The Financial Reporting Council Limited

Annual Report and Accounts 2015/16 (for the year ended 31 March 2016)

The Financial Reporting Council Limited

Registered number: 02486368

HC534

Annual report and accounts of The Financial Reporting Council Limited

- including the Report of the Independent Supervisor

Year to 31 March 2016

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.

Ordered by the House of Commons to be printed on 19 July 2016

HC 534

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Registered number: 02486368

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STRATEGIC REPORT

Our business model

Our mission is to promote high quality corporate governance and reporting to foster investment

[Business model diagram]

Our role

- The FRC maintains codes and standards for corporate governance, investor engagement, corporate reporting, audit and other forms of assurance, and actuarial information. We also monitor compliance with corporate reporting standards.
- The Government has designated the FRC the Competent Authority for audit in the UK with responsibility for the regulation of statutory audit (The Competent Authority), including setting auditing and ethical standards, monitoring and reporting on audit quality, and enforcement.
- We oversee the accountancy and actuarial professional bodies in their regulatory roles and operate independent disciplinary schemes for accountants and actuaries.
- Our Financial Reporting Lab helps companies and investors collaborate on improvements to reporting.
- We represent UK interests in the EU and internationally across a range of issues.

Our strategy for 2016-19

Fostering investment and the importance of effective but proportionate regulation will continue to guide our priorities over the next three years. We will concentrate on promoting a step change in audit quality and on driving up standards of governance, stewardship and reporting.

Scope of the FRC's work

The FRC's work contributes to the effective function of UK Capital markets and is important to both the accountancy and actuarial profession. The following statistics indicate the size of the community that benefits from FRC's work.

UK listed companies (Main and AIM market) total market cap (as at 31 May 2016) - £2.9Tr

UK asset management industry total (as at December 2014) - £5.5Tr, including £2.1Tr UK pension assets

Current number of registered statutory audit firms in UK (as at 30 June 2016) - 5,200

Current number of registered statutory auditors (as at 30 June 2016) - 21,400

Chairman's statement

2016 sees a step change in the FRC's responsibilities and the start of our next three year strategy.

The most important event of 2016, although after the close of our financial year, was the referendum on the UK's membership of the European Union (EU). While this has not changed our regulatory framework, and we will therefore continue to apply it, it does raise questions about whether it should change in the future. We will consequentially play close attention to the decisions now taken by the Government and Parliament, and continue to work in collaboration with our key stakeholders, particularly investors, business and the professionals we regulate, in order to ensure our work continues to support economic growth and the effective functioning of the capital markets. At the same time we will continue to play an effective role in representing the interests of the UK internationally.

Since I joined the FRC in 2014 I have heard the views of the organisations and individuals we regulate, and to the investors who benefit from our activities. I am grateful for their insight, candour and willingness to engage with us to help us achieve our mission.

Our Strategic Report explains the actions we have taken to strengthen the regulatory framework in response to the financial crisis. We wish to give boards, the professions and investors the opportunity to absorb and respond to those initiatives before we make any further significant changes to our codes and standards. Under our new three year strategy, for 2016-19, we expect to drive up standards not only through our regulatory powers, but also through the work of our Financial Reporting Lab and other non-regulatory initiatives.

I have taken a personal interest in our 'culture coalition' project. Embedding a healthy corporate culture, with a focus on good behaviour, is vital to the success of any business and creates an environment on which investors can depend. We have brought together a number of organisations to gather insights into corporate culture and the role of boards, to understand how boards can shape and assess culture, and to identify and promote good practice.

2016 sees a step change in the FRC's responsibilities and the start of our next three year strategy. New rules on audit regulation across the EU took effect on 17 June 2016 and the FRC has been designated as the Competent Authority for audit regulation. Our clear aim is that, by the end of the strategy period at least 90% of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme.

We are not only looking outwards. We have reformed to create a new executive structure aligned with our audit role - with separate Audit, Corporate Governance & Reporting, and Enforcement divisions. Our Committees and Councils will be aligned with our new role.

The FRC's own culture is also important. Our values of reaching out, seeking evidence, being decisive, joining up and showing respect have been part of the FRC's DNA for some time. The Board is bench-marking the FRC against the best by drawing on our Directors' expertise and experience in other leading organisations.

During the year John Stewart stepped down from the Board and the Codes & Standards Committee. I thank John for his advice and commitment to the work of the FRC. We are fortunate in the talented individuals on our Board, Committees and Councils. They are vital to the effective functioning of the FRC and I am grateful for their support, advice and good judgement.

Most importantly the Board of the FRC and I value the commitment, team work and often extraordinary effort in meeting the challenges faced by the FRC, Stephen Haddrill and his executive team. This ethos of commitment and professionalism I can happily say permeates right throughout the organisation.

Over the coming year we will seek further independent evidence of our effectiveness in fulfilling our various roles in the public interest. We are grateful for any feedback on this Annual Report.

Sir Winfried Bischoff

Chairman 13 July 2016

Chief Executive's report

The Financial Reporting Council's (FRC) mission is to promote high quality corporate governance and reporting to foster investment. We promote high quality audit, we encourage companies to produce trustworthy information necessary for informed investment decisions and, we encourage trustworthy behaviour by directors and professionals and engagement with them by investors. In addition, we seek to build justified confidence internationally in the UK regulatory framework for corporate governance and reporting.

This report covers the final year of our 2013-16 three year strategy and our strategy for 2016-19 https://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-s-Strategy-for-2016-19.pdf, including our new regulatory approach. Section 2 gives an overview of our activities in 2015/16.

In addition to this report, the FRC will issue more detailed assessments of the quality of corporate governance and investor stewardship, corporate reporting, auditing and actuarial practice - drawing on developments in standards and policy, monitoring, professional oversight, and enforcement. These reports will give stakeholders further opportunity to consider changes in the environment in which we are operating and our effectiveness in influencing that environment.

