THE PRINCIPLES OF THE UK CORPORATE GOVERNANCE CODE PROVIDE AN APPROPRIATE FRAMEWORK ON WHICH THE FRC'S GOVERNANCE ARRANGEMENTS ARE BASED.

GOVERNANCE STATEMENT

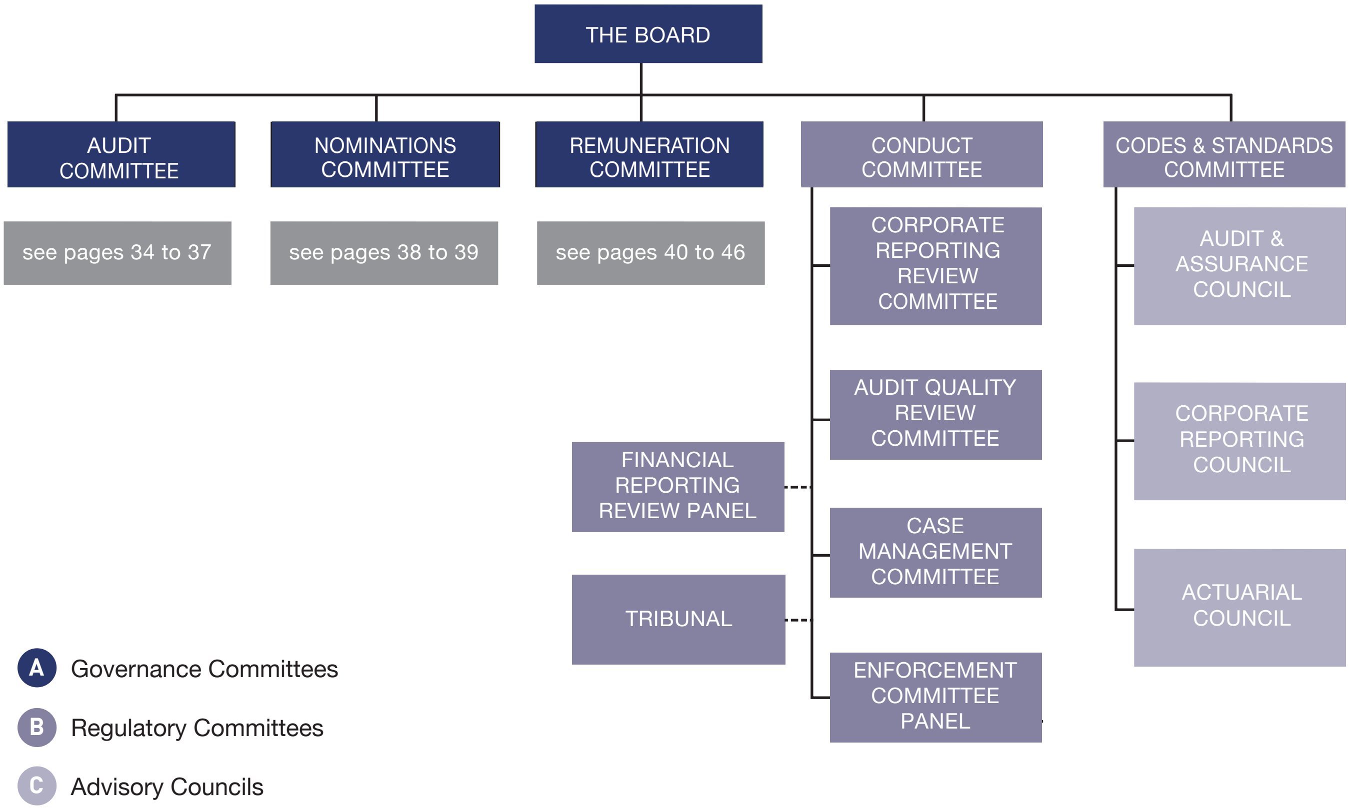
The Chief Executive's report sets out his responsibilities as Accounting Officer. The Board is responsible for the FRC's strategy and monitoring implementation of that strategy. The FRC reports to the Secretary of State for Business, Energy and Industrial Strategy and Parliament on the discharge of its functions, and as a company, conforms to the requirements of the Companies Act 2006.

As the body responsible for the UK Corporate Governance Code (the Code) the FRC seeks to comply with the principles of the Code to the greatest extent possible and the Code provides the framework on which the FRC's governance arrangements are based. The FRC considers that it complies with the overall principles of the Code, as a company which is limited by guarantee and of which its Directors are its members. However, as there are no additional requirements for engagement with shareholders, the FRC does not appoint a Senior Independent Director nor are the Directors submitted for re-election at regular intervals. However, the Deputy Chairman fulfils a similar role to a Senior Independent Director, the FRC undertakes an extensive engagement programme to ensure the views of our stakeholders are heard (page 16 refers) and consults annually on its plan and budget. In addition, the Board has put in place mechanisms to assess the effectiveness of the Board and its Directors, including careful consideration of any proposed reappointments by the Nominations Committee and the Board (page 28 provides further detail).

The next few pages provide the required governance and regulatory assurances by providing insight into the governance of the FRC, the Board and its Committees.

HOW WE ARE GOVERNED

Consistent with the Code the FRC is headed by a Board which has collective responsibility for the long-term success of the company. There is a clear division of responsibilities between the Board and the management, with the latter responsible for the running of the company's business. The Board provides strategic leadership and monitors the executive's implementation of that strategy. It sets the FRC values and culture, ensures the FRC has the necessary financial, human and other resources to meet its objectives and reviews management performance.



To support the efficient discharge of its functions and facilitate effective decision-making the Board is supported by three Governance Committees and two Regulatory Committees which are in turn supported by Sub-Committees, Panels and Advisory Councils. Mechanisms are in place to ensure that relevant information flows through the bodies; the Chairmen of the Governance and Regulatory Committees report on the work of their Committee at the following Board meeting; Chairmen of the Regulatory Committees also report to their Committee on the work of the Board.

OUR BOARD MEMBERS

Sir Winfried Bischoff (N) (R)
Chairman

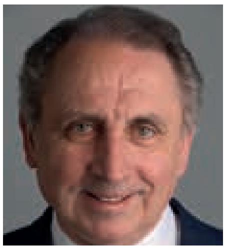
Appointed 1 April 2014

Experience:
Sir Win brings experience of leading international Committees and Boards, drawn from a range of sectors, including banking and capital markets, finance and government regulation and public policy.

Gay Huey Evans OBE (N) (CC)
Deputy Chairman

Appointed 1 April 2012

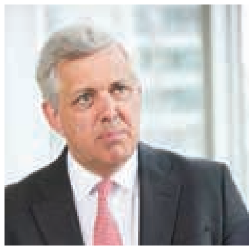
Experience:
Gay brings experience of corporate plc, financial services and regulation both in the UK and the US.



Stephen Haddrill
Chief Executive

Appointed 16 November 2009

Experience:
With a career spanning 26 years in the civil service, including time as the Director General, Fair Markets Group at the DTI and as the Director General of the Association of British Insurers, Stephen brings experience in government and regulation.



Mark Armour (A)
Independent
Non-Executive Director

Appointed 2 July 2012

Experience:
Mark brings strong financial, investor engagement, audit, Board and Audit Committee expertise gathered through executive roles, including as CFO at Reed Elsevier (now RELX Group) and partner at Price Waterhouse, and Non-Executive roles in major corporations.

Paul Druckman (CSC) **(CRC)**
Independent
Non-Executive Director

Appointed 1 January 2017

Experience:
Paul is a global leader in capital market reform – from corporate governance to reporting, accounting and sustainability and brings investor and Audit Committee experience.

Nick Land (A) (CSC) (N) (R)
Independent
Non-Executive Director

Appointed 1 April 2011

Experience:
After a career spanning 36 years at Ernst & Young where he was Executive Chairman together with his non-executive roles in recent years, Nick brings strong financial and governance expertise in the UK and internationally. He also has an extensive understanding of large professional service firms.

Roger Marshall (CSC) (CRC)
Independent
Non-Executive Director

Appointed 1 November 2010

Experience:
Roger brings experience of leading the audits of a number of FTSE and large multinational entities following a career spent as an audit partner at PwC. He also brings significant experience of policy development at an international level and experience as a Board Member and Audit Committee Chair.

Keith Skeoch (CSC)
Independent
Non-Executive Director

Appointed 1 March 2012

Experience:
With a career spanning 18 years at Standard Life, and 19 years at James Capel, Keith brings economic, financial expertise and experience of best practice in stewardship and governance in the financial services sector, in addition to asset management and Audit Committee experience.

Key to Committees / Councils
(A) Audit (N) Nominations (R) Remuneration (CC) Conduct (CSC) Codes & Standards
(AAC) Audit & Assurance Council (CRC) Corporate Reporting Council (AC) Actuarial Council
Bold denotes Chair of the Committee/Council

Full biographical details of each director, including current appointments, are available at: www.frc.org.uk/aboutus

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Sir Brian Bender (R) (CC)

Independent Non-Executive Director

Appointed 1 March 2014

Experience:
Brian brings experience of UK Government and European policy following a career that included roles as Head of European Secretariat and Permanent Secretary in the Business Department and the Department for Environment, Food and Rural Affairs.

David Childs (N) **(CC)**

Independent
Non-Executive Director

Appointed 1 May 2014

Experience:
After a career spanning 40 years at Clifford Chance, the last eight years as Global Managing Partner, David brings strong expertise in corporate law and regulation.

John Coomber (A) (R) (CSC) **(AC)**

Independent
Non-Executive Director

Appointed 23 July 2015

Experience:
John is an actuary with experience in reinsurance and pensions insurance. He had a career of 41 years with Swiss Re including as CEO and Non-Executive Director. He was also CEO of Pensions Insurance Corporation from 2009 until June 2015 and continued as a Director until 2017.

Olivia Dickson (CSC)
Independent
Non-Executive Director

Appointed 2 July 2012

Experience:
Olivia brings non-executive remuneration, risk and Audit Committee experience from a variety of roles in the private sector as well as advisory and decision-making experience in financial services and pensions regulation.

Julia Unwin CBE
Independent
Non-Executive Director

Appointed 1 April 2018

Experience:
Julia brings long experience of broader civil society, having been Chief Executive of the Joseph Rowntree Foundation for 10 years, and previously being a Charity Commissioner, member of the Board of the Housing Corporation, and Deputy chair of the Food Standards Agency. She brings knowledge of both the broader stakeholder environment, and the role of public regulatory bodies.

Jenny Watson CBE
Independent
Non-Executive Director

Appointed 1 April 2018

Experience:
Jenny brings extensive public interest experience as well as focus on wider social and consumer issues. Her career includes board and chair roles in the public and not for profit sector.

Mark Zinkula
Independent
Non-Executive Director

Appointed 1 April 2017

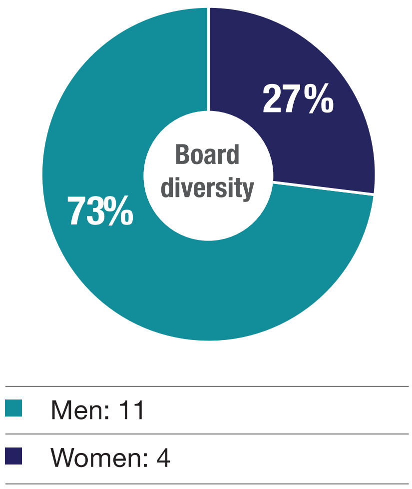
Experience:
Mark has a broad background in asset management and operating at listed company Board level for several years. Mark is Chief Executive Officer of Legal & General Investment Management, a position he has held since 2011 and Board Member of the Legal & General Group Plc since 2012.

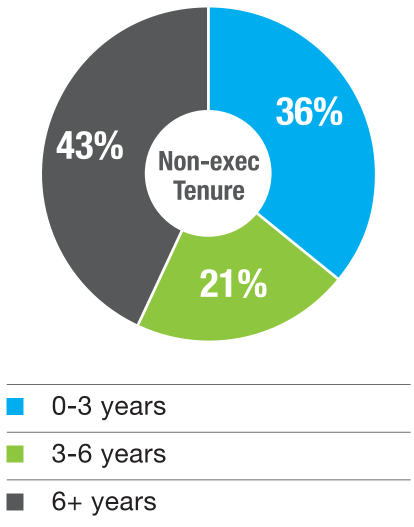
BOARD COMPOSITION AND DIVERSITY

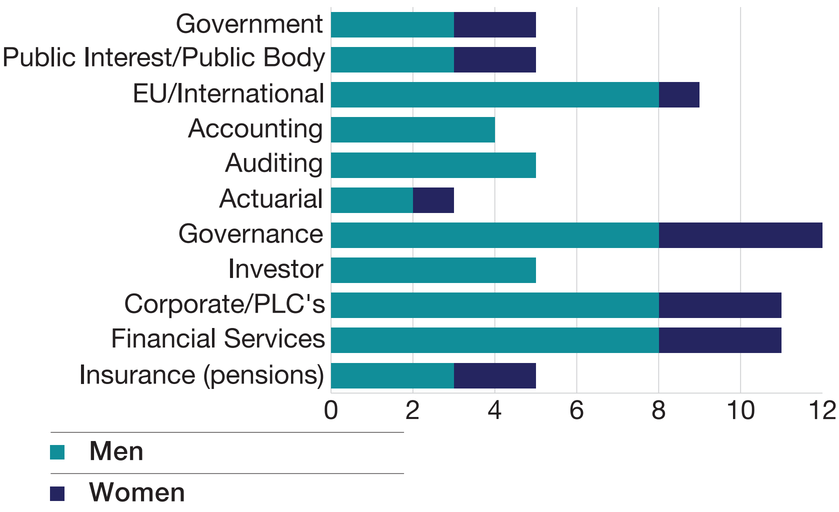
The FRC understands and values the benefits that diversity can bring to its Board and the Chairman is committed to ensuring the skills and backgrounds collectively represented on the Board reflect the diverse nature of the environment in which the FRC and its stakeholders operate in order to improve its effectiveness through diversity of approach and thought. The Board has adopted a diversity policy and has established targets such that by the end of 2019 at least one third of the Board shall be women and by the end of 2021 the Board will have at least one person of colour – the policy can be found on the FRC website: https://www.frc.org.uk/Board-Diversity-Policy. At time of writing the Board comprises 14 independent non-executive directors and the CEO; the Executive Directors: Audit & Actuarial Regulation and Corporate Reporting & Governance stood down as members of the Board on 31 March 2018.

SECTOR EXPERIENCE

The Board aims to include members that have a wide range of experience reflecting the breadth of the FRC's stakeholder base.