Our Strategy for 2013-16

We developed our three year strategy, for 2013-16 in the wake of the financial crisis. We concluded that we still needed to make some significant changes to the regulatory framework - building on the provisions we included in the revised UK Corporate Governance Code in 2012 on audit tendering, audit committee reporting and 'fair, balanced and understandable' reporting. It was an ambitious strategy. Taken as a whole, we believe that the changes we have made to the regulatory framework, supported by effective monitoring - and, where necessary, enforcement – will contribute to the overall quality of corporate governance and reporting in the UK in line with our mission. But we also recognise the continuing challenges. More detail on how we performed against the key effectiveness indicators on which we are reporting can be found in our Activity report at pages 28 to 37.

Audit quality

We have put in place a challenging set of measures designed to enhance audit quality and strengthen investor confidence in audit. During 2016-19 we will evaluate the effectiveness of these measures; and consider how we make best use of our new role as the Competent Authority to drive further improvements in audit quality.

The FRC recently issued its first annual report on Developments in Audit. The report encompasses developments in the audit market, standards and policy, professional oversight, audit quality review, and enforcement.

As a starting point for our audit strategy in 2013-16, we made clear our expectation that audit committees as well as auditors should play a much stronger role in driving audit quality. Audit committees should now be reporting on all significant matters they have discussed, including their assessment of the audit. This was an essential underpinning for the requirements for auditor re-tendering.

We have put in place a challenging set of measures designed to enhance audit quality and strengthen investor confidence in audit

For auditors, we introduced extended auditor reporting. This requires auditors to give an overview of their approach to the audit, the audit risks they identified, how they addressed them, and the level of materiality they applied.

Survey evidence suggests that investors have welcomed extended auditor reporting and the additional information it provides about the companies being audited. Audit committees have been encouraged to focus even harder on securing audit quality, and have encouraged auditors to innovate in their reporting. We must build on that promising start and will continue our dialogue with audit committee chairs and audit firms.

Our reports on our reviews of individual audit firms during 2015/16 reflects the FRC's focus on promoting continuous improvement in audit quality. For the first time, we asked the firms to carry out a root cause analysis into each of our key findings before developing proposed actions and discussing these with us. The firms responded positively to this request and engaged in a constructive dialogue with us on the outcome of their work and how this had informed the actions they intend to take.

However, during 2015/16 we concluded that we could not promote improvement in audit quality much further, or at least not do so quickly, without adopting new approaches to our audit monitoring and changing the way we engage with firms and companies. We decided to be more transparent and to report our views on the quality of individual firm's audit work to the market to encourage better auditing.

We have undertaken and reported annually on our independent oversight of the regulation of statutory auditors by the UK Recognised Supervisory Bodies (RSBs). This work involves monitoring visits to these bodies in order to evaluate the effectiveness of specific aspects of their regulatory systems and procedures and whether they continue to meet the requirements to be a Recognised Supervisory Body or a Recognised Qualifying Body. Details of our work during 2015/16 can be found at Appendix 1.

In preparation for our new role as the Competent Authority, we reviewed our standards for auditors, our enforcement regime and established new delegation agreements to cover the objectives and operation of the tasks we will delegate to the RSBs. We believe it is most important that they have a strong relationship with the FRC in promoting high quality audit.

Corporate governance and investor stewardship

- The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.

In updating the UK Corporate Governance Code in 2014 we sought to strengthen the focus of companies on the longer term and on sustainable value creation. Our aim was to improve the quality of information that companies were giving investors on the long-term health, strategy and risk management of listed companies.

The updated Code clarified that boards should look at least a year ahead in making their going concern judgement for accounting purposes. More fundamentally we introduced a requirement for a viability statement through which boards should state that they have a reasonable expectation that the company can continue in operation and meet its liabilities over a longer period.

These were substantial and complex changes which followed on from the significant changes we made to the Code in 2012. Whilst it is too early to draw firm conclusions about their effect we strongly believe that over time they will deliver real benefits for companies and investors and we will monitor their impact.

We have led a major project, in coalition with stakeholders, on company culture and how to promote good practice and will report on this imminently. The updated guidance on risk management we published alongside the new UK Corporate Governance Code highlighted the need for boards to think hard about how they can better assess whether the culture practiced within the company is the same as that which they espouse, particularly under pressure.

As at 30 June 2016 90% of FTSE 350 Companies comply with all but one or two of the 54 Provisions of the UK Corporate Governance Code

We believe that effective dialogue between investors and the companies in which they allocate funds supports good corporate governance and is essential to achieve sustainable long term growth in the UK economy.

The UK Stewardship Code was introduced in order to encourage fund managers and owners to engage with companies on all matters of concern. It complements the UK Corporate Governance Code. The UK Stewardship Code has led to improvements in the quality and quantity of engagement between investors and companies. However, this is not universal and we wish to maintain momentum by ensuring that signing up to the Code is a genuine marker of commitment. We will focus on promoting effective investor engagement, including by ‘tiering’ signatories on the basis of their commitments to the Code. We will do this in late 2016.

Corporate reporting

Corporate reports should be fair, balanced and understandable – but we believe that they should also be clear and concise. Our Guidance on the Strategic Report was designed to help companies give investors an insight into the way a business is run and its strategic direction. During 2015/16 we reviewed and reported on its effectiveness. There has been extensive reporting on the issues arising from the work of our Financial Reporting Lab and the findings of corporate reporting reviews to help companies enhance the usefulness of their reports for investors.

On the evidence of our latest reviews of corporate reports, we are reassured that the quality of corporate reporting remains high among listed companies. We are generally pleased with the efforts made by boards to embed the strategic report requirements in their reports but have identified that there is still room for improvement. Whilst we have made progress on our project to help smaller listed and AIM companies with the quality of their reporting we have continuing concerns about the quality of reporting by some smaller listed and AIM companies.

Technical Actuarial Standards and actuarial oversight

Actuarial work is central to many financial decisions in insurance and pensions and is an important element in other areas requiring the evaluation of risk and financial returns. High quality actuarial work promotes well-informed decision-making and mitigates risks to users and the public; poor quality actuarial work can result in decisions being made which are detrimental to the public interest.

In recognition of the public interest, by agreement, we provide oversight of the regulation of its members by the UK professional body for actuaries, the Institute and Faculty of Actuaries (IFoA). We also we set technical standards for actuaries carrying out work in the UK. Early in the 2013/16 strategy period we reviewed the oversight and standards regime with the IFoA and identified that there should be better coordination of the identification of and response to public interest risks to which actuarial work is relevant. The Joint Forum on Actuarial Regulation (JFAR) was set up in 2013, it is chaired by the FRC and includes the IFoA, the Financial Conduct Authority (FCA), the Prudential Regulatory Authority (PRA) and the Pensions Regulator.

The FRC issued a JFAR discussion document on public interest risks in 2014 and issued a feedback statement in 2015/16. JFAR and the FRC are using the feedback to guide future work. Among the risks we identified was that reports based on actuarial reports may be hard to understand and compare.

During 2015/16 the FRC consulted on a new framework for Technical Actuarial Standards, seeking to develop a framework better aligned to public interest risks. We are currently consulting on specific standards for aspects of technical actuarial work which are of heightened public interest and on the risk assessment process that supports it.

Our oversight work has focused on the IFoA's development of practices and standards to underpin the quality of actuarial work, including its ethical code.

In 2017 we plan to consult publicly on the appropriateness of the framework of actuarial regulation and standard setting recognising the changing nature of the public interest risks.

Enforcement

During 2013-16 the FRC's independent disciplinary arrangements contributed to the achievement of the FRC's overall mission by taking enforcement action where it was in the public interest to do so. Undertaking investigations in-house has resulted in the production of investigation reports within a shorter time frame and in a more cost effective way. It has also enabled us to manage case progress more proactively.

All investigations that commenced before FRC reform in 2012 have been concluded. More recent cases are running to our new faster timetable.

In addition, cooperation between the FRC and other regulators on areas of monitoring and enforcement, including the lawful sharing of information, is expected to continue to aid the conduct of the investigation of cases.

Our international role

We also extended our international influence, including through enhancing our reputation for thought leadership. This has included:

- Contributing to the work of the International Accounting Standards Board (IASB)/ IFRS Foundation; direct involvement in the European Financial Reporting Advisory Group and the European Securities Markets Authority; influencing developments in IOSCO; and contributing to the development of integrated reporting.
- Continuing to take a leading role in EU and international audit regulatory networks, including the International Forum of Independent Audit Regulators (IFIAR) - reflecting the international dimension to many audits - including the International Federation of Independent Audit Regulators. We will also continue to contribute significantly to the International Audit and Assurance Standards Board (IAASB), on which one our staff is a member.

We also saw codes on corporate governance and investor stewardship adopted in Japan and on stewardship in South Korea.

Our Strategy for 2016-19

In October 2015, we published our strategy for 2016/19. Fostering investment and the importance of effective, but proportionate, regulation will continue to guide our priorities over the next three years. We will concentrate on promoting a step change in audit quality and on driving up standards of governance, stewardship and reporting. Our goal is to ensure that reporting and audit in the UK are world-leading in order to give the greatest possible confidence to investors globally, and by doing so help drive growth.

After completing the changes already in hand, we will, as far as possible, seek to avoid changes to the codes and standards for which we are responsible for at least the remainder of the strategy period, and longer if possible. In particular, we intend to avoid making further changes to the UK Corporate Governance Code in the next three years. We will, however, continue to monitor application of the codes and standards to assess their impact and to identify whether any change is needed. We will also need to take account of the need for and opportunity from change presented by the UK leaving the EU.

We will also seek to remove regulatory burdens wherever possible. We will remain influential internationally and will continue to invest in our own skills and capabilities. We will continue to recognise the essential role of the professional bodies in promoting high standards.

Our priorities for 2016/17, the first year of the new three year strategy, are:

- On audit, our major task is to establish and make the most effective use of the new role we have been given by Government as the Competent Authority. We will seek to ensure that the new framework established under the ARD serves the interests of investors in the reliability of financial statements; and supports the UK audit profession in delivering statutory audit to the necessary high standards and with close regard to the public interest. Our aim is that by the end of the strategy period at least ninety percent of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme.
- On corporate governance, we will focus on good practice, including through our work on corporate culture and promoting effective engagement between boards and investors. We are also keeping a close eye on how companies are responding to the major changes we introduced in 2014 on the monitoring of internal controls and the reporting of viability. We believe very strongly that risk management and internal control should be incorporated within the company's normal management and governance processes, not treated as a separate compliance exercise.
- On corporate reporting, we will focus on embedding recent changes, influencing the development of IFRS, and helping smaller listed and AIM companies with the quality of reporting.
- We will complete our update of the framework for actuarial standards by implementing a standard to cover a broader range of actuarial work and refocusing our specific Technical Actuarial Standards. In 2017 we will also consult publicly on the future of actuarial regulation.

Our regulatory approach

Our approach to our corporate reporting and audit quality review functions will be developed in the light of the independent review of their effectiveness we commissioned in 2015. We are taking a number of related actions to:

- Enhance the degree of investor involvement in our work. We will seek to achieve this through consultation on our procedures and priorities, promoting effective reporting by audit committees and by communicating more clearly the outcome of our review activity in terms that investors find helpful.