SUCCESSION AND INDUCTION

The Board, supported by its Nominations Committee, annually reviews the composition of the Board and considers the balance of competencies to ensure alignment to the FRC's mission and strategic priorities; the environment in which it operates; the characteristics, perspectives, independence and diversity of Board members; how the Board works together; and other factors relevant to its effectiveness.

The FRC has a transparent policy for Board appointments; more detail can be found at https://www.frc.org.uk/Policy-on-Board-Appointments. New Non-Executive Director appointments are made pursuant to the nomination of an Independent Assessor and are based on objective selection criteria which highlight the specific skills and experience needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. As an independent regulator, practising members of audit professional bodies may not be members of the Board.

During the year a recruitment exercise to appoint two Non-Executive Directors was undertaken in accordance with the policy. The Board supported the nominations of the Independent Assessor and approved the appointment of Julia Unwin and Jenny Watson. The Board considered Julia and Jenny's public interest experience, particularly in the not-for-profit and social sectors would bring further insight into the FRC's strategic thinking and support engagement with wider society.

Having regard to the factors outlined above, Board effectiveness, and the need to balance continuity and fresh insight, the Board approved the reappointment of John Coomber for a three-year term, Olivia Dickson for a two-year term, and both Keith Skeoch and Mark Armour for one-year terms.

THE ACTIVITIES OF THE BOARD

In addition to the seven scheduled business meetings, a strategy meeting was held on 13 September, and in October an additional meeting was held to consider a report in relation to the FRC investigation into KPMG's 2007 and 2008 audits of HBOS. A small number of matters were considered by email outside of formal business meetings. Details of attendance at scheduled meetings can be found at page 46.

At business meetings the Board considers a number of standard agenda items including a report from the CEO, management accounts and a report on the progress of priority projects and activities. The Non-Executive Directors provide strategic input and advice, actively and robustly challenging management and the Executive Directors on key issues to ensure proposals and issues for decision are aligned to the strategy of the FRC and its mission.

Minutes of Board meetings can be found on the FRC website: https://www.frc.org.uk/frc-minutes.

Key areas of focus during the year included:

AREA OF FOCUS	ACTION TAKEN	WITH INPUT OR ADVICE / OR ON THE RECOMMENDATION OF:
Strategy and culture	Monitoring progress against the 2017/18 Plan and Budget.	(A)
	Approval of the 2018/19 Plan and Budget and 2018/21 Strategy.	(A)
	Approval of the new FRC mission and supporting values.	
	Consideration of the findings of the stakeholder survey and recommended actions, including plans for building public trust.	
	Revised the FRC Board Diversity Policy.	(N)
Standard-setting	Approval of the issue of Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications.	(CRC) (CSC)
	Agreement to withdrawal of Practice Note 16 – Bank Reports for Audit Purposes.	(AAC) (CSC)
	Discussion of IFRS 17 *Insurance Contracts*, led by the Chairman of the IASB, Hans Hoogervorst.	(CRC) (CSC)
	Delegated approval to the Audit & Assurance Council to approve publication of the FRC's Money Laundering Feedback Statement, Impact Assessment and revisions to ISA (UK) 250, Section A Consideration of Laws and Regulations in an Audit of Financial Statements.	(AAC) (CSC)
Corporate Governance & Stewardship	Consideration and approval of the UK Corporate Governance Code consultation documentation.	(CSC)
	Approval of the issue of Guidance on Board Effectiveness.	(CSC)
	Consideration of proposals in relation to a consultation on a Corporate Governance Code for larger private companies.	(CSC)
	Consideration of initial questions in relation to a 2018 review of the UK Stewardship Code.	(CSC)
FRC matters	Consideration of the findings of an internal review of FRC Governance arrangements and approval of a number of associated recommendations.	(N)
	Routine updates on progress in confirming the classification of the FRC as a public body and consideration of the implications of classification.	
	Routine consideration of the FRC Risk Register and approval of a revised risk management policy.	(A)
	Consideration and approval of the 2016/17 Annual Report & Accounts.	(A) (R) (N)
	Review and approval of amendments to the FRC Code of Conduct.	(N)
	Established a Board Committee to consider claims made by the LAPFF with respect to the Bompas Opinion. Considered a report produced by the Committee and approved recommendations therein.	

	Consideration of bi-annual reports on the FRC as Competent Authority.	(CC)
Oversight and monitoring	Consideration of bi-annual reports on Professional Oversight activities.	(CC)
	Consideration of the FRC's monitoring activities, including in relation to Mitie and Carillion.	(CC) (CRCC)
	Approval of a new audit firm monitoring and supervisory approach.	(CC)
	Approval of the Annual Report to the Crown Dependencies.	(CC)
	Approval of the Third Country Auditor de-registration procedure.	(CC)
	Approval of the Annual Review of Corporate Reporting 2016/17.	(CRRC) (CSC)
	Approval of the Developments in Audit 2016/17 report.	(AAC) (AQRC) (CSC) (CC)
	Consideration of proposals in relation to the scope of the Accountancy Scheme put forward by a number of participating bodies and approval of the approach to be taken in responding	(CC)
Enforcement	Consideration of quarterly reports on the activities of the Enforcement Division and the status of investigations.	(CC)
	Consideration of the Independent Review of Sanctions report and recommendations.	(CC)
	Consideration of the FRC Report on its investigation of KMPG's 2007 and 2008 audits of HBOS, including the establishment of a Board Sub-Committee.	(CC)
Leadership and people	Consideration of Board composition and succession arrangements.	(N)
	Approval of a number of appointments and reappointments to the Board and Board Committees.	(N)
	Consideration of senior executive succession planning arrangements.	(R)
	Consideration of routine updates on the pay review.	(R)
	Review and approval of recommendations in relation to the 2017/18 bonus awards and 2018/19 salary awards for staff, members of the Executive Committee and the CEO.	(R)
Effectiveness	Consideration of the findings of the 2017/18 Board and Committee effectiveness review and approval of recommended actions. Further detail can be found at page 31.	All Committees

Planning ahead	In 2018/19 the Board's focus will be on:
	• FRC Governance:
	  • continuing to implement the recommendations of the internal governance review
	  • supporting the external review of the FRC and responding to any recommendations that may arise in relation to FRC Governance; and
	  • reviewing governance arrangements in response to the revised UK Corporate Governance Code and the FRC's new classification;
	• Audit firm monitoring and supervision: implementation;
	• Enforcement: receiving reports on progress against relevant KPIs;
	• Overseeing the regulatory work of the IFoA, including the implementation of its plans to monitor the quality of actuarial work;
	• Building public trust, including through increased transparency;
	• Corporate Governance & Stewardship:
	  • publication of the updated Corporate Governance Code; and
	  • the Stewardship Code consultation.	

BOARD EFFECTIVENESS

In accordance with the UK Corporate Governance Code Board effectiveness is reviewed annually, with an externally led review every three years. Having undertaken an externally facilitated review in 2015/16, the 2017/18 review was internally led.

The scope of the 2017/18 review included the effectiveness of the Board and its Committees. The effectiveness of the advisory Councils was considered as part of the Codes & Standards Committee effectiveness review and the effectiveness of the Conduct Sub-Committees was considered as part of the review of the Conduct Committee. Each Committee considered a report on the findings of its review before they were presented to the Board, with the findings of the Board review, on 5 March 2018.

To provide a full 360 degree review regular attendees at Board, Committee and Council meetings took part in the review.

STAGES OF THE EVALUATION

Stage 1
Online questionnaires
One to one interviews led by the Chairmen

Stage 2
Results collated and evaluated with the Chairman of the Board / Committee Chairmen.
Initial actions identified.

Stage 3
Discussion with the Committees

Stage 4
Board discussion on the Board and Committee evaluations

Stage 5
Action plan agreed*

*The Action Plan was agreed at the June 2018 meeting

BOARD REVIEW INSIGHTS

The broad message was that the Board continues to perform well and that the flow and quality of information to the Board continues to improve. Respondents generally agreed the Board is effective in relation to the discharge of its functions, its oversight responsibilities, its decision-making including considering the FRC's risk profile when taking decisions and its role as owner of strategy. Areas for further progress included Board composition and size; achieving an appropriate balance between constructive challenge, direction and support and clarity on the Board's role in relation to risk management. As a result, these areas feature in the Board Action Plan for the year.

Respondents considered that Board agendas cover the most important topics; however, they felt a review of how time is spent at meetings and a review of the frequency of meetings would improve the Board's effectiveness and improve the pace of the decision-making process. Contributions at Board meetings are seen as high quality and the respondents commented that Board members demonstrate support and respect for one another; however, the relationship with the executive could be strengthened.

Board Committees. The effectiveness of the Committees was also reviewed and a summary of the individual findings can be found on the Committee report pages. A common theme across all Committees was a lack of diversity of membership.

Chairman. The Chairman is well regarded by the Board and those who participated in the review. They commended his ability to foster an open and supportive culture at the Board and manage different points of view.

ACTION PLAN

The review coincided with the conclusion of the internal FRC governance review. Steps taken in response to that review and the subsequent effectiveness review included a review of the Board succession plan with the objective of achieving a more diverse and smaller Board: this resulted in changes to the existing Board membership including two executive directors stepping down from the Board and the appointment of two individuals with a wider stakeholder/public interest perspective. At the time of writing; steps to recruit a successor investor member to take post in spring 2019 are underway.

On the frequency of Board meetings, the main concern related to the gap between the

July and October formal business meeting, this was addressed by scheduling an additional formal business meeting in early autumn to be held in addition to the strategy day which is routinely held in September. This will have the added benefit of reducing the number of matters that would ordinarily be considered at the late autumn meeting and assist time management at that meeting.

More generally to better manage time spent at meetings steps have been taken to ensure that papers presented to the Board focus the Board's attention on key points for discussion and a greater use of communication between meetings when appropriate.

During the year the Board's role and its understanding of the risk management process have been enhanced. This included a review of the FRC risk management policy and the introduction of a rolling deep dive programme.

To achieve an appropriate balance between constructive challenge, direction and support transparency of the views of members and regular attendees has been beneficial and has led to positive interactions.

REGULATORY COMMITTEE REPORTS

To ensure independence no member of the Conduct Committee shall also be a member of the Codes & Standards Committee. However, to facilitate effective, informed and evidenced decision-making the two Committees consider and respond to requests from one another, taking advice from the Sub-Committees and Councils as appropriate.

CONDUCT COMMITTEE

The Conduct Committee exercises specified delegation functions of the Secretary of State under Companies Act legislation. In addition, it oversees the FRC's supervisory, monitoring and enforcement work with the objective of promoting high quality corporate governance and reporting. The Committee appoints members to the following Sub-Committees: Audit Quality Review, Corporate Reporting Review, Case Management and Enforcement Committees and receives reports on the work of those Committees.

In addition to the matters reported to the Board on pages 29 to 30, during the 2017/18 year the Committee:

- took a number of decisions required under the FRC's disciplinary schemes and Audit Enforcement Procedure; including 14 decisions to start investigations and one to widen the scope of an investigation.
- approved the FRC's report on its enquiries and investigation of KPMG's 2007 and 2008 audits of HBOS for publication;
- considered reports from the Case Examiner on constructive engagement;
- oversaw the Executive's monitoring of compliance with the conditions of the delegation arrangements with each recognised supervisory body (RSB);
- approved revised sanctions guidance documents to implement the recommendations of the independent sanctions review panel;
- approved revised publication policies in relation to the disciplinary schemes and audit enforcement procedure;
- approved proposals in relation to matters to be the subject of thematic review and approved publication of the thematic review findings;
- approved the Professional Oversight Key facts and trends report for publication; and
- approved a number of appointments/reappointments to its various Sub-Committees.

CODES & STANDARDS COMMITTEE

The Codes & Standards Committee advises the Board on maintaining an effective framework of UK codes and standards for governance, corporate reporting, auditing and actuarial work. It identifies and advises the executive and the Board on current, emerging and potential risks to its codes and standards setting work and ensures appropriate and effective UK input in to international standard-setting. The Committee oversees the work of the Advisory Councils and makes appointments to those Councils.

In addition to the matters reported to the Board on pages 29 to 30 during the 2017/18 year the Committee:

- approved the withdrawal of Audit Bulletins relating to the Republic of Ireland no longer required as now set by the IAASA;
- approved updates or withdrawal of a number of Audit Practice Notes that had become out of date or had been superseded by newer standards or guidance;
- approved publication of a discussion paper on Preliminary Announcements and subsequently the Revised Preliminary Announcements Bulletin;
- approved, on behalf of the Board, the publication of the FRC's Money Laundering Feedback Statement, Impact Assessment and revisions to ISA (UK) 250, Section A Consideration of Laws and Regulations in an Audit of Financial Statements – updates to ensure the FRC standards are clear over the auditor's responsibilities under the 4th Anti Money Laundering Directive and changes to UK legislation;
- approved the issue of FRED 68 – *Gift Aid payments by Subsidiaries* and FRED 69 *FRS 101 Review (2017/18 cycle)* for consultation;
- approved the Digital Amendments to the FRC Taxonomies;
- agreed the issue of FRC's statement on the AIC SORP and the amended IA SORP;
- approved the continuation of a number of working groups and approved the dissolution of the Actuarial Stakeholder Group; and
- approved a number of reappointments to the advisory Councils.

AUDIT COMMITTEE REPORT

NICK LAND, COMMITTEE CHAIRMAN

The Audit Committee:

- Monitors the integrity of the financial statements and formal announcements relating to the FRC's financial performance on behalf of the Board.
- Advises the Board on whether the Annual Report & Financial Statements are fair, balanced and understandable.
- Advises the Board on the appointment of, and effectiveness of the external and internal audit.
- Monitors the integrity, adequacy and effectiveness of the FRC's system of internal controls including its risk management framework and the work of the internal audit function.

During the year the focus of the Committee was on embedding the new risk management framework and ensuring the integrity of risks and mitigations identified. In addition, the Committee monitored progress in preparing for the new GDPR.

COMMITTEE OPERATION AND PERFORMANCE

All members of the Committee are independent Non-Executive Directors and have relevant and recent financial experience. The Committee has competence relevant to the sectors in which the FRC operates: corporate governance and reporting, audit, accounting and actuarial. Members' biographies can be found on the FRC website.

The Committee met six times during the year, members' attendance at meetings can be found on page 46. In addition to the members the external auditor, haysmacintyre is invited to each meeting together with the Chief Executive, Finance Director, Executive Director of Strategy and Resources and the General Counsel and Company Secretary. Members of the Committee meet with the external auditor in private at least once a year and the Chairman meets with the external auditor outside of the formal Committee process during the year. To protect the objectivity and independence of the external auditor, the FRC's policy is that no non-audit services will be carried out by the external auditor.

The Committee's performance was reviewed as part of the wider Board and Committee Effectiveness review. Regular attendees at meetings were invited to contribute to the review. The findings were positive and indicate the Committee is performing effectively. To continue to be effective it was recognised the Committee would need to develop its understanding of the implications of public body status and the requirements of managing public money.