- Establish a regulatory stance that promotes continuous improvement in standards of reporting and auditing. This will be based on a careful analysis of what constitutes good practice, and on identifying and addressing the root cause of problems. We believe that our approach will be effective in driving up standards without compromising our ability to take tough action when necessary.
- Invest in the skills and capabilities of our Audit Quality and Corporate Reporting Review teams to benefit from their combined expertise.
- Simplify and standardise our processes to promote greater transparency in the way we operate.
- Name in advance a small proportion of those reports and audits we intend to review; we will inform companies when their reports have been reviewed and we do not intend to take any further action; and we have made clear our expectation that audit committees should when appropriate report on the outcomes of the FRC's audit quality and corporate reporting reviews.
- Implement a new strategic stakeholder communications programme, looking at new ways to communicate the outcomes of our work, including through our annual assessments of the quality of reporting and auditing.

In pursuing this approach we will be alert to opportunities to enhance the effectiveness of the current regulatory framework. For example, one priority will be to find ways to secure the full benefits intended from the Stewardship Code. Another will be to develop reporting frameworks which will enable companies to balance the competing demands of an increasingly broad range of stakeholders for greater transparency and encourage clear and concise reporting. Fresh thinking will be required.

Pursuing our mission effectively requires us to recognise and manage risk. As well as operational risks which we can reasonably address, the principal risks identified in this Report (pages 19 to 22) include risks arising from corporate failures or scandals over which we have no control, but which affect confidence in the regulatory framework. We need to respond to legitimate public concern about failures in corporate governance and reporting; but at the same time we need to make clear the boundaries and limits of our role.

We need to tread a careful line between our emphasis on non-regulatory initiatives based on collaboration with market participants and the need to deploy our enforcement powers decisively and effectively when we judge it to be in the public interest. We are also conscious that the markets themselves evolve and we need to keep up with changes to investor needs.

Our organisation

– The FRC needs to continue to evolve if we are to remain effective and efficient.

The 2013-16 strategy built on the reforms to our powers and structure instituted in 2012. We have since operated as a unified regulator, enabling us to deliver our objectives and priorities in a coherent and joined-up way and to develop a more cost-effective approach. We are now considering how to deliver our new responsibilities as the Competent Authority to best effect.

We have created a new structure. A Corporate Governance and Reporting Division brings together the standards team for accounting and reporting policy with the team responsible for monitoring corporate reports so each can more readily benefit from the other's knowledge. We have adopted a similar approach in relation to audit and have created a new Audit Division which will bring together our standards, monitoring and professional oversight work. An Enforcement Division will facilitate an independent focus as we assess whether those we regulate have met relevant requirements.

The FRC has a wide, and increasing, range of responsibilities. It is important that we prioritise clearly and continue to focus on principles and outcomes. To do so effectively our people need the extensive skills needed to identify the big, underlying issues and the confidence to tackle them. An effective approach to driving up quality by working constructively with market participants means continuing to invest in our Financial Reporting Lab, developing similar approaches in other areas and ensuring good, early communication with companies, investors and the professions on difficult issues.

As we explain in the ‘Our people’ section, over the period of our next three year strategy we will continue to invest in the development of our people - including through programmes focusing on leadership, management capability and communication skills. We will continue to recruit, develop and value colleagues with the necessary strong technical skills. Further recruitment will be necessary as we take on additional responsibilities. We will also focus on diversity, both as an employer and in our governance arrangements. The FRC will seek to understand and respect the perspective of colleagues, and stakeholders, from different backgrounds.

Our staff survey shows that the FRC remains a great place to work with high levels of job satisfaction. The recent executive restructuring however generated some uncertainty and the leadership team recognises that it needs to engage colleagues earlier in management issues and communicate better.

Funding

We have expanded since the 2012 reforms as a result of the new responsibilities we have been required to undertake and the need to tackle complex regulatory issues. We will expand further as we assume our new responsibilities in relation to audit, and for this we will need to be adequately resourced. It is also important that we have adequate reserves to give us the means to tackle unplanned emerging issues of significant concern to our stakeholders and to underpin our non-statutory funding. We are planning to increase our general reserves during the strategy period to a level equivalent to six months’ operating expenditure.

Since 2009 the Government has progressively withdrawn its contribution to the FRC’s funding and will from 2016 no longer provide any direct contribution. Our audit work has required increased resources to carry out the role we have been given as the Competent Authority and in response to the recommendations of the Competition and Markets Authority (CMA). We will continue to discuss our funding arrangements with the audit profession in particular, given that their contribution will increase over the period of our 2016-19 Strategy. The FRC Board has noted their concerns and has taken steps to give the audit profession more time to adjust to the new funding arrangements.

We will continue to consult annually on our priorities and budget, and to take every opportunity to deliver our responsibilities as efficiently and effectively as possible.

Our people

As an organisation committed to continuous improvement we invest in our people to make sure they have the skills needed to identify underlying issues and the confidence to tackle them.

At 31 March 2016 we employed 161 people. As at 30 June 2016, we employed 165, of whom, 56 are in our Audit Division, 43 in our Corporate Governance and Reporting Division, 42 in our Corporate Division and 24 in our Enforcement Division.

Culture

At all levels we need our people to be committed to the culture and behaviours that we expect within the organisation. Our citizenship values are: show respect, be decisive, create outreach, join up and seek evidence. The evidence of our staff surveys suggests that the values are well-understood and embedded across the organisation and they form part of our performance management process.

People strategy

Our people strategy is designed to attract, inspire and develop high calibre people with the right skill sets. We recruit in a fair, open and efficient manner to develop and build a core team with the necessary skills and competencies.