How the Committee discharged its responsibilities

AREA OF FOCUS	CONSIDERATION	ACTION TAKEN / PROGRESS UPDATE
Financial and narrative reporting	In relation to the Annual Report & Financial Statements for the year ended 31 March 2018: • monitored and reviewed the integrity of the financial statements including the quality and acceptability of accounting policies and practices; • monitored material areas in which significant judgements had been applied; • assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable; and • reviewed the assumptions underpinning the draft Viability Statement and advised the Board accordingly.	Additional disclosures in relation to the depreciation policy were included following the March meeting. No significant issues requiring additional discussion were identified. The assessment was reported to the Board. The assumptions were developed further following the Committee's review.
Financial Performance	Monitored financial performance, in terms of both income and expenditure, against the published 2017/18 budget and subsequent reforecasts.	Throughout the year the Committee played close attention to income and expenditure, the Committee encouraged efficiency savings to continue to be made as well as the development of a tighter budgeting process.
	Reviewed the reserves policy.	The policy was considered on a number of occasions throughout the year in light of public body status; the Committee considered the policy remained appropriate pending confirmation of final public body classification.
	Reviewed and approved for recommendation to the Board the draft budget for 2018/19 and, following the consultation process, approved the final budget for recommendation to the Board.	The Board approved the budget for publication at its March 2018 meeting.
External audit	The Committee assessed the effectiveness, independence and objectivity of the external auditor, haysmacintyre. Based on that assessment the Committee recommended the reappointment of the external auditor, the auditor's engagement letter and the auditor's remuneration to the Board.	The Committee satisfied itself that appropriate safeguards were in place in respect of the fact the external auditor also audits the accounts of the ICAEW; the matter would be kept under review.

	Reviewed the external audit plan for recommendation to the Board.	The Committee identified areas of additional focus to be considered as part of the audit. The audit plan was updated and subsequently approved by the Board.
Internal audit	Considered the approach to internal audit and whether it remained appropriate to outsource. Given the FRC's public body status the Committee recommended to the Board the appointment of the Government Internal Audit Agency (GIAA) for the next reporting period.	The Board approved the appointment of the GIAA at its March 2018 meeting.
	Approved the internal audit plan for 2017/18.	The internal auditor attended the Audit Committee during the year. However, as a result of unforeseen personal circumstances the internal audits were not concluded within the reporting year; however, the Committee considered the findings and associated management responses at the May 2018 meeting.
Risk management and internal control	Monitored the implementation of the revised FRC risk management framework; including the introduction of a programme of risk 'deep dive' reviews.	Risk management is becoming embedded in FRC activities.
	Reviewed managements' assessment of risks to the FRC's mission, including new risks, and the adequacy of mitigations to those risks.	The Committee advised management and the Board on its assessment of the risks identified and mitigations to those risks.
	Reviewed a revised risk management policy.	The revised risk management policy was subsequently approved by the Board.
	Reviewed the FRC's internal controls, including the findings of an internal review on internal controls with relation to the new expense and purchase system.	The internal audit report was considered by the Committee at its May meeting.
	Received regular reports on: • IT and information security; • GDPR readiness; and • management accounts In addition the Committee received an annual report on compliance and whistleblowing.	A particular focus of the Committee is monitoring the actions being taken to further enhance controls to prevent the loss of data.

Looking forward to 2018/19 the focus of the Committee shall be on:

- responding to the requirements of public body status;
- internal audit and embedding the Government Internal Audit Agency; and
- information security.

Key audit matters and areas of particular focus

The effective management of disciplinary scheme actions and the recovery of case costs

The Committee received routine updates on discussions with the ICAEW in respect of case cost agreements. The Committee welcomed progress that had been made and was satisfied that case costs had been accounted for appropriately.

FRC public body status

The Committee received routine updates on progress in agreeing the exact classification of the FRC and sought to ensure that that procurement and spending patterns were in line with the Guidance on Managing Public Money. At the March meeting the Committee received a presentation from colleagues in the Business Frameworks Team at BEIS and considered a draft Framework Document. Consideration was given to what changes would be necessary once the Framework Document had been agreed and precise classification had been confirmed.

GDPR Readiness and Information Security

Information security remained a key focus for the Committee during the year. The Head of IT reported at each scheduled meeting on all information security related matters including steps taken to strengthen information security, progress in achieving Cyber Essentials plus accreditation and any security breaches. In addition, the Committee received routine updates on preparations to ensure compliance with the new General Data Protection Regulation. The Committee noted that preparations had included updates to the FRC's information policy suite, including the information security policy, and mandatory training for staff and Board Members.

OTHER AUDIT MATTERS

Internal audit

The FRC has not established a dedicated internal audit function because of its size and nature; at the beginning of the reporting year the Committee reviewed the approach and considered it remained appropriate; accordingly, Grant Thornton (an independent third party) was reappointed to carry out the internal audit reviews. The approach was revisited during the year when, as a public body, the option of appointing the Government Internal Audit Agency became available. Following detailed consideration the Committee recommended the appointment of the GIAA to the Board for future internal audits; the Board approved the recommendation at its March 2018 meeting.

External audit

As the body responsible for regulating statutory auditors in the UK we have to consider threats to auditor independence, which particularly may arise from our monitoring and review of Public Interest Entity (PIE) audits. This risk is addressed by appointing an engagement partner for the audit of the FRC's financial statements who has no PIE audit clients, and is therefore not subject to direct monitoring and review by the FRC. Similarly, as the Independent Supervisor of the Comptroller and Auditor General it is not considered appropriate to appoint the National Audit Office as the FRC's external auditor.

haysmacintyre was appointed as the FRC's statutory auditor by the Board in 2013 following a formal tender process; the external audit contract will be put out to tender at least every ten years. The effectiveness of the auditor is assessed by the Audit Committee based on their own interaction with the auditor and with input from the FRC executive. Based on their assessment the Committee concluded that the auditor provided a sufficiently challenging and sceptical review of management's key judgements and that the auditor remained appropriately qualified and experienced. In addition, our consideration of independence included a review of the safeguards that had been put in place at haysmacintyre to ensure complete separation in relation to the audit of the FRC and the audit of the ICAEW, which is a recognised supervisory body for statutory audit and acts as a delegate of the FRC; we concluded appropriate safeguards were in place but that this would be kept under review. On the basis of the Audit Committee's assessment the Board approved the reappointment of haysmacintyre for the 2017/18 year.

Having held the position of lead audit partner for five years, David Cox rotated off in 2017 and Bernadette King was selected to lead the 2017/18 audit. As part of the appointment process careful consideration was given to Bernadette's suitability for the role; noting that she had no involvement in the audit of PIEs and confirmation that she had no intention to do so.

NOMINATIONS COMMITTEE REPORT

SIR WINFRIED BISCHOFF,
COMMITTEE CHAIRMAN

The Nominations Committee:

- Regularly reviews the size, structure and composition of the governance structure.
- In respect of Board appointments, presents the nomination of the Independent Assessor to the Board.
- Recommends to the Board reappointments to the Board and appointments and reappointments to Board Committees and Advisory Council Chairmen.
- Monitors succession planning for the Board, its Committees and Senior Executives.

The focus of the Committee during 2017/18 was on Board composition and diversity. An additional meeting was scheduled during the year to progress the development of a plan for Board composition over the 2018-2021 period.

COMMITTEE OPERATION AND PERFORMANCE

All Members of the Committee are independent Non-Executive Directors; biographies can be found on the FRC website: https://www.frc.org.uk/FRC-Board/Members. The Committee met four times during the year, member attendance at meetings can be found on page 46. In addition to the members, meetings are attended by the Chief Executive and the General Counsel and Company Secretary. Although the Committee has the authority to appoint external advisers; none were engaged during the reporting year.

The Committee's performance was reviewed as part of the wider Board and Committee Effectiveness review to which regular attendees at meetings were invited to contribute. Whilst the findings of the review were positive, and the Committee was found to have discharged its responsibilities, it was noted the Committee should progress its decisions more speedily. Steps to address the concern have been taken including an increase from three formal meetings per year to four.

AREA OF FOCUS	ACTION TAKEN	PROGRESS UPDATE
Board size and composition	Reviewed the structure, size and composition of the Board throughout the year having regard to the findings of the Internal Governance review, FRC strategy, the external environment and the FRC's published diversity targets.	Developed outline proposals in relation to a desired Board membership over the 2018-2021 period. Recommendations to implement the proposals were agreed by the Board in March 2018.
Non-Executive, Committee, Council and Panel member appointments and reappointments	Considered and approved various recruitment exercises in relation to Board, Committee and Panel member vacancies – including the appointment of the Appointments Committee. Appointed an Independent Assessor to lead the Board recruitment exercise and presented the Nomination of the Independent Assessor to the Board. Appointed an Independent Assessor to assist with the selection of a candidate for appointment as a member of the Conduct Committee and Chair of the Case Management Committee. Considered and approved the reappointment of a number of Committee and Council members.	Where appropriate recommendations were approved by further Committees.
Executive Succession planning	Reviewed succession arrangements for Senior Executives and the interaction of succession plans for Senior Executives and Board Members and received notifications of resignations as appropriate. Oversaw the selection process of the FRC's Executive Counsel following the departure of Gareth Rees.	Succession arrangements updated. Monitored progress.
Register of Interests	Approved, for recommendation to the Board, revisions to the Code of Conduct applicable to Board and Committee members, specific to conflicts of interest and the establishment of a public register of interests.	Approved by the Board and public register published in 2017. Register to be reviewed by the Committee bi-annually.

Looking forward to 2018/19 the focus of the Committee shall continue to be on Board and Committee composition. The Committee shall ensure the desired membership is achieved and that the FRC is on track to achieve the diversity targets that have been set. In addition, the Committee shall review its terms of reference to respond to public sector classification.

REMUNERATION COMMITTEE REPORT

SIR BRIAN BENDER,
COMMITTEE CHAIRMAN

The Remuneration Committee

- Determines annually the framework and broad policy for the remuneration of FRC staff, the Chief Executive Officer, Executive Directors, the General Counsel and Company Secretary and the Chairman.
- Recommends to the Board the total remuneration package of the Chief Executive, Executive Directors and the General Counsel and Company Secretary.
- On behalf of the Board approves for eligible staff the total cost of any company and individual bonus and any pay awards

The period since April 2017 has been one of substantial change for the Remuneration Committee. A new Chairman has been in place since April, an additional member was appointed in August, and there has been a fundamental market review of the FRC's pay and performance policy.

COMMITTEE OPERATION AND PERFORMANCE

All members of the Committee are independent Non-Executive Directors. Biographies can be found on the FRC website: https://www.frc.org.uk/FRC-Board/Members. In addition to three scheduled meetings the Committee held two additional meetings during the year to focus on the review of the FRC's pay and performance policy. Member attendance at meetings can be found on page 46. In addition to the members, meetings are attended by the Chief Executive, the Executive Director Strategy & Resources and the Head of Human Resources, except for agenda items that would present a conflict of interest.

Following a tender process and selection panel, the Committee appointed Beamans Management Consultancy in April 2017 to support the pay and performance policy review during 2017/18. No other consultants were appointed by the Committee during the year.

The Committee's performance was reviewed as part of the wider Board and Committee Effectiveness review, regular attendees at meetings were invited to contribute to the review. The Committee was found to be effective in discharging its responsibilities and the conduct at meetings scored highly. A small number of actions to further improve the effectiveness of the Committee were identified and addressed including the development of KPIs and a review of the Terms of Reference to ensure the Committee's responsibilities in relation to S172 of the Companies Act are adequately covered.

AREA OF FOCUS	ACTION TAKEN	PROGRESS UPDATE
NED remuneration	Considered whether fees to be paid to Board, Committee and Council members remained appropriate having regard to fees paid at comparator bodies, time commitments and workloads.	The Committee considered the fees remained appropriate for the 2017/18 year.
Pay and performance review	Received routine updates on the progress of the review providing input and advice as appropriate. Agreed a new pay management strategy and the principles that would underpin that strategy. The Committee had regard to the information presented by Beamans Management Consultants, market benchmarking against a reputable pay database, employee feedback, the requirements of Managing Pubic Money and Public Sector Pay Guidance, the need to provide attractive employment terms and affordability.	
Bonus awards for 2017/18 and salary awards for 2018/19	Agreed recommendations to the Board on: • the bonus awards to be paid to the Executive Committee and other staff for the 2017/18 year. The criteria for receipt of a bonus award were tightened and as a consequence bonus awards were focussed on a smaller group of individuals who demonstrated the highest level of both performance and behaviour in support of the desired FRC culture; and • salary awards take effect from 1 April 2018, subject to consideration of the 2018 Public Sector Pay Guidance.	The Board approved the bonus recommendations and, subject to consideration of the 2018 Public Sector Pay Guidance – which at time of writing had not been received, approved recommendations for salary adjustments.
Equal pay	As part of the pay and performance review a job levelling exercise was undertaken which identified a small number of anomalies. The Committee considered, and approved, salary awards to address those anomalies pending receipt of the 2018 Public Sector Pay Guidance. Received notification of the FRC's gender pay gap figures and considered steps that would be taken to reduce the gap.	Equal pay to remain a focus of the Committee. The FRC published its gender pay data in March 2018 in line with the requirements of the new regulations, although the FRC is technically under the statutory 250 employee threshold.

Looking forward to 2018/19 the Committee's focus shall be on:

- responding to the implications of public body status – including a review of the Committee's Terms of Reference;
- overseeing the development, and implementation of, new performance management arrangements and a new bonus scheme in line with the Public Sector Pay Guidance.

REMUNERATION POLICY OVERVIEW

As reported in our 2016/17 Annual Report, Beamans Management Consultants were appointed to lead a review of the structure of our pay grades. They were asked to take account of relevant public and private sector market comparators, as well as the company and individual bonus schemes we have in place and how these components link to performance measures. Whilst the work with respect to the establishment of new pay grades and a progression policy concluded in 2017/18, we have not yet been able to apply the corresponding salary adjustments to existing staff pending publication of the 2018 Public Sector Pay Guidance. However, we have been able to implement the policy for new starters.

For 2017/18 the remuneration framework remained unchanged from that reported in 2016/17 and can be found overleaf. Work to further develop the FRC's performance management policy and to agree a revised bonus policy continues in 2018/19.

REMUNERATION FRAMEWORK

The performance of Executive Directors is assessed against both collective objectives set in line with the FRC business plan and against individual objectives, including employee survey results for the areas under their control.

The main components of Executive Directors' remuneration are consistent with the remuneration framework that applied during 2017/18 for all staff (unless indicated otherwise) and are set out in the following table:

ELEMENT AND PURPOSE	OPERATION	OPPORTUNITY/OUTPUT
BASE SALARY *To provide core remuneration for the role recognising responsibility for setting and delivering the annual FRC plan and budget*	Salaries are reviewed annually by the Committee who consider each Executive Director's responsibilities, performance and experience alongside market trends and relevant comparator organisations, where available.	Annual increases reflect movement in market rates but are subject to satisfactory performance and a high standard of 'citizenship' behaviour in line with FRC corporate values. Executive Directors are required to achieve higher ratings for performance and citizenship than other members of staff in order to qualify for a potential salary increase. Individual adjustments in excess of general market movements may be made in appropriate circumstances (e.g. where the role scope has changed or as a reflection of significant development in the current role).
BENEFITS *To provide a competitive and cost effective benefits package in line with market norms*	In line with our policies all staff are eligible to receive benefits which may include: • dental insurance; • private health insurance; • income protection insurance; and • life insurance.	There is no set maximum but levels of benefits are set with reference to relevant market data.
PENSION BENEFITS *To provide competitive retirements benefits in line with relevant market comparators*	All staff are eligible to participate in the group personal pension scheme which is a defined contribution scheme or to receive an equivalent payment to a personal pension plan. Staff have the flexibility to exchange pension contributions for a cash payment.	A maximum of 10% of base salary.

COMPANY-WIDE BONUS *To align reward with the achievement of annual FRC corporate objectives*	All staff, subject to performance, are eligible to participate in the Company-wide bonus scheme which is a discretionary, non-contractual scheme. The total amount of the Company Bonus pot is a maximum of 3% of the salary bill and the actual amount is determined on an annual basis by the Remuneration Committee who consider the overall performance of the FRC against the agreed business plan and objectives. Individuals whose performance is assessed as being less than fully meeting expectations are not eligible for a company bonus.	Executive Directors are required to achieve a higher standard of performance and citizenship ratings than other staff to qualify for a company bonus payment.
INDIVIDUAL BONUS *To encourage high performance by recognising the contribution of the highest performers without raising base salary levels*	Staff who are assessed as having outperformed against their agreed objectives are eligible to be considered for an individual bonus award. These awards are discretionary and non-contractual. A thorough moderation process is undertaken to ensure that awards are allocated to the highest performers in any given year and the expectation is that this will not exceed 40% of staff.	Individual bonus awards for Executive Directors can be up to a maximum 20% of base pay, of which 5% is for meeting collective objectives. For 2017/18 the total bonus awarded to an individual would not exceed £16,500 (including the company-wide bonus and any individual bonus). This was set to be below the maximum permitted by the Civil Service guidelines, which is £17,500.

Pay multiples
The remuneration of the highest paid Director in the financial year 2017/18 was £389,902 (2016/17: £452,809*). This was 4.38 (2016/17: 4.7) times the median remuneration of the workforce which was £89,111 (2016/17: £96,026). The CEO chose not to be considered for a bonus for 2017/18.

Total remuneration includes salary, non-consolidated bonuses and benefits in kind. It does not include severance payments, or any employer pension allowance or payments in lieu of pension payments. In 2017/18 no employees received remuneration in excess of the highest paid Director.

*The difference between the total remuneration of the highest paid Director for the purposes of this disclosure and the total remuneration set out in the Directors' remuneration table (page 45) is that the salary in the remuneration table includes payments of £33,789 (2016/17: £30,515) received in lieu of pension.

DIRECTORS' REMUNERATION

Executive Directors
Employment contracts and policy on payment for loss of office

Notice periods
The Chief Executive and Paul George have notice periods of 12 months and Melanie Hind has a notice period of 6 months.

Payment for loss of office
No payments or compensation for loss of office have been made in the current year to past Directors.

Non-Executive appointments
The FRC Remuneration Committee agreed that where an Executive Director serves as a Non-Executive Director elsewhere that director may retain those earnings. Stephen Haddrill is a Non-Executive Director of the Royal Institute of Chartered Surveyors (RICS) for which he receives an annual fee of £25,000. For the year ended 31 March 2018 Melanie Hind was a Non-Executive Director of the UK Municipal Bonds Agency plc for which she received a fee of £17,500.

Non-Executive Directors
The remuneration of Non-Executive Directors, including the Chairman and Deputy Chairman is determined by the Board, on the recommendation of the Remuneration Committee. The Board, with the Committee, determines the remuneration of Non-Executive Directors by assessing the responsibility, workload and time commitment to the role and by calculating a daily rate of fees comparable to those paid by other regulators and in relation to comparable roles within the public sector.

A Non-Executive Director who is the chairman of any Committee is not involved in any decision relating to their remuneration. The total remuneration and benefits received are shown in the Directors' remuneration table (page 45) and have been subject to audit (see also note 4 to the Financial Statements).

Non-Executive Director remuneration can be broken in to the following elements*:

Board membership
7 scheduled meetings a year and 1 strategy day

Chairman	£120,000
Deputy Chairman	£35,000
Membership	£25,000

Audit Committee
4 scheduled meetings a year

Chairmanship	£5,000
Membership	No additional

Remuneration Committee
3 scheduled meetings a year

Chairmanship	£5,000
Membership	No additional

Nominations Committee
3 scheduled meetings a year

Chairmanship	No additional
Membership	No additional

Codes & Standards Committee
9 scheduled meetings a year and 1 strategy day

Chairmanship	£20,000
Membership	£10,000

Conduct Committee
10 scheduled meetings a year and 1 strategy day

Chairmanship	£65,000
Membership	£10,000

The Non-Executive Director fees detailed were determined following the review undertaken during FRC reforms in 2012 and were reviewed by the Committee in June 2017. Whilst the Committee agreed to make no change to the fees it was agreed that the fees would be re-assessed as part of the review of the governance framework.

Directors' remuneration

	2017/18 Fees/ salary	2017/18 Bonus	2017/18 Pension	2017/18 GHI	2017/18 Private Medical/ Dental	2017/18 Total £	2016/17 Total £
Non-Executive Directors							
Sir Winfried Bischoff	120,000	–	–	–	–	120,000	120,000
Gay Huey Evans	45,000	–	–	–	–	45,000	45,000
Mark Armour	25,000	–	–	–	–	25,000	25,000
Sir Brian Bender	40,000	–	–	–	–	40,000	35,000
David Childs	90,000	–	–	–	–	90,000	90,000
Elizabeth Corley (1) (to 31st March 2017)	–	–	–	–	–	–	30,000
Olivia Dickson	50,000	–	–	–	–	50,000	50,000
Nick Land	75,000	–	–	–	–	75,000	75,000
Roger Marshall	65,000	–	–	–	–	65,000	80,000
Keith Skeoch (2)	35,000	–	–	–	–	35,000	35,000
Ray King (until 5 July 2017)	13,077	–	–	–	–	13,077	50,000
John Coomber	35,000	–	–	–	–	35,000	35,000
Mark Zinkula (from 1 April 2017)	25,000	–	–	–	–	25,000	
Paul Druckman (from 1st January 2017)	50,000	–	–	–	–	50,000	12,500
Sub-total	**668,077**	**–**	**–**	**–**	**–**	**668,077**	**682,500**
Executive Directors							
Stephen Haddrill (3)(4)(5)(6)	418,303	–	–	5,388	–	423,691	486,481
Paul George (3)(4)(5)	313,106	16,500	31,232	2,808	3,638	367,284	389,488
Melanie Hind (formerly McLaren) (3)(4)(5)(7)	339,766	–	–	2,808	–	342,574	369,255
Sub-total	1,071,175	16,500	31,232	11,004	3,638	1,133,549	1,245,224
Grand total	1,739,252	16,500	31,232	11,004	3,638	1,801,626	1,927,724

Notes:
Where Directors were appointed during the year, the amounts shown are for the period from the date of their appointment.
(1) From April 2014/15 Elizabeth Corley waived her Remuneration Committee Chairman fees of £5,000 in favour of charity.
(2) From 1 April 2012 Keith Skeoch waived his fees in favour of charity.
(3) Executive Directors are entitled to receive pension contributions and other benefits. The figures shown are the cash equivalents of their full pay and benefits.
(4) The average salary and reward increases including the cash equivalent benefits were 1% in 2017/18 for all staff including the executive Directors (2016/17: 1.5%).
(5) Total Directors' remuneration in 2017/18 amounted to 9.3% of total company remuneration (2016/17: 10.4%).
(6) The CEO chose not to be considered for a bonus for 2017/18.
(7) Resigned her post therefore not eligible for a bonus.

Attendance at scheduled meetings held during the year

	FRC Board	Nominations Committee	Remuneration Committee	Audit Committee	Codes & Standards Committee	Conduct Committee
Sir Winfried Bischoff	9 of 9	4 of 4	5 of 5			
Gay Huey Evans	8 of 9	4 of 4				9 of 12
Stephen Haddrill	8 of 9					
Mark Armour	9 of 9			6 of 6		
Sir Brian Bender	9 of 9	3 of 4	5 of 5			10 of 12
David Childs	8 of 9	4 of 4				12 of 12
John Coomber*	9 of 9		3 of 4	6 of 6	6 of 6	
Olivia Dickson	8 of 9				5 of 6	
Paul Druckman	9 of 9				5 of 6	
Paul George (Executive Director)	9 of 9				6 of 6	
Ray King**	3 of 3				1 of 2	
Nick Land	9 of 9	4 of 4	5 of 5	6 of 6	6 of 6	
Roger Marshall	7 of 9				5 of 6	
Melanie Hind (Executive Director)	8 of 9					11 of 12
Keith Skeoch	8 of 9				5 of 6	
Mark Zinkula***	8 of 9					
Ashok Gupta					3 of 6	
Sue Harris					5 of 6	
Liz Murrall					5 of 6	
Peter Baxter						9 of 12
David Cannon						9 of 12
Sean Collins						9 of 12
Geoffrey Green						10 of 12
John Hitchins****						8 of 10
Helen Jones						9 of 12
Emmy Labovitch						11 of 12
Malcolm Nicholson						9 of 12
Joanna Osborne*****						3 of 3
Martin Slack						12 of 12

*John Coomber was appointed to the Remuneration Committee with effect from 1 August 2017
**Ray King stood down from the Board on 5 July 2017
***Mark Zinkula joined the Board on 1 April 2017
**** John Hitchins was appointed to the Conduct Committee with effect from 1 July 2017
***** Joanna Osborne stood down from the Conduct Committee on 31 May 2017

The attendance figures represent attendance at formal and strategy meetings.

DIRECTORS' REPORT

We have included information on the names of the individuals, who, at any time during the financial year, were Directors of the FRC on page 46. The attendance of the Directors at the meetings held during the year is in also on page 46.

DIRECTORS AND DIRECTORS' INSURANCE AND INDEMNITIES

Under the terms of the FRC's Articles of Association, all Directors are members of the FRC and each has undertaken to guarantee the liability of the FRC up to an amount not exceeding £1. There are no other members and no dividend is payable.

The FRC purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers. This gives appropriate cover for any legal action brought against the FRC or its Directors or Officers.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT & FINANCIAL STATEMENTS

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the FRC will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the FRC's transactions and disclose with reasonable accuracy at any time the financial position of the FRC and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the FRC and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Strategic Report

The Directors use the Strategic Report to explain how they have performed their duty to promote the success of the FRC. The Strategic Report contains information on the following matters and can be found at pages 1 to 23.

- the FRC's financial risk management policy;
- important events affecting the FRC since the end of the financial year; and
- likely future developments in the business of the FRC.

WHISTLEBLOWING TO THE FRC AS A PRESCRIBED PERSON

Public interest disclosures

Whistleblowing is the term used when a worker passes on information concerning suspected or known wrongdoing by their employer (it is also known as 'making a disclosure'). The Employment Rights Act 1996, as amended by the Public Interest Disclosure Act 1998 provides the legal framework for protecting workers from harm if they blow the whistle. The purpose of a prescribed person is to provide workers with a way of whistleblowing to an independent body that may be able to act on those concerns.

The FRC is a prescribed person and as such, individuals working outside the FRC, but in the accounting or actuarial professions, may get in touch with the FRC if they want to make a disclosure about their employer in relation to matters which are within the scope of the FRC's regulatory duties.

During 2017/18 the FRC received 23 disclosures in its capacity as a prescribed person. In respect of the disclosures made, the following action was taken:

- four were referred to the relevant accountancy professional body for consideration;
- four were referred to another regulator or organisation for consideration;
- nine were of direct relevance to the FRC's responsibilities and were addressed or are being considered by the relevant team(s);
- four did not respond to requests for further information; and
- in two cases we were unable to identify any agency or organisation able to assist with the matter raised.

The FRC's Whistleblowing Policy can be found here: https://www.frc.org.uk/Whistleblowing.

COMPLAINTS ABOUT THE FRC

The FRC maintains its Complaints Procedure (https://www.frc.org.uk/about-the-frc/making-a-complaint-about-the-frc) and considers complaints about the FRC under that procedure. Where the FRC identifies it has made mistakes as a result of the consideration of a complaint, it will acknowledge them and take any appropriate action. Where a complainant is not satisfied with the response to a complaint they may seek an independent review. The FRC has appointed an Independent Complaints Reviewer (ICR), Elizabeth Derrington. The role of the ICR is to carry out an independent review of the way in which a complaint has been considered and handled.

During 2017/18 the FRC received complaints from 12 complainants. Full responses have been provided to 10 of the complainants following investigation and two complaints are under consideration. One of the complaints was upheld and referred within the FRC for further action and two complaints were referred to the ICR at the request of the complainants although one of those requests was later withdrawn. In one case, although the complaint was not upheld, opportunities for improvement were identified and taken forward. Three were concluded with no further action being taken and one complaint was referred to the ICR who determined the matter should not be taken forward.

DISCLOSURE TO THE AUDITOR

The Directors, including the Chief Executive as Accounting Officer, at the date of this report, confirm that, as far as he/she is aware, there is no relevant audit information of which the FRC's auditor is unaware. Each Director has taken all steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the FRC's auditor is aware of that information.

AUDITORS

The auditors, haymacintyre, have expressed their willingness to remain in office and the Audit Committee has recommended their reappointment to the Board. A resolution to reappoint the auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting of the Company.

Approved by the Board of directors on 4 July 2018 and signed on its behalf by:

Anne McArthur
Company Secretary

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE FINANCIAL REPORTING COUNCIL LIMITED

Opinion

We have audited the financial statements of The Financial Reporting Council Limited (the FRC) for the year ended 31 March 2018 which comprise the profit and loss account, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the financial statements, including its significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the United Kingdom (UK) and Ireland.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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: the 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.