As we have a relatively flat structure, with promotions representing big jumps in responsibility, we have increased our commitment to training and development with particular focus on preparing people to take on leadership responsibilities. Our leadership and management development framework includes management capability, communication skills, as well as expert technical skills. The 'Future Leaders' programme is an opportunity to develop individuals on a trajectory to senior roles.

We are keen to offer new development opportunities for all our people, to update their knowledge and skills in areas such as exercising judgement, giving and receiving feedback, influencing, communications and programme management. As well as coaching and mentoring we are looking at other opportunities for development, including through placements and secondments.

Recruitment

During 2015/16, we recruited 31 new people into the organisation. We continue to support internal and external secondments, and a number of our staff hold positions in international regulatory networks. In 2015/16 we supported 13 intern placements. Next year we will be looking to expand our apprenticeship programme.

Employee engagement

Our annual employee survey provides us with valuable insight and allows us to focus our efforts in areas that matter most to our people. We also carry out regular surveys on topics of particular organisational interest.

In our 2016 survey, 84.5% of our employees responded, 98% of whom told us how proud they are to work for the FRC. In some areas, such as perceptions of senior leadership, the results fell and we will be conducting a short survey to look in to the causes.

We engage our people in all our activities, we consult with them on strategy and organisational changes and provide regular Board feedback sessions. We offer lunchtime learning sessions on internal and external topics. The CEO holds Celebrating Success events and 'Come and talk to me' sessions.

We hold an annual all Staff away day through which we encourage colleagues, from across the organisation to share their ideas with other teams.

Equality and diversity

We aim to be an organisation where diversity is valued and respected and we recruit and retain a diverse workforce. As we develop our talent pipeline we continue to focus on diversity and ensuring broad representation of views and backgrounds, both as an employer and in our governance structure.

All our employees are encouraged to reach their full potential in a supportive working environment that exemplifies our value of mutual respect.

Gender diversity within the FRC as at 31 March 2016 (*)
Senior Managers – 9 Female (56%), 7 Male (44%)
All other staff – 89 Female (61%), 56 Male (39%).
(*) Figures for senior managers include Executive Directors.

Next steps

In 2016/17, we will:

- Continue our work to retain and develop our people, including a second round of the Future Leaders' programme and the leadership and management development programme.
- Continue to promote our Citizenship values.
- Review our learning and development framework, and ensure effective succession planning.
- Invest in new HR systems and processes.
- Establish a 'People Forum' to encourage and capture the views of all our people.
- Manage performance through good objective setting, feedback and development.
- Introduce greater interchange and secondments between teams and externally.

Risk management and internal control

– Effective risk management is key to sustainable success

The FRC Board has overall responsibility for the FRC's risk management and internal control systems in line with the UK Corporate Governance Code and the associated 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The Audit Committee, advised by the Executive Committee, supports the Board by monitoring risk and by keeping the FRC's risk management and internal controls under review.

Principal risks

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The FRC's Risk Register sets out the FRC's strategic risks. The Board reviews the Register as a whole at least twice a year. The strategic risks include risks to the quality of corporate governance and reporting in the UK and to the FRC's ability to pursue its mission. The Board has set a risk appetite and categorises risks by impact and likelihood and the necessary level of management or mitigation.

Table 1 identifies the principal risks identified and reviewed by the Board in 2015/16 based on the processes described above. It indicates how, in the Board's view, the risks have changed since last year.

During 2016/17 the Board will oversee further work by the executive on the identification and management of risk, reflecting the outcome of the EU referendum, the FRC's new role in regulating audit, international issues, and developments in the markets.

Table 1 – Principal risks ***Static*** → ***Increased*** ↑ ***Decreased*** ↓

FRC principal risks	Mitigation and Movement in the year
Major failures or scandals undermine confidence in the UK governance and reporting model	→
	In accordance with its mission, and recognising that it cannot eliminate the risks inherent in the capital markets, the FRC aims to reduce the likelihood and impact of corporate failures by: • Promoting high standards of corporate governance through the UK Corporate Governance Code; and effective investor engagement through the UK Stewardship Code. • Driving improvements in standards of corporate reporting and auditing through its framework of codes and standards, and through its monitoring, oversight and enforcement work. • Reporting on the outcome of monitoring, oversight and enforcement activities as appropriate. • Promoting the quality of actuarial information through our role in setting technical actuarial standards and oversight of the actuarial profession. • Research and increased focus on horizon scanning and consultation with stakeholders on emerging

	issues.
Failure to hold individuals or individual organisations that fall within the scope of the FRC's activities to account, resulting in a loss of trust in the UK governance and reporting model.	• The FRC takes enforcement action where it has the power to do so and when it is necessary in the public interest. • The FRC maintains constructive working relationships with the accountancy and actuarial professional bodies. • The FRC sets out what it expects from market participants through the UK Corporate Governance Code, the Stewardship Code, its work to secure improvements in standards of corporate reporting and auditing, and its framework of reporting, auditing and actuarial standards.
Failure to identify and prevent loss of capacity in the UK audit market.	• In its role in setting and monitoring auditing standards and promoting audit quality, the FRC has regard to the importance of a competitive UK audit market. • The FRC works with other regulatory authorities and the major audit firms to develop contingency plans to minimise the impact on the quality of reporting and audit in the UK in the event of a major audit failure or a major firm exiting the UK market. • The FRC has contributed to the development of the new UK framework for audit regulation under the EU Audit Regulation and Directive, including through its work on ethical standards.
The FRC takes actions that are ineffective or misguided, with damaging consequences for UK markets and the FRC's reputation.	• The FRC works with market participants to ensure that its actions will genuinely contribute to trustworthy information and behaviour – including extensive consultation on all aspects of its activities. It seeks evidence from its own and others' activities, and promotes an improvement culture, working with companies and auditors to identify and highlight good practice and to drive up standards. • The FRC's procedures are designed to be thorough, fair and consistent and minimise the risk of legal challenge. • The FRC strategy for 2016-19 strategy focuses on embedding recent regulatory changes and improving compliance, without adding additional regulatory burdens. • The FRC works with other regulators to identify the risks to the public interest where actuarial work is relevant. • The FRC works closely with the Government, and

	applies the Principles of Good Regulation and the Regulators' Code.
Failure to achieve our strategic objectives in both UK and internationally as a result of the complexity of the regulatory framework in the UK and Internationally and a dependency on other regulators.	→ • The FRC maintains a close dialogue with the Government and other regulators to ensure that the FRC's work supports and is supported by others' regulatory activities; and will contribute as appropriate to any changes following the EU referendum. • The FRC will focus on the effective implementation of its new role as the Competent Authority. • The FRC engages extensively with regulators in other jurisdictions and in international fora.
Failure to raise sufficient financial resources to fund its budgeted expenditure and fulfil its responsibilities.	→ • The FRC has developed a revenue strategy to ensure secure and sufficient funding for the next strategy period, including increasing the level of reserves. • The FRC is further developing its funding arrangements to support its role as the Competent Authority. Until those arrangements are fully in place, the FRC faces heightened risks in relation to its funding.
Failure to retain and / or recruit good quality leaders and staff undermines our effectiveness.	→ • The FRC has implemented a comprehensive people strategy designed to attract, retain and develop talent across the organisation. • There has been detailed preparation, including consideration of staffing needs, in response to the FRC's new role as the Competent Authority.
Failure to maintain a safe information security system.	↑ • Guidance issued to all FRC staff and non-executive Directors on IT information security; and updated guidance to be issued in 2016/17 on other aspects of data security and new legislation. • Reminder and awareness sessions held for all staff to improve their awareness of IT security – including cyber-security threats. • The FRC has overseen the management of IT systems to ensure contractors operate to its specifications. • IT system security is tested regularly.

Internal controls

The FRC maintains internal controls that support the management of risk and contribute to its organisational effectiveness and efficiency. It is currently reviewing its internal controls and will enhance them if necessary during 2016/17.

Going concern basis of accounting and long term viability

The Directors have carried out a critical review of the company's budget for 2016/17 and its strategic objectives for that year; and have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

As part of its assessment of principal risks, the FRC has also considered its viability and prepared the following statement in accordance with provision C.2.2 of the UK Corporate Governance Code.

Viability statement

This Statement covers the period to March 2019, which will mark the end of the FRC's current three-year strategy. For the reasons stated below, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over this period.

In making this assessment, the Directors have considered the principal risks identified on pages 19 to 22 and the FRC's ability to mitigate those risks. They have considered the FRC's continuing ability to secure the necessary resources. This includes the potential impact of any damage to the FRC's reputation that could make stakeholders less willing to fund us.

We acknowledge the authority of the Government and Parliament in determining the FRC's future; and recognise that regulatory arrangements will inevitably evolve over time in response to changing circumstances – including the outcome of the EU referendum. In June 2016, the Government significantly extended our regulatory responsibilities by designating the FRC as the Competent Authority. On that basis it is reasonable to expect that we will continue to operate as a regulatory authority for the period of our current strategy.

The FRC currently raises most of its income from companies and the RSBs.

The levies on companies are collected on a voluntary basis. They are set annually following public consultation, and take account of the FRC's past experience in securing payment from the different funding groups. Having this element of our funding on a voluntary basis enhances our accountability as an authority operating in the public interest, but is inherently uncertain. There are reserve powers in company law that would enable the Government to put some or all of our funding on a statutory basis. If we considered there was a risk that we could not raise sufficient funding to carry out our core functions, we could request that the Government exercise these powers.

The contributions from the RSBs to fund the work of the FRC as the Competent Authority are a condition of their recognition for the purposes of audit regulation.

We recover enforcement case costs from the professional bodies. They are the most uncertain and variable element of our costs. If a tribunal considered that no reasonable person would have pursued a particular case, the enforcement procedures would enable a tribunal to make a costs order against the FRC. We have checks in place to ensure that formal complaints are pursued appropriately. But in the event that the tribunal made such an order, the FRC would not be able to recover the relevant costs directly from the professional bodies. We would have to meet them from other sources or from reserves.

Looking ahead, our new role as the Competent Authority may expose us to further calls on our resources. The FRC has undertaken stress-tests based on our assessment of the potential impact of severe but plausible risks related to both our new and existing responsibilities. We have stated our intention to increase significantly the FRC's general reserves over the period of the FRC's 2016-19 strategy. We will keep the actual and target level of reserves under review.

The FRC will continue to consult stakeholders on its priorities, regulatory approach, expenditure and funding. The Board will take account of stakeholders' views on the FRC's effectiveness and efficiency, including through independent survey evidence. The Board recognise that new risks may emerge and that they will need to keep the FRC's arrangements for managing risk under regular review.

Financial review

Our annual budget sets out the resources we need to carry out our regulatory responsibilities for the year. The budget for 2016/17 will enable us to make a strong start to our new responsibilities for audit regulation and embed our new regulatory approach as we begin our new three year strategy.

Our revenue and expenditure were managed under four main headings reflecting the organisational structure that was in place during the financial year.

- Core operating activities
- Audit quality review
- Accountancy and actuarial disciplinary cases
- XBRL taxonomy development

Core operating activities include our responsibilities for corporate governance, corporate reporting, and audit. They are funded through voluntary levies on publicly traded, large private and public sector organisations plus contributions from the accountancy profession and from Government. Our actuarial activities are funded by levies on pension funds and insurance companies plus a contribution from the Institute and Faculty of Actuaries (IFoA). Ad-hoc income streams, such as from publications, registration fees and inspection fees are included as part of total revenue.