KEY AUDIT MATTER	OUR RESPONSE
Fraud and error in revenue recognition	We reviewed all material income streams to consider whether revenue is recognised and treated appropriately, and in accordance with FRS 102. Our review included an assessment of accounting policies and those systems relevant to our audit, detailed controls testing and substantive verification procedures. Our work included visiting, and reviewing the work of Kier, the service organisation responsible for a significant proportion of levy invoicing and collection. In addition to our review of income recognised during the year we reviewed the recognition and recoverability of trade receivables and accrued income at the year-end to assess the validity of their recognition and carrying values as at 31 March 2018. Upon the completion of our work we did not note any material misstatements of revenue.
Disciplinary case costs and provisions	We reviewed the controls and procedures used to monitor and record case costs and considered the operating effectiveness of these systems. To test these systems and consider implications for the financial statements we reviewed a sample of significant cases ensuring that the FRC's stated protocols, controls and procedures have been followed. We then reviewed the case costs to consider whether costs have been allocated and recognised appropriately between cases and in accordance with the formal agreements which underpin the schemes. We reviewed cost awards made in the year to assess whether these have been recognised and disclosed in accordance with the terms of the scheme, the accounting policies of the FRC and United Kingdom Generally Accepted Accounting Practice (Applicable law and FRS 102). Upon completion of our work we were able to conclude that the controls and procedures used by the FRC were operating as designed, and were being adhered to. Case costs and cost awards were found to be appropriately treated and disclosed in accordance with UK GAAP, the terms of the schemes and the FRC's accounting policies.

Our application of materiality
The scope and focus of our audit was influenced by our assessment and 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 to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Due to the nature of the company and its operations we considered expenditure and related funding to be the main focus for the readers of the financial statements, accordingly this consideration influenced our judgement of materiality. Based on our professional judgement,

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we determined materiality for the company to be £157,000, based on 0.5% of expenditure.

Based on our risk assessments and our assessment of the overall control environment, our judgement was that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the company was 75% of materiality, namely £117,750.

We agreed to report to the Audit Committee all audit differences more than £8,825, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As the FRC is a standalone corporate entity based in London the scope of our work was the audit of the financial statements of the company. The scope of the audit and our audit strategy was developed by using our audit planning process to obtain an understanding of the company, its activities, and its control environment. Our audit testing was informed by this understanding of the company and accordingly was designed to focus on areas where we assessed there to be the most significant risks of material misstatement.

During our audit planning process, we also obtained an understanding of how the company uses service organisations in its operations. We then evaluated the design and implementation of relevant controls at the company that relate to the services provided by service organisations. Where considered appropriate we visited the service organisations engaged by the FRC to collect levy income.

We also undertook an interim audit to update our knowledge of, and evaluate, the internal controls over those risk areas we identified as being relevant to our audit. During the final audit we performed specifically designed audit tests on significant transactions, balances and disclosures.

To maintain and reinforce our knowledge of the FRC and the risks it faces we attend audit committee meetings during the year and during the audit planning process, the senior statutory auditor and senior audit manager met the senior members of the company's finance team and members of the Executive Committee. This dialogue continued throughout the audit process, as we reassessed and re-evaluated audit risks where necessary and amended our approach accordingly.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters 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 the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Bernadette King
(Senior statutory auditor)
for and on behalf of haysmacintyre,
Statutory Auditors
10 Queen Street Place
London
EC4R 1AG

10 July 2018

THE FINANCIAL REPORTING COUNCIL LIMITED

Profit and Loss account for the year ended 31 March 2018

	Note	2017/18 £'000	2016/17 £'000
Revenue		**35,488**	31,753
Operating expenses	2	**(31,677)**	(29,277)
Operating profit		**3,811**	2,476
Interest receivable		**51**	62
Profit on ordinary activities before taxation		**3,862**	2,538
Tax on profit on ordinary activities	3	**(10)**	(13)
Profit for the financial year		**3,852**	2,525

THE FINANCIAL REPORTING COUNCIL LIMITED

Balance Sheet at 31 March 2018

	Note	**31 March 2018 £'000**	31 March 2017 £'000
Fixed assets			
Intangible assets	6	**121**	78
Tangible assets	7	**2,175**	2,313
		2,296	2,391
Current assets			
Debtors	8	**3,237**	3,319
Current asset investments	9	**6,972**	7,019
Cash at bank and in hand	9	**8,826**	5,253
		19,035	15,591
Creditors – amounts falling due within one year	10	**(5,112)**	(5,381)
Net current assets		**13,923**	10,210
Total assets less current liabilities		**16,219**	12,601
Creditors – amounts falling due after more than one year	11	**(2,051)**	(2,395)
Provisions for liabilities	13	**(200)**	(90)
Net Assets		**13,968**	10,116
Capital and reserves			
Accounting, auditing and corporate governance:			
– General reserve		**6,016**	3,912
– Corporate reporting review legal costs fund		**2,000**	2,000
Actuarial standards and regulation:			
– General reserve		**3,952**	2,204
– Actuarial case costs fund		**2,000**	2,000
		13,968	10,116

The financial statements and notes on pages 53 to 63 were approved by the Board of Directors on 4 July 2018 and signed on its behalf by:

Sir Winfried Bischoff
Chairman

THE FINANCIAL REPORTING COUNCIL LIMITED

Statement of Changes in Equity for the year ended 31 March 2018

	Accounting, auditing and corporate governance		Actuarial standards and regulation		
	General reserve	Corporate reporting review legal cost fund	General reserve	Actuarial Case cost fund	Total
	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	2,275	2,000	1,316	2,000	7,591
Profit for the year	1,637	–	888	–	2,525
At 31 March 2017	3,912	2,000	2,204	2,000	10,116
Profit for the year	2,104	–	1,748	–	3,852
At 31 March 2018	6,016	2,000	3,952	2,000	13,968

Cash Flow Statement for the year ended 31 March 2018

	Note	2017/18 £'000	2016/17 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Profit		**3,811**	2,476
Adjustments for:			
– Depreciation and amortisation		**422**	379
– Increase in dilapidation provision		**110**	30
– Decrease/(increase) in trade and other debtors		**82**	(293)
– (Decrease)/increase in trade and other creditors		**(613)**	590
Net cash inflow from operations		**3,812**	3,182
Corporation tax paid		**(14)**	(14)
Total cash inflow from operating activities		**3,798**	3,168
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible & intangible assets		**(327)**	(227)
Current asset investments sold		**47**	5
Interest received		**55**	69
Total cash outflow from investing activities		**(225)**	(153)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,573**	3,015
Cash and cash equivalents at 1 April	9	**5,253**	2,238
CASH AND CASH EQUIVALENTS AT 31 MARCH	9	**8,826**	5,253

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The Financial Reporting Council Limited (the FRC) is a company limited by guarantee, incorporated in the United Kingdom, and its registered office is 8th floor, 125 London Wall, London, EC2Y 5AS. The company's registered number is 02486368.

The following principal accounting policies are those policies which have been applied consistently in dealing with transactions and balances that are considered material to the FRC and for which an accounting policy choice is available.

The financial statements are prepared on a going concern basis of accounting.

a) Basis of Preparation

These financial statements for the year ended 31 March 2018 are prepared in compliance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Triennial review 2017 amendments* to FRS 102 have been applied for the first time in these financial statements, which is prior to their effective date; they have not had an impact on the reported results or financial position of the FRC, but some changes to disclosure have been made.

These financial statements are prepared on an historical cost basis.

The preparation of financial statements requires the use of estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates and associated assumptions are based on historical experience and management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

Provisions for dilapidations

Provisions for dilapidations is the area involving estimates and judgements where there is the greatest potential risk of a material adjustment in future years.

Accounting estimate – The current provision is based on management's current best estimate of the future obligation. This year the estimate draws upon a valuation report provided by a third party surveyor.

Accounting judgement – In addition management's current judgement about likely future outcomes means that the provision has been increased to reflect the values in the report.

However various factors and changes in circumstances such as building and materials costs could affect any amount payable in the future.

Presentation of Financial Statements

The presentational and functional currency is the British Pound Sterling.

b) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The FRC has predominantly the following sources of revenue:

- Revenue in respect of voluntary contributions is recognised on a cash basis.
- The following revenue is received from participants to fund specific activities:
  - Revenue receivable from Recognised Supervisory Bodies (RSBs) for the FRC's activities as the Competent Authority for Audit in the UK is recognised on an accruals basis. Specifically, revenue receivable from RSBs in respect of Audit Quality Review costs is recognised as the costs to be recovered are incurred in each financial year.
  - Revenue receivable from various professional accounting bodies in respect of Accountancy disciplinary case costs and from RSBs in respect of Enforcement case costs is recognised as the costs to be reimbursed are incurred in each financial year.
- In addition there are some other smaller sources of revenue as listed below:
  - Revenue in respect of publications of books, guidelines and standards is recognised on sale of goods or delivery of services.
  - Revenue in respect of inspection income for third country audit, the National Audit Office, the Public Sector Audit Appointments and Crown Dependencies is recognised as our work is delivered and the other party is required to pay.
  - Revenue in respect of XBRL taxonomy development activity is recognised as cost is incurred and the other party agrees that the project requirements have been met.

c) Tangible and Intangible assets

Depreciation is provided on all property, plant and equipment and amortisation is provided on all software at rates calculated to write off the cost, less estimated residual value (intangibles are assumed to have nil residual value), over their estimated expected useful lives on a straight line basis, as follows:

Tangible assets	
Office equipment	3 Years
Fixtures, fittings & furniture	10 years
Leasehold improvements	Lease term
Intangible assets	
Capitalised software	3 Years

d) Financial Instruments

Financial assets and financial liabilities are recognised when the FRC becomes a party to the contractual provisions of the financial instrument.

Cash and cash equivalents

These comprise cash at bank and other short-term highly liquid bank deposits with an original maturity of three months or less.

Current asset investments

These comprise bank deposits with an original maturity of more than three months but less than one year.

Debtors

Debtors do not carry any interest and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in the Profit and Loss account when there is objective evidence that the asset is impaired.

Trade creditors

Trade creditors are not interest bearing and are stated at their nominal value.

e) Case Costs and Fines

Case costs

The legal and professional costs of accountancy and actuarial disciplinary cases and Corporate Reporting Review cases incurred in the period are included in the financial statements on an accruals basis. Provision is made for the future costs of any disciplinary cases only where the contract is onerous, the costs are unavoidable and they represent a present obligation at the Balance Sheet date.

Fines and Cost Awards Receivable

Case costs awards receivable in respect of accountancy disciplinary cases, which are due to the relevant participant body under the Accountancy Scheme, are included in the income statement of the FRC, as a reduction to case costs incurred and associated revenue receivable. Fines received are not included in the financial statements as the FRC acts only as a mechanism whereby the fines are transferred from one party to another.

Fines receivable and case costs awards in respect of actuarial disciplinary cases are retained and included within revenue in the period in which the fines and case costs become due and collectable.

f) Costs Funds

The FRC has two costs funds: The Corporate Reporting Review Legal Costs Fund and the Actuarial Case Costs Fund.

Contributions have been received to enable the Conduct Committee to take steps to pursue compliance with certain requirements of the Companies Act 2006 and applicable accounting standards and to investigate departures from those requirements and standards. Those funds may be used only for this purpose and may not be used to meet other costs incurred by the FRC. The FRC may be liable to repay the balance on the Legal Costs Fund to the contributors if it ceases to be authorised by the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS) for the purposes of section 456 of the Companies Act 2006.

The Legal Costs Fund is currently maintained at £2m. Where use is made of these funds in the year, the funds are replenished the following year. In June 2018, the BEIS confirmed that if the legal costs fund falls below £1m in any one year, they will make an additional grant to cover legal costs subsequently incurred in that year.

The Actuarial Case Costs Fund consists of contributions received from the Actuarial Profession and through levies on pension schemes and insurance companies. The fund is used to fund investigations into potential misconduct by actuaries and any subsequent prosecutions.

g) Deferred lease Incentive

Deferred lease incentives are released on a straight line basis over the term of the lease.

h) Provision for dilapidations

A provision for dilapidations in respect of leased property is recognised based on the estimated amount required to settle obligations under the lease as at the Balance Sheet date.

i) Taxation

The FRC is subject to corporation tax only on its interest receivable income. There are no temporary differences between the recognition of that income in the financial statements and the tax computation. Accordingly, there is no provision for deferred tax.

2. OPERATING EXPENSES

	2017/18 £'000	2016/17 £'000
Core Staff and related people costs (note 4)	**21,677**	20,613
IT and facility costs	**2,499**	2,083
Lease expense	**766**	773
Depreciation and amortisation costs	**422**	379
Auditor's remuneration:		
– audit	**53**	46
– non - audit services	**0**	0
XBRL taxonomy development costs	**206**	166
Accountancy and actuarial case costs - gross	**6,619**	6,466
– Less cost awards recovered	**(3,336)**	(3,976)
Accountancy and actuarial case costs - net	**3,283**	2,490
Other operating expenses		
– Travel and conferences	**566**	700
– Legal and professional fees	**1,122**	807
– Contribution to EFRAG	**304**	276
– All other costs	**779**	944
Total operating expenses	**31,677**	29,277

3. TAXATION

Corporation Tax at an effective rate of 19% (2016/17: 20%) on interest income of £51,000 (2016/17: £62,000).

4. STAFF AND RELATED PEOPLE COSTS (INCLUDING DIRECTORS)

	2017/18 £'000	2016/17 £'000
Permanent staff:		
Salaries	**16,721**	16,051
Social security costs	**2,042**	1,982
Pension costs	**1,408**	1,282
Total permanent staff costs	**20,171**	19,315
Other people related costs:		
Seconded staff and contractors	**338**	220
Fees paid to Board, Committee and Council members	**1,490**	1,516
Other costs	**510**	375
Total staff and related people costs	**22,509**	21,426
Staff Costs transferred to Cases	**(832)**	(813)
Total Core Staff and related people costs	**21,677**	20,613

The FRC operates a defined contribution pension scheme.

	2017/18	2016/17
Average number of permanent staff employed	**184**	169
– accounting, auditing and corporate governance including audit quality review and accountancy disciplinary cases	**180**	165
– actuarial standards and regulation	**4**	4

Following a review, the comparative for staff employed has been revised from full time equivalent to number of employees.

Directors' emoluments

	2017/18 £'000	2016/17 £'000
Fees (included in staff costs)	**1,770**	1,894
Pension Costs	**31**	34
Total directors emoluments (see page 45)	**1,801**	1,928
Social security costs	**221**	237
	2,022	2,165

Details of the emoluments of the directors are contained in the Directors' Remuneration Report on page 45.

5. FINANCIAL RISK MANAGEMENT

The FRC's operations expose it to some financial risks. Management continuously monitors these risks with a view to protecting the FRC against the potential adverse effects of these financial risks. There has been no significant change in these financial risks since the prior year.

Financial instruments

The FRC's basic financial instruments in both years comprise cash at bank and in hand, current investments, loans, debtors and creditors that arise directly from its operations.

The financial instruments include surplus funds which will be used to fund future operating costs including case costs. The FRC has no long-term borrowings or other financial liabilities apart from creditors.

Credit Risk

It is the FRC's policy to assess its debtors for recoverability on an individual basis and to make provisions where considered necessary. In assessing recoverability management takes into account any indicators of impairment up until the reporting date.

Depositing funds with commercial banks exposes the FRC to counter-party credit risk. The amounts held at banks at the year end were with banks with solid investment grade credit ratings. To reduce the risk of loss, the bank deposits are spread across a range of major UK banks.

Interest rate risk
The FRC invests the majority of its surplus funds in highly liquid short-term deposits. The average interest rate on short term deposits for 2017/18 is 0.7% (2016/17: 1.0%) and none of the deposits have an original maturity of more than one year at the balance sheet date.

Liquidity risk
The FRC maintains sufficient levels of cash and cash equivalents and manages its working capital by carefully reviewing forecasts on a regular basis to meet the requirements for its day-to-day operations.

6. INTANGIBLE ASSETS

	Software £'000
Cost at 1 April 2017	386
Additions	81
Disposals	(2)
Cost at 31 March 2018	465
Amortisation at 1 April 2017	308
Disposals	(2)
Charge for year	38
Amortisation at 31 March 2018	344
Net book value at 31 March 2018	**121**
Net book value at 31 March 2017	78

7. TANGIBLE ASSETS

	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings and furniture £'000	Total £'000
Cost at 1 April 2017	2,515	414	387	3,316
Additions		233	13	246
Disposals		(103)	(9)	(112)
Cost at 31 March 2018	2,515	544	391	3,450
Amortisation at 1 April 2017	639	246	118	1,003
Charge for year	236	111	37	384
Disposals		(103)	(9)	(112)
Amortisation at 31 March 2018	875	254	146	1,275
Net book value at 31 March 2018	**1,640**	**290**	**245**	**2,175**
Net book value at 31 March 2017	1,876	168	269	2,313

8. DEBTORS

	2017/18 £'000	2016/17 £'000
Trade debtors	**292**	230
Prepayments	**745**	888
Accrued income	**2,031**	1,913
Other debtors	**169**	288
	3,237	3,319

9. CASH AND INVESTMENTS HELD

	2017/18			2016/17		
	£'000 Cash	£'000 Deposits	£'000 Total	£'000 Cash	£'000 Deposits	£'000 Total
Actuarial Case Costs Fund	**–**	**2,000**	**2,000**	–	2,000	2,000
Corporate Reporting Review Legal Costs Fund	**–**	**2,000**	**2,000**	–	2,000	2,000
General Accounts	**8,826**	**2,972**	**11,798**	5,253	3,019	8,272
	8,826	**6,972**	**15,798**	5,253	7,019	12,272

10. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017/18 £'000	2016/17 £'000
Trade creditors	**323**	744
Other taxation and social security	**1,031**	1,142
Accruals	**1,812**	1,413
Deferred income	**1,080**	1,497
Deferred lease incentive	**344**	344
Other payables	**512**	229
	5,102	5,369
Corporation Tax at an effective rate of 19% (2016/17: 20%) on interest income of £51,000 (2016/17: £62,000).	**10**	12
	5,112	5,381

11. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017/18 £'000	2016/17 £'000
Deferred lease incentive	**2,051**	2,395
	2,051	2,395

12. SIGNIFICANT TRANSACTIONS WITH OTHER STANDARD-SETTERS

With the agreement of HM Treasury, BEIS and the FCA, the FRC have, since 2008, taken the responsibility for collecting the UK contribution to the IASB alongside its preparers' contribution. The FRC makes a small charge for providing this service. The amount of monies collected during the year was £914,000 (2016/17: £846,000), of which £15,000 (2016/17: £1,000) remained to be paid over by the FRC to the IASB as at 31 March 2018.

13. PROVISIONS FOR LIABILITIES

Leasehold improvements and dilapidations	2017/18 £'000	2016/17 £'000
Balance at 1 April 2017	90	60
Amount charged to Profit and Loss account	110	30
Balance at 31 March 2018	200	90

14. COMMITMENTS

Total commitments for the FRC under operating leases relating to leasehold property were as follows:

	2017/18 Total £'000	2016/17 Total £'000
Payments due within one year	746	745
Payments due within two to five years	2,963	2,961
Payments due after more than five years	1,497	2,233
	5,206	5,939

A rent review on the leasehold property is scheduled to take place in 2018/19 and will be based on open market rents.

Total commitments for the FRC under operating leases for office equipment were as follows:

	2017/18 £'000	2016/17 £'000
Payments due within one year	14	14
Payments due within two to five years	11	26
	25	40

15. RELATED PARTY TRANSACTIONS

Any related party transactions arise in the normal course of business and are not material.

16. LIABILITY OF MEMBERS

The members of the FRC have undertaken to contribute a sum not exceeding £1 each to meet the liabilities of the Company if it should be wound up.

APPENDIX 1

AUDIT, ACTUARIAL AND ACCOUNTANCY REGULATION – FRC'S OVERSIGHT RESPONSIBILITIES

This Appendix reports on:

(i) the FRC's oversight as the Competent Authority for statutory audit in the UK of the of the regulatory tasks delegated to the recognised supervisory bodies and its statutory oversight of recognised qualifying bodies;

(ii) the FRC's statutory oversight of Local Audit;

(iii) the FRC's statutory responsibilities as the Independent Supervisor of Auditors General;

(iv) the FRC's statutory responsibilities for the regulation of Third Country Auditors;

(v) the FRC's oversight of the Institute and Faculty of Actuaries;

(vi) the FRC's oversight of certain accountancy professional bodies.

(I) OVERSIGHT OF STATUTORY AUDIT IN 2017/18

1. Introduction

1.1 The FRC reports annually:

(a) as the Competent Authority for statutory audit in the UK on its activity under the EU Audit Regulation (Audit Regulation) and activities under the Statutory Auditor and Third Country Auditor Regulations 2016 (SATCAR 2016). Since 2016, audit regulation tasks under this legislation are carried out by the FRC in its capacity as Competent Authority and by the recognised supervisory bodies (RSBs) as delegates of the FRC, under terms set out in Delegation Agreements. The FRC reports in its annual report and accounts on the activities undertaken by it as the Competent Authority and in this appendix on the oversight of the tasks delegated to the RSBs.

(b) on the discharge of powers and responsibilities under Part 42 of the Companies Act 2006 (the Act), delegated to us by the Secretary of State (SoS), which include granting recognition status to RSBs and to recognised qualifying bodies (RQBs), who award the audit qualification (AQ) under the Act.

1.2 RSBs carry out regulatory functions delegated by the Competent Authority (Delegated Tasks) under formal Delegation Agreements. In 2017/18 we assessed each RSB's performance of its delegated tasks in relation to registration, audit monitoring, complaints and discipline and continuing professional development (CPD), and compliance with certain conditions in the Delegation Agreement. We also performed an in-depth review of audit monitoring. More information about our findings in relation to each of the RSBs can be found at paragraphs 1.16 – 1.20. We see no reason at present to withdraw recognition from any RSB nor to reclaim any of the tasks delegated to the RSBs.

1.3 The FRC provided oversight of the work of the RQBs. We reviewed changes in: how students gain access to training, how training is delivered and, the syllabus and the examinations of each RQB. Sometimes these changes raise issues for us about whether a body's qualification continues to meet the Act requirements, which include the requirements of the Audit Directive. In 2017/18 we reviewed the process of awarding the AQ. More information about this work can be found at paragraph 1.22. We consider that the processes established by each of the RQBs are appropriate for awarding the AQ to those members who meet the relevant requirements of the Act.

As the Competent Authority

1.4 The FRC monitors the RSBs' performance of their Delegated Tasks and compliance with conditions under the Delegation Agreements. Where there is a dispute in relation to the performance of the Delegated Tasks (a performance issue), the FRC Board has the power to exercise any or a combination of the following measures under the Delegation Agreement:

- A direction to do or refrain from doing a particular action;
- A decision to reclaim a case or task;
- Termination of the Delegation Agreement; and/ or
- Such other measure(s) as the Board deems reasonable and appropriate in all the circumstances.

As the Secretary of State delegate

1.5 The FRC continues to exercise its statutory functions delegated by the SoS for the recognition and enforcement of statutory requirements under Part 42 of the Act of those accountancy bodies responsible for supervising the work of statutory auditors (RSBs as set out in Schedule 10 to the Act) or offering an AQ (RQBs as set out in Schedule 11 to the Act). Section 1252(10) of, and paragraph 10(3) of Schedule 13 to the Act, require the FRC to report annually to the SoS on the discharge of these delegated powers and responsibilities.

Enforcement powers

1.6 The FRC has the following range of enforcement powers as derived from the Act:

- To direct a RSB or RQB to take specific steps to meet its statutory requirements or obligations;
- To seek a High Court order requiring the RSB or RQB to take specific steps to secure compliance with a statutory requirements or obligation;
- To impose a financial penalty on the RSB or RQB where it has not met a statutory requirement or obligation on it; and
- To revoke the recognition of the RSB or RQB where it appears to us that requirements for continued recognition have not been met.

RSBs and RQBs

1.7 Individuals and audit firms that wish to be appointed as a statutory auditor in the UK must be registered with a RSB and individuals responsible for audit at registered firms must hold an AQ from a RQB.

1.8 The following are both RSBs and RQBs:

- Association of Chartered Certified Accountants (ACCA);
- Institute of Chartered Accountants in England and Wales (ICAEW);
- Institute of Chartered Accountants in Ireland (CAI); and
- Institute of Chartered Accountants of Scotland (ICAS).

1.9 In addition:

- Association of International Accountants (AIA) is a RQB;
- Chartered Institute of Public Finance and Accountancy's (CIPFA) status as a RQB was revoked on 18 December 2017. The revocation was by consent with CIPFA and no members have been directly affected by the change as none hold a CIPFA awarded AQ. CIPFA's status as a RQB under local audit[1] remains unchanged.

1 There is a separate regime for local audit and local audit RSBs and RQBs are discussed in Section (ii) below.

Monitoring of Recognised Supervisory Bodies and Recognised Qualifying Bodies

1.10 To discharge its responsibilities as a delegate of the SoS and as the Competent Authority, the FRC undertakes oversight activities throughout the year.

1.11 We exercise our oversight and monitoring responsibilities primarily by:

- Documenting and understanding how each body meets all the statutory requirements for continued recognition, including information on how it complies with relevant legislation;
- Annual compliance testing of the way in which each body's regulatory systems operate in practice during monitoring visits;
- Evaluating the effectiveness of specific aspects of the regulatory system across all the bodies during monitoring visits;
- Review and discussion of the information in returns and regulatory plans submitted by the bodies;
- Keeping in regular contact with each body to discuss current issues and trends and future developments;
- Ensuring that the RSBs are compliant with the Delegation Agreement; and
- Requiring specific actions or making recommendations arising from the activities above.

1.12 We follow a risk-based approach to determine both the regulatory elements we should focus on in a year and our relative monitoring activities at the different bodies. To help us plan and carry out our oversight role, each RSB and RQB provides an annual regulatory return, which includes statistical information on its regulatory activities during the previous year. Each body also provides an annual regulatory plan, covering both RSB and RQB activity. The regulatory plans are broad, forward-looking documents covering all significant work in progress. In addition, we hold regular meetings with senior staff at the bodies to discuss current issues, their management of key risks, their future plans and the findings and recommendations arising from our monitoring work. Each body is expected to inform us immediately of any significant issues relevant to its role as an RSB/RQB to ensure that our views are taken fully into account before decisions are taken.

2017/18 oversight and monitoring visits – conclusions

1.13 Our 2017/18 principal conclusions are:

- We are satisfied that the requirements for recognition have continued to be met by the recognised bodies;
- We shall continue to delegate audit regulatory functions to the RSBs in accordance with existing Delegation Agreements;
- Save as set out in paragraph 1.20, we found no evidence indicating a breach of any RSB's responsibilities in connection with the performance of its Delegated Tasks and are satisfied with each RSB's provision of information and access for monitoring, inspections and governance as required by Appendix 5 of the Delegation Agreement;
- The RSBs and RQBs continue to commit sufficient staff and other resources to their regulatory responsibilities and to take their regulatory responsibilities seriously; and
- The RSBs and RQBs have taken, or are taking, appropriate action to implement the requirements and recommendations in our monitoring reports and we will assess progress during future monitoring visits. The findings in our reports are not of a fundamental nature.

Scope of 2017/18 RSB monitoring visits

1.14 Our 2017/18 monitoring visits to the RSBs focused on audit monitoring. As the Competent Authority, we have enhanced our approach in assessing the RSBs' audit quality monitoring framework and procedures. Given public concerns over the rigour and quality of audits, it is important that the FRC and RSBs continue to challenge the appropriateness of regulatory procedures in place. A programme of continuous improvement is required to achieve the common objective of promoting high quality audit. We carried out an in-depth review of processes and practice to assess:

- How the audit monitoring policies and procedures of the RSB work in practice; and
- The RSBs' performance of the audit monitoring conditions contained in Appendix 3 of the Delegation Agreement. As CPD monitoring of statutory auditors is carried out during audit monitoring visits, some conditions of Appendix 2 of the Delegation Agreement were also covered.

1.15 During our visits we also reviewed:

- How the RSBs continue to have the necessary arrangements in place to meet the requirements of the Delegation Agreement and to continue to be recognised as an RSB for Companies Act audit in relation to each of the Delegated Tasks as delegated in the Delegation Agreements; and
- The actions taken by each RSB in response to our requirements and recommendations made in prior years. Wherever possible we confirmed through testing that the changes made by the RSBs were effective in addressing the issues raised.

Findings of 2017/18 RSB oversight and monitoring – main points

1.16 The following section highlights our findings from each of the RSBs in relation to (a) our in-depth review of audit monitoring and (b) its continued compliance with the Delegation Agreement. Our review of actions taken in respect of prior year requirements and recommendations made to each RSB did not raise any significant concerns. However, some of these requirements and recommendations had not been fully implemented as they are going through the appropriate RSB's internal governance process and have been carried forward so that progress can be assessed during future monitoring visits. In 2017, we also required ICAEW to put in place a checking procedure by the end of June 2017 to ensure that the Joint Audit Register was updated on a timely basis and agreed to ICAEW's records. ICAEW was not able to put in place a procedure by the deadline, or by December 2017, because the RSB hosting the JAR platform was still checking whether a software upgrade addressed certain issues with the existing system. We have required ICAEW to implement this process by the end of April 2018. We will follow up on this during our next monitoring visit.