Audit quality review costs are recovered from the accountancy professional bodies and other authorities.

Disciplinary case costs are recovered from the accountancy professional bodies for accountancy and audit cases and from the actuarial funding groups for actuarial cases

XBRL taxonomy development direct costs are funded by Companies House, HMRC and the Charities Commission, with people resources being provided by the FRC and Charities Commission.

The expenditure necessary to carry out the FRC's activities and meet key objectives is set out each year in the published Plan & Budget https://www.frc.org.uk/About-the-FRC/Reports-Plans-and-Budgets.aspx. Stakeholders are invited to comment on the priorities identified in the plan and the associated levels of expenditure required. The grant from Government and the total amounts to be collected from the professional bodies were agreed at the start of the year as part of the consultation process.

During the year revenue increased by £1.3m and expenditure by £1.1m. Our general reserve increased by £0.1m, a better result than budgeted which was a deficit of £0.2m.

Expenditure

Total expenditure is set out in detail in note 2 to the financial statements. Expenditure across the main areas of our operations is analysed below.

	Actual 2015/16	**Actual 2014/15**	**Budget 2015/16***
Total expenditure by activity:	£m	£m	£m
Core operating costs	20.9	20.1	20.9
Audit quality review costs	4.9	4.3	5.4
Accountancy disciplinary case costs	4.1	4.2	7.0

Actuarial disciplinary case costs	0.1	0.2	0.4
XBRL Development	0.2	0.3	0.3
Total	**30.2**	**29.1**	**34.0**

*Note: * The budget expenditure shown here includes expenditure of £0.3m relating to the cost of producing publications which, in the plan and budget as previously published, was netted from revenue. The previously published budget was £33.7m*

Note: * The budget expenditure shown here includes expenditure of £0.3m relating to the cost of producing publications which, in the plan and budget as previously published, was netted from revenue. The previously published budget was £33.7m

Comparison to prior year

The increase in core costs was mainly in staffing (£1.2m) as we have recruited additional staff to deliver the priorities set out in our annual plan. During the year, headcount in the core business increased by nine.

Expenditure on legal and professional fees has increased by £0.5m. Much of this is due to the cost of the external review of the effectiveness of our CRR and AQR activities, including the additional cost of implementing its recommendations. We have incurred higher legal fees associated with the work to define our role as the Competent Authority.

We relocated our office during 2014 and this led to higher than usual expenditure on rent and rates in that year. Expenditure here has fallen back during 2015/16 and we have reduced costs by £0.5m.

During the year we have sought to make savings in the discretionary areas of our expenditure such as business travel and conferences. Expenditure in these areas was £0.2m lower than in the prior year.

Other savings have been realised in IT of £0.1m following the move to a new supplier and in research of £0.1m.

Audit quality review expenditure grew by £0.6m to reach £4.9m. This reflects the increased team size and number of reviews carried out in order to implement the CMA recommendations following their review of the audit market and to prepare for the additional reviews that will be required as we became the Competent Authority from 17 June 2016.

The net expenditure on disciplinary case costs (accountancy and actuarial taken together) was broadly unchanged at £4.2m.

XBRL development costs reduced further as this project has moved into a maintenance only phase.

Comparison to budget

Total expenditure was £3.8m lower than budget, the notable variance being in accountancy disciplinary case costs which accounted for £2.9m of the reduction. The number and complexity of the cases progressed and settled during the year was broadly as expected; although the number reaching tribunal was lower. We have continued to carry out work in-house rather than externally, wherever possible, in order to reduce costs.

In addition there were successful outcomes to a number of accountancy cases, leading to awards of costs being made against other parties. These totaled £0.5m compared to a nil budget. There was one major active actuarial case during the year with delays in receiving the response to our proposed formal complaint from the respondent. We did not therefore incur the expected level of expenditure in taking this case forward. The reduction here was £0.3m, but we expect this case to progress further in 2016.

Expenditure on our AQR activity was £0.5m lower than budget as headcount ran at a level below budget. Despite that we were able to complete the required number of reviews.

Expenditure on XBRL was also below budget as the development work was completed without the need for any external chargeable people resource. The cost actually incurred of £0.2m was associated to the hosting and maintenance of the development platform being used.

Income

Our income for the year was £30.2m:

	Actual 2015/16 £m	Actual 2014/15 £m	Budget* 2015/16 £m
For Core Operating Costs			
Preparers levy	12.2	11.3	12.1
Insurance and pension levies	2.2	2.2	2.1
Accountancy professional bodies	5.2	5.0	5.2
Actuarial profession	0.2	0.2	0.2
Government	0.25	0.5	0.25
Publications	0.6	0.5	0.7
Other	0.3	0.4	0.2
Sub Total	**20.9**	**20.1**	**20.8**
For Audit Quality Review			
Accountancy professional bodies	3.9	3.4	4.4
Other Income	1.0	0.7	1.0
Sub Total	**4.9**	**4.1**	**5.4**
For Accountancy Disciplinary Case Costs			
Accountancy professional bodies	**4.6**	**5.2**	**7.0**
less cost awards recovered	**-0.5**	**-1.1**	**0.0**
Sub Total	**4.1**	**4.1**	**7.0**
For Actuarial Disciplinary Case Costs			
Insurance and pension levies	0.1	0.2	0.3
Sub Total	**0.1**	**0.2**	**0.3**
For XBRL Development			
Companies House	0.2	0.3	0.3
Sub Total	**0.2**	**0.3**	**0.3**
Total	**30.2**	**28.8**	**33.8**

Note: * The budget income shown here includes £0.3m relating to the cost of producing publications which, in the plan and budget as previously published, was netted from revenue. The previously published budget for income was £33.5m

Comparison to prior year

Total income grew by £1.3m in 2015/16, compared to prior year, the majority being for core operating costs. The levy on publicly traded companies provided most of the additional amount of £0.9m. Levy rates were increased by 3.2% for small companies and by 9% for the very largest. We also benefited by £0.2m from new market entrants. (As an illustration, the levy for a listed company with a market capitalisation of £1.3bn was £10k.)