(a) Processes and practices in relation to audit monitoring

1.17 This year's visit was our first opportunity to perform an in-depth review of audit monitoring files completed by the RSBs under the new regulatory regime. As the Competent Authority, we have changed the perspective of our testing and have therefore raised some issues not identified or raised previously with the RSBs. These points form part of a continuous improvement programme to achieve the common objective of promoting high quality audit and should be considered in that context.

1.18 Our monitoring work did not identify any systemic issues that raise concerns about the compliance of each of the RSBs with the delegation conditions and with the Companies Act requirements. However, we did identify some areas where we have required specific actions or made recommendations to improve the performance of Delegated Tasks. These matters are summarised below for each RSB, as well as any areas where we noted opportunities for improvement.

ACCA

- We found the standard of ACCA audit monitoring to be appropriate. We required and recommended improvements in certain areas, including: updating the Guidance for Regulatory Orders (GRO); documenting and communicating examples of good practice by audit firms; reviewing CPD during fast-tracked monitoring visits; and referring any non-compliance identified with CPD rules to the Professional Development Department.

ICAEW

- ICAEW is the registering RSB of the largest audit firms in the UK and consequently monitors audits of significant non-public interest entities with a public interest profile.
- For reasons mentioned in paragraph 1.14, our changed approach revealed that the level of documentation currently retained of ICAEW file reviews does not provide sufficient evidence of key elements of the review. These are: the rationale for selection of areas reviewed, the assessment of risk, the work performed, and the judgement applied in concluding whether the audit work was adequate.
- We require ICAEW to improve the extent of its documentation for all audits inspected, while ensuring any improvement is proportionate to the size and complexity of audits under review. This requirement is consistent with how we expect ICAEW to apply the principles of the Delegation Agreement in future.
- We intend to establish a more consistent audit monitoring approach between the FRC and ICAEW, which is proportionate to the size and risk profile of those audits inspected. This will require ICAEW to make changes to its audit monitoring methodology. We have set up a working group with ICAEW to explore this further and to propose the necessary changes by the end of 2018.
- We have also recommended that good practices identified by us should be communicated to all ICAEW reviewers and that ICAEW should formalise its process for highlighting good practice by an audit firm/ team identified during monitoring visits.

CAI

- We found that CAI needs to improve the consistency and extent of its audit monitoring documentation so that both the rationale for the scope of its work and the basis for its conclusions are evident and clear. CAI agreed to update its methodology so that the judgement and rationale applied when concluding on the quality of audit work performed will be clear for all file reviews.
- We have also made a recommendation in relation to the need for firms to identify the cause of the deficiencies in audit work identified by CAI through root cause analysis.

ICAS

- We found the standard of ICAS audit monitoring to be appropriate. We recommended improvements in certain areas, including: the wider use of an enhanced documentation template in the audit monitoring process (this is already in use for certain audit firms); the need for firms to identify the cause of the deficiencies in audit work identified by ICAS through root cause analysis, and maintaining sufficient documentary evidence of all communications with audit firms.
- In addition, we also found one instance where minutes of a committee's decision on a contentious regulatory issue should have been better.

(b) Compliance with the Delegation Agreements

1.19 Based on our work to assess compliance with the conditions for Delegated Tasks in Appendix 1 to 4 of the Delegation Agreements with each RSB, we have concluded that each RSB:

- Has adequate arrangements in place to process audit registrations and withdrawals.
- Has adequate policies and procedures to monitor Registered Auditors who have carried out Companies Act audits.
- Has adequate arrangements in place to carry out CPD monitoring of Registered Auditors and confirm they maintain an appropriate level of competence in the conduct of Companies Act audits.
- Has adequate arrangements in place to carry out enforcement activities effectively.

1.20 Our work also identified some specific matters where we have required individual RSBs to take action to ensure full compliance with specific delegation conditions. These matters are set out below:

- We required ACCA to put in place a process, by 30 June 2017, for monitoring compliance by its Registered Auditors with International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised). ACCA did not meet this deadline in the year ended 31 December 2017 but has commenced the monitoring from January 2018.

We have reviewed the processes that are now in place. Due to the timing of implementation, we will assess the adequacy of IES 8 monitoring during future monitoring visits.

- An informal oral notification was received from ICAS in December 2016 of the discovery of errors in the registration of two individuals responsible for audits (RIs). Appropriate details of the errors, consequences and outcomes were not reported to us to the extent reasonably expected by us as the Competent Authority and as required by the Delegation Agreement. ICAS has confirmed that such matters will be confirmed in writing to us going forward.

Scope of 2017/18 RQB monitoring visits

1.21 The time and resource applied to our oversight of, and visits to each of, the RQBs followed an approach which is proportionate to the size of the student body. In 2017/18 our monitoring visits to the RQBs focused on the award of the Audit Qualification (AQ). We report the findings of our oversight of and monitoring work at the RQBs below.

Findings of 2017/18 RQB oversight and monitoring – main points

1.22 Based on the scope and findings of our work, we consider that the processes established by each of the recognised bodies are appropriate for awarding the audit qualification to those members who meet the relevant requirements of the Act. Our overall findings on each of the RQBs are summarised below:

ACCA

- We were satisfied with the process used by ACCA to award the AQ to its members.
- We also followed up on our previous review of ACCA's processes for awarding student exemptions from examinations and ACCA's progress in implementing our prior year recommendations. We were satisfied with the actions taken by ACCA and closed all prior year recommendations.

AIA

- AIA did not award the AQ to any members during the year, so the focus of our review was on the prior year recommendations. We were generally satisfied with the actions taken by AIA and closed all but one of the prior year recommendations. The remaining outstanding open recommendation is aimed at improving aspects of AIA's policy on student malpractice when sitting examinations.

ICAEW

- We were satisfied with the process used by ICAEW to award the AQ to its members. However, we identified an improvement to be made to the documentation of the checks performed by staff when assessing audit qualification applications. We consider it to be minor. ICAEW has confirmed that it has actioned this change.

CAI

- CAI has different requirements for those members who wish to qualify in the Republic of Ireland (RoI), introduced in 2016, from those who wish to do so in the UK. However, we found that when CAI awards the AQ it does not differentiate between these members in its database. We raised a concern that as requirements for RoI were lower than for the UK, a person who had been awarded the AQ under the RoI requirements may go on to obtain the right to sign an audit report of a UK entity without meeting the UK's AQ requirements. Until such time as a common requirement can be agreed between the relevant Competent Authorities, CAI has been told to ensure an individual being awarded the AQ is identifiable as UK or RoI if the requirements of both jurisdictions have not been met. CAI has confirmed that it has now reviewed all RI applications since 2016 and has found no instances of RI status having been awarded incorrectly. However, the review to determine how many AQs have been awarded without being flagged as non-compliant with UK requirements is not yet complete.
- We also raised concerns about how applications are reviewed to ensure that only relevant practical experience is accepted when assessing an application to be awarded the AQ.
- In previous years we made recommendations which were due to be addressed by the implementation of CAI's new IT systems. During the year the new IT system was brought on-line, but several problems had been identified and were being addressed at the time of our visit. We were able to review the areas where the new IT was working and closed the relevant recommendations. CAI has also made changes to its

Chartered Accountants Diary System. We reviewed the changes to the system, but we wish to consider how these are being implemented in practice by students. We intend to perform a detailed review of this area in a future monitoring visit.

ICAS

- We were satisfied with the process used by ICAS to award the AQ to its members. However, we identified an issue with a control in the ICAS student training record system. We consider it to be minor.

(II) STATUTORY OVERSIGHT OF LOCAL AUDIT

2. Introduction

2.1 The SoS has delegated powers and responsibilities to the FRC to enforce the requirements for recognition of local audit RSBs and the award of the local audit qualification by local audit RQBs under sections 1252 and 1253 of the Act. Section 1252(10) and paragraph 10(3) of Schedule 13 of the Act as they apply to local audit by virtue of Schedule 5 to the Local Audit and Accountability Act 2014 (the LAAA), requires the FRC to report once in each calendar year on the discharge of the powers and responsibilities.

2.2 Individuals and audit firms that wish to be appointed as a local auditor in the UK must be registered with a local audit RSB and individuals responsible for audit at registered firms must hold an audit qualification. The LAAA stipulates that an individual holds a local audit qualification if they:

- Hold a company audit qualification or equivalent qualification in another member state of the European Economic Area (EEA);
- As at the date of Royal Assent of the LAAA, are either a member of a body recognised under the Audit Commission Act 1998 or had started training with such a body; and
- Hold a local audit qualification recognised by the FRC or equivalent qualification in an EEA Member State.

2.3 CIPFA was recognised as an RQB for local audit in October 2014. ICAEW and ICAS were recognised as RSBs for local audit in November 2015.

2.4 The transitional regime, which commenced when the Audit Commission was wound up at the end of March 2014, ended on 31 March 2018 and the LAAA regime became fully operational on 1 April 2018. Local bodies were brought into the new regime in two phases; National Health Service (NHS) bodies under the regime were brought in for the financial year starting 1 April 2017, and all other bodies were brought in for the financial year starting 1 April 2018.

2.5 We exercise oversight primarily by:

- Documenting and understanding how each body meets all the statutory requirements for continued recognition, including information on how it complies with relevant legislation;
- Annual compliance testing of the way in which each body's regulatory systems operate in practice during monitoring visits;
- Evaluating the effectiveness of specific aspects of the regulatory system across all the bodies during monitoring visits;
- Reviewing and assessing the information in returns and regulatory plans submitted by the bodies;
- Keeping in regular contact with each body to discuss current issues and trends and future developments; and
- Requiring specific actions or making recommendations arising from the activities above.

Oversight and monitoring

2.6 During 2017 the local audit firms that had been registered during 2016 did not undertake any audits under the new local audit regime. It is therefore important to ensure that all the previously recognised persons authorised by the local audit firms to sign local audit opinions i.e. Key Audit Partners (KAPs) have maintained their competence in this area.

2.7 Our monitoring visits to the RSBs considered how they assessed the ongoing CPD undertaken by previously approved KAPs to maintain their competence in local audit. Our findings from the visits are explained in the paragraphs below.

2.8 We were concerned to find on our visit to ICAEW that no ongoing CPD review of KAPs had been undertaken and no specific review of CPD planned in the foreseeable future for these individuals. We also note that the normal random monitoring of members' CPD did not include any KAPs. The CPD of KAPs was assessed by ICAEW in 2016 as part of the process of approving KAPs, but competence needs to be sustained on a continuous basis. We have agreed with ICAEW a basis for assessing the adequacy of CPD undertaken by KAPs in the interim period, prior to commencement of audits under the new regime.

2.9 From our review of ICAS, we were satisfied that ICAS has appropriate procedures for monitoring the ongoing competence of the one KAP who has registered thus far.

2.10 We conducted a monitoring visit to CIPFA. The purpose of the visit was to review the procedures to register students. CIPFA offers a joint qualification with ICAS, so all the students registered by CIPFA in the period under review were studying for the joint qualification. We found that CIPFA did not have adequate oversight of the joint arrangements in place between itself and ICAS to ensure that CIPFA's registration requirements were being met. CIPFA acted to resolve the issue and prevent it from recurring.

(III) REPORT OF THE INDEPENDENT SUPERVISOR ON THE AUDITORS GENERAL

3. Introduction

3.1 The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc.) Order 2012 names the FRC as the Independent Supervisor of the Comptroller and Auditor General (C&AG) and the other Auditors General, in respect of their work as statutory auditors of companies under the Act.

3.2 Section 1231 of the Act requires the Independent Supervisor to report on the discharge of its responsibilities at least once in each calendar year to the SoS, the First Minister of Scotland, the First Minister and the Deputy First Minister in Northern Ireland, and the First Minister for Wales. This report meets the statutory reporting requirements.

3.3 The C&AG and the other Auditors General are eligible for appointment as the statutory auditors of companies under the Act, subject to meeting certain conditions.

3.4 One of those conditions is that an Auditor General is subject to oversight and monitoring by an "Independent Supervisor" in respect of Companies Act audit work. To date only the C&AG has entered into the necessary arrangements with the FRC and undertakes audits under the Act. The year to 31 March 2017 was the ninth year in respect of which staff at the National Audit Office (NAO) undertook Companies Act audit work, auditing the accounts of 46 companies. The NAO fulfils this role alongside its other work, which it undertakes under different statutory provisions. The NAO's audit of companies enables it to audit those companies that are owned by Government Departments and other public bodies whose financial statements it audits. The responsibilities of the Independent Supervisor do not extend to the wider work of the C&AG and the term "statutory audit" should be read as meaning the NAO's remit under the Act.

Supervision arrangements

3.5 Section 1229 of the Act requires the Independent Supervisor to establish supervision arrangements with any Auditor General who wishes to undertake Companies Act audit work, for:

- Determining the ethical and technical standards to be applied by an Auditor General;
- Monitoring the performance of Companies Act audits carried out by an Auditor General; and
- Investigating and taking disciplinary action in relation to any matter arising from the performance of a Companies Act audit by an Auditor General.

3.6 These supervision arrangements are set out in a Statement of Arrangements and Memorandum of Understanding (MoU) between the FRC and the C&AG and include a requirement for the monitoring of the C&AG's Companies Act audit work by the FRC's Audit Quality Review (AQR) team, on behalf of the Independent Supervisor.

Reporting requirements

3.7 We report below in accordance with the requirements of Part 4 Appointment of the Independent Supervisor, Article 19 (a) to (e), Article 20 and Article 21 of SI 2012/1741 Statutory Auditors (Amendments of Companies Act 2006 and Delegation of Functions etc.) Order 2012, which came into force on 2 July 2012.

(a) Discharge of supervision function

- The supervision arrangements require that the C&AG and relevant NAO staff follow technical and ethical standards prescribed by the FRC when conducting Companies Act audits and set out the investigation and disciplinary procedures that would apply were there a need to discipline the C&AG in their capacity as a statutory auditor. The relevant standards are those set by the FRC for auditors generally.
- We meet periodically with the C&AG and senior staff responsible for the audit practice of the NAO on behalf of the C&AG. We have familiarised ourselves with the NAO procedures to discharge these responsibilities and keep abreast of any changes.

(b) Compliance by Auditors General with duties under the Act

Scope of 2017/18 inspections

- As noted above, to date, only the C&AG has undertaken Companies Act audits, all of which have been of companies within the public sector.
- The AQR inspection in 2017/18 of the C&AG's Companies Act audit work comprised:
  - Updating its understanding of the NAO's policies and procedures supporting audit quality that applied to these audits; and
  - Reviewing the performance of selected aspects of four of the 46 statutory audits carried out by NAO staff in respect of financial periods ended on 31 March 2017.
- As the number of Companies Act entities audited by the NAO has increased over time we have increased the number of audits reviewed from two in 2016/17 to four in the 2017/18 inspection cycle. The sample covered audits of varied complexity, size and risk.
- Given the increased number and complexity of Companies Act statutory audits performed by the C&AG, including a small number of public interest entities (PIEs), we will keep under review the number of Companies Act audits reviewed in each year.
- The responsibilities of the Independent Supervisor do not extend to the wider work of the C&AG.