The contribution received from the accountancy professional bodies and the actuarial profession increased by 2%.

Funding sought to cover AQR and accountancy disciplinary costs moved in line with expenditure in those areas.

Comparison to budget

Total income in 2015/16 was £3.6m less than budget. Income for AQR, XBRL and cases is set to match expenditure. During the year expenditure in these three areas was collectively £3.7m lower.

Income for core operating costs exceeded budget by £0.1m, with gains from levy payers being slightly offset by lower publications income.

Balance Sheet

The balance sheet at 31 March 2016 is included in the financial statements.

Net assets and our general reserves have increased by £0.1m reflecting the overall surplus result generated in the year.

Within that we have improved our total cash and investments position by £0.8m, primarily by reducing total debtors by £0.4m and generating £0.4m of additional cash from our operations.

By order of the Board

S. Haddrill

Stephen Haddrill
Chief Executive Officer
13 July 2016

ACTIVITY REPORT 2015/16

Audit

Corporate Reporting

Corporate Governance

Investor Stewardship

Actuarial

Enforcement

This section describes our work in 2015/16 for each of our strategic priorities in pursuing our three year strategy. For each priority we have set out the high level objective and key effectiveness indicators against which we are reporting.

Audit

- Audit underpins public confidence in corporate governance and reporting by UK companies.

Since the financial crisis, the FRC has introduced measures to enhance confidence in the quality of audit and increase the value of auditor reporting to investors. The measures include retendering, enhanced and extended auditor and audit committee reporting, and increased transparency of the results of the FRC's audit quality reviews. It is essential that within audit firms there is a culture of commitment to delivering consistent and rigorous audit quality.

During 2015/16 we have:

- Monitored and reported on the quality of individual engagements and made appropriate use of our new regulatory powers designed to impose sanctions where poor quality audit work was identified. In determining which engagements were subject to monitoring we took account of the priority sectors and relevant areas of focus outlined under the high quality corporate reporting objective. We also paid particular attention to the quality of first year audits.
- Undertaken thematic studies on audit quality processes covering quality control monitoring procedures and the Engagement Quality Control Review (EQCR) together with audit sampling.
- Continued to discharge our responsibilities for statutory oversight of the regulation of auditors by the recognised professional accountancy bodies.
- Continued to work with BIS to ensure that the ARD was implemented to ensure an effective, appropriate and proportionate regulatory regime for audit. This included considering the impact of any changes on the structure of audit regulation and related FRC powers and on the FRC's ethical and auditing standards.
- Consulted on and finalised proposed revisions to the ethical standards to address issues identified in our review of the ethical framework.
- Contributed to the work of the International Auditing and Assurance Standards Board (IAASB), the International Forum of Independent Audit Regulators (IFIAR) and other EU and international groups.
- Worked on the development of an updated Audit Firm Governance Code which we expect to issue later in 2016.

Objective
To promote high quality audit and confidence in the value of audit

Key effectiveness indicator	Outcome
Evidence from our audit quality reviews	We inspected 137 individual audit engagements in 2015/16 (compared with 126 engagements in 2014/15), including 66 FTSE 350 (54 in the previous year). The findings from the 2015/16 Audit Quality Inspection Annual Report published in May 2016 found that 23% were assessed as requiring improvements or significant improvements compared with 33% in 2014/15. 77% of audits inspected were assessed as either good or requiring only limited improvement compared with 67% in 2014/15.
Progress in the implementation of the extended audit committee and auditor reporting changes and investor feedback	Auditors continued to demonstrate innovation in developing high quality, accessible reports in the second year of extended auditor reporting according to a FRC survey. Investors have welcomed extended auditor reporting and the additional information it provides about the companies being audited. The findings from the survey can be found on our website https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Report-on-the-Second-Year-Experience-of-Extended-A.pdf Findings from a survey of audit committee chairs on audit quality show a positive picture and the results were an improvement on the previous years.

Corporate Reporting

Investing time and resources in producing high quality corporate reporting can result in significant benefits for companies. Corporate reports should be clear and concise as well as fair, balanced and understandable.

Our aim is to encourage all those involved in the financial reporting process to focus on communication and the clear presentation of information that is material and relevant, including in relation to the longer-term viability of the company. We have published guidance on the Strategic Report, and reported on our reviews of corporate reports and accounts, and on the work of the Financial Reporting Lab (The Lab).

During 2015/16, we:

- Undertook our annual programme of reviews of corporate reports, completing 192 reviews during the year. The reviews were directed at companies of economic significance where a material misstatement could have implications not just for the individual company but for confidence in the market as a whole. Our priority sectors were insurance, food, drink and consumer goods manufacturers and retailers, companies servicing the extractive industries and business services. We have paid particular attention in our reviews to revenue recognition, the reporting of complex supplier arrangements, business combinations and the implementation of new accounting standards.
- Undertook an evaluation of the impact of the Guidance on the Strategic Report, worked with BIS on the UK implementation of the EU Directive on Non-financial Reporting and continued to influence other regulators to support clearer and more concise reporting that is relevant to investors.
- Continued our project aimed at achieving over a three year period a step change in the quality of reporting of smaller listed and AIM companies