Progress made in the year

- We recognise the NAO's continuing work to enhance its policies and procedures supporting and promoting audit quality, such as addressing lessons learnt from previous AQR reports and its own internal cold reviews. The NAO has identified themes and the resolution of these are embedded within individual audits, focusing internal training on quality, setting quality targets, and dedicating more senior staff involvement across the NAO's audit practice (including for Companies Act audits).
- We reviewed the root cause analysis performed by the NAO on the two Companies Act audit reviews assessed as requiring more than limited improvements in the prior year and are satisfied that the NAO has taken appropriate actions. We have seen improvements in relation to certain key findings highlighted in last year's report, in particular aspects of testing of non-IT controls and journal testing. However, we continue to identify findings in relation to the challenge of areas of judgement and obtaining sufficient and appropriate evidence.

- The NAO made a number of improvements to its policies and procedures in the following areas.

(i) Valuations and estimates: Initiatives and updates included: audit quality initiatives with a training initiative which contained a focus on challenging managements' assumptions and revised audit file estimates work programmes.

(ii) IT matters: The NAO has continued to invest in IT specialist resources and expertise, enhanced guidance, methodology, audit procedures, work programmes and templates, training and data analytics tools.

(iii) Establishing centres of excellence for the audit of pensions, property and complex financial instruments to share knowledge and facilitate appropriate challenge.

However, we continue to identify findings in these areas.

Findings

- In the 2017/18 inspection cycle we reviewed four Companies Act audits. Of these, three were assessed as good or requiring limited improvements. One audit was assessed as requiring improvements.
- We have reviewed the actions proposed by the NAO audit teams, in response to our findings, and are satisfied that these are appropriate.
- For the audits we assessed as good or requiring no more than limited improvements, there was evidence of a good level of involvement of senior team members in key aspects of the audits.
- We have recommended that the NAO continue to perform root cause analysis on the audits where more than limited improvements are required to determine whether any further actions are needed.
- Whilst noting that the NAO has no current intention to contract out other Companies Act audits it should continue to review its internal guidance over contracted out audits, including how the role of the NAO's Engagement Quality Control Reviewer (EQCR) is discharged and evidenced so that the responsibility for the direction, supervision and performance of the audit is consistently performed and evidenced on the NAO's files.
- The NAO should ensure the rationale for judgements made in setting materiality is clearly articulated including sufficiently evidencing the consideration of the benchmark used for the materiality calculation.

(c) Notification by Auditors General under Section 1232 of the Act

- No Auditor General was required to notify the Independent Supervisor of any other information under Section 1232 of the Act.

(d) Independent Supervisor's enforcement activity

- We issued no enforcement notices and made no applications for compliance orders in 2017.

(e) Account of activities relating to the Freedom of Information Act

- We received no requests for information under the Freedom of Information Act in our role as the Independent Supervisor.

(IV) REPORT ON REGULATION OF THIRD COUNTRY AUDITORS

4. Regulation of Third Country Auditors

4.1 The Act, the Statutory Auditors and Third Country Auditors Regulations 2013 and SATCAR 2016 set specific requirements for the regulation of the auditors of companies from outside the EU that issue certain securities traded on EU-regulated markets (Third Country Auditors or TCAs). The FRC is responsible for applying these requirements in the UK.

4.2 The FRC is required to subject a registered TCA to its systems of oversight and quality assurance review, where a TCA is not subject in its home country to a system recognised as equivalent by the European Commission. The underlying principle is that all auditors of companies traded on EU-regulated markets should be subject to equivalent regulation, regardless of where the relevant issuer is incorporated.

4.3 Our audit quality monitoring of TCAs focuses on those UK market-traded companies considered to be of significance to UK investors. In the year to 31 March 2018, our fifth year of inspections, we completed inspections of selected aspects of three audits at four TCA firms: one in Bahrain; two in Lebanon; and one in Barbados. Two of the audits were categorised as "limited improvements required" and one was categorised as "improvements required". A report on this work is included within our 2017/18 "Developments in Audit" publication.

4.4 Carrying out inspections of audit firms widely scattered across the world, and with typically only one or two relevant audit clients, poses legal and practical challenges in some jurisdictions. Local confidentiality laws can hinder access to audit working papers for the purposes of the FRC performing an inspection. We endeavour to overcome these challenges when they arise and require TCAs to confirm, at the point of registration as a TCA and during annual renewals of registration, whether there are legal restrictions that would preclude the FRC from performing an inspection of its relevant audit(s). Where such restrictions exist, we require the TCA to resolve them by, for example, obtaining consent from its audit client or by redacting certain information in its audit working papers to satisfy local confidentiality laws. However, TCAs are not always able to resolve such restrictions.

4.5 In 2017 we encountered issues with accessing audit working papers of one audit carried out jointly by two TCAs in Morocco, which we have so far been unable to resolve. We continue to engage with these TCAs. However, if the TCAs cannot resolve the legal restrictions we will not renew their registration.

4.6 The FRC also has the power to remove a TCA from the UK register of TCAs in certain circumstances set out in the Act and Statutory Auditors and Third Country Auditors Regulations 2013. The procedures followed by the FRC in such instances are set out in the Third Country Auditor Register Procedures, which are available on the FRC website: https://www.frc.org.uk/Third-Country-Auditors.

(V) OVERSIGHT OF THE INSTITUTE AND FACULTY OF ACTUARIES

5. Introduction

5.1 The FRC assumed responsibility in 2006 at the request of HM Treasury for the non-statutory oversight of the UK actuarial profession's self-regulation of actuaries in the UK by the Institute and Faculty of Actuaries (IFoA) following the recommendation of the Morris Review of the Actuarial Profession (published 2005).

5.2 This oversight arrangement is established through a MoU with the IFoA, updated in 2014. Through these arrangements, the FRC and the IFoA seek to promote high quality actuarial practice and integrity, competence and transparency of the profession to the benefit of all who rely on actuarial advice or who are affected by actuarial advice.

5.3 We carry out our oversight through review of relevant IFoA activities and monitoring visits. In 2017/18, we carried out visits to the IFoA's Edinburgh and Oxford offices. The results of the visits are described in paragraphs 5.8 to 5.10.

IFoA's monitoring of the quality of actuarial work of its members

5.4 Despite the oversight procedures in place and the fact that the FRC sets the technical actuarial standards (TAS), there remains a lack of evidence of the quality of actuarial work in the public interest. This is because the quality of actuarial work is not being directly monitored.

5.5 We received the IFoA Regulation Board's proposals for monitoring the quality of actuarial work in June 2017. We consider that the proposals have the necessary hallmarks of an effective monitoring regime, including that it should be proportionate and practical.

5.6 Over the year, we have sought to encourage, support and act as a sounding board for the IFoA's further development and implementation of its proposals so that the potential for a public interest risk to arise from the quality of its members' work will be mitigated. The IFoA's public consultation on its proposed monitoring regime commenced on 29 June 2018.

Report on the IFoA's regulatory progress in 2017/18

5.7 In summary we have observed the following in 2017/18:

- The IFoA continues to make progress in raising both its members' awareness of regulation and standards of professionalism.
- The IFoA made progress in identifying risks to the public interest where actuarial work is relevant and consequently which work outputs should be monitored. The IFoA has issued further "Risk Alerts" to draw its members' and other stakeholders' attention to specified key areas of relevant risk.
- The IFoA has deferred its review of its practising certificate framework until 2018 so that this work can be aligned with the development of its monitoring framework; the two regimes are interlinked.
- The IFoA's public consultation on its substantive review of the Actuaries' Code closed in January 2018. We consider that the revised Code is acceptable in the public interest and we agree that the principles-based style supports the Code's main purpose which is to encourage good behaviour rather than to prevent bad behaviour. The IFoA has prepared draft guidance for its members on the Code.
- The IFoA completed its review of its qualification framework during the year. Its public consultation on its proposed "Chartered Actuary" designation closed in February 2018. We support the IFoA's initiative in principle, so long as the competency requirements in respect of public interest roles are not undermined and the differences between different types of "actuary" are made sufficiently clear to stakeholders.
- The IFoA published further Professional Skills training materials for its members in 2017/18 which were embedded through significant member engagement and were well received.
- In line with our mutual expectations, the IFoA has continued to help make its members aware of the revised Technical Actuarial Standards (TASs), which took effect on 1 July 2017. In January 2018, it updated its guidance for its members on the practical application of TAS 100: Principles for Technical Actuarial Work.
- Developments in some key areas are still in progress:
  - With our input, the IFoA carried out further engagement with its members in its post implementation review of Actuarial Profession Standards (APS) X2: Review of Actuarial Work. The IFoA proposes to build on this review to develop a wider programme to review the effectiveness of its standards and guidance.
  - We continue to be supportive of the IFoA's Quality Assurance Scheme (QAS) for firms. The QAS has continued to progress over its second year of operation and is now open to applications from overseas employers. QAS accredited entities employ approximately 25% of the IFoA's UK members. We await the IFoA's assessment of how the outputs from the QAS can be used as a measure for actuarial quality in the context of its proposed monitoring regime. The Independent Assessor of accreditation has provided the IFoA with its second annual report on the QAS. This includes summaries of matters requiring attention and best practice recommendations in respect of the firms assessed for accreditation in 2017.
  - The IFoA has continued to implement its new curriculum, to reflect the changing nature of actuaries' work. The new Communications Practice examination and the new Personal and Professional Development scheme were launched in September 2017 ahead of other changes to the qualification requirements which will take effect from the April 2019 examination sitting.

Findings from our 2017/18 oversight visits to the IFoA

5.8 Building on our 2016 visit, we selected a sample of cases during our 2017/18 visit to assess how the policies, procedures and applicable rules in the areas of complaints handling and discipline, continuing professional development and practising certificates, are applied in practice, and their effectiveness. This visit also provided us with an opportunity to follow-up on prior year recommendations and points to note. In addition, we performed our first oversight visit to monitor the IFoA's professional examinations. We carried out similar sample-testing after system walkthrough tests and a review of documents and procedures.

5.9 Generally, we found the IFoA's systems, policies and procedures to be adequate in all areas that we reviewed. We recommended improvements in some areas including:

- Documentation, by panels and tribunals, of the rationale for disciplinary decisions and the procedures followed should be more thorough and more clearly presented. There is also room for improvement in the process to assess conflicts of interest in disciplinary cases.
- Some of the rules in the IFoA's Disciplinary Scheme should be improved or made clearer.
- The practising certificate processes should be improved so that the relevance of work experience cited by applicants can be assessed more easily. There was also room for improvement in the interim data protection process in place for practising certificate applications. However, this will be addressed by new arrangements that the IFoA is implementing to address the new data protection requirements.
- Better documentation of some of the IFoA's professional examination processes was needed and action to improve this is in progress.

5.10 We are pleased to note from our follow-up work that the IFoA has addressed all the improvements that we had recommended other than one remaining recommendation on a drafting matter for its disciplinary scheme. The IFoA also took positive actions in response to our further points to note raised in 2016.

(VI) ACCOUNTANCY OVERSIGHT

6. Introduction

6.1 By mutual agreement with the six chartered accountancy bodies, we exercise a degree of oversight in relation to the bodies' regulation of the non-statutory activities of their members who are not registered auditors. This voluntary arrangement between the accountancy bodies and the FRC operates in the public interest and is governed by an exchange of letters in 2003 between the FRC and the Consultative Committee of the Accountancy Bodies (CCAB). At the time this comprised ACCA, ICAEW, ICAS, ICAI, CIPFA and CIMA[2]. In discharging this oversight responsibility, the FRC makes recommendations and seeks to influence but cannot enforce recommendations against the professional bodies.

Current oversight activities

6.2 Most of the FRC's oversight currently relates to the processing of complaints made by members of the public who are dissatisfied about the way in which their original complaint has been handled by a professional body. When such complaints are referred to the FRC, any ensuing reviews focus on whether the professional body has followed its own rules, processes and procedures in its consideration of the complaint. Where the FRC finds that a body has not followed its own procedures, it makes a recommendation to the relevant professional body to redress this failing. Recommendations are also made to improve existing procedures where appropriate.

6.3 In addition, the FRC's accountancy oversight includes responding to consultations issued by the professional bodies on matters relating to the accountancy profession that have a public interest impact. No such consultations have arisen in 2017/18. The monitoring work carried out by the Professional Oversight Team for Companies Act audit also provides some assurance in respect of the CPD and enforcement processes and procedures applicable to all accountants who are members of the professional bodies.

2 Although CIMA is no longer a member of the CCAB, the FRC continues its oversight role in respect of CIMA much in the same way as it does with the CCAB members.

APPENDIX 2

Abbreviations

Acronym	Name in full
ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
AIC	Association of Investment Companies
APS	Actuarial Profession Standards
BAME	Black, Asian and Minority Ethnic
BEIS	Department for Business, Energy and Industrial Strategy
C&AG	Comptroller and Auditor General
CAI	Institute of Chartered Accountants in Ireland
CCAB	Consultative Committee of Accountancy Bodies
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
EEA	European Economic Area
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FCA	Financial Conduct Authority
FRED	Financial Reporting Exposure Draft
FRS	Financial Reporting Standard
GDPR	General Data Protection Regulation
GIAA	Government Internal Audit Agency
GRO	Guidance for Regulatory Orders
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales

ICAS	Institute of Chartered Accountants of Scotland
ICR	Independent Complaints Reviewer
IES	International Education Standard
IFIAR	International Forum of Independent Audit Regulators
IFoA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISAs (UK)	International Standards on Auditing (UK)
JFAR	Joint Forum on Actuarial Regulation
KAP	Key Audit Partners
LAAA	Local Audit and Accountability Act 2014
LAPFF	Local Authority Pension Fund Forum
MoU	Memorandum of Understanding
NAO	National Audit Office
NHS	National Health Service
ONS	Office for National Statistics
PIEs	Public Interest Entities
QAS	Quality Assurance Scheme
RQBs	Recognised Qualifying Body
RSB	Registered Supervisory Body
SATCAR	Statutory Auditor and Third Country Auditor Regulations
SI	Statutory Instrument
SORP	Statement of Recommended Practice
SoS	Secretary of State
TAS	Technical Actuarial Standard
TCA	Third Country Auditor
UK GAAP	United Kingdom Generally Accepted Accounting Practice
XBRL	eXtensible Business Reporting Language

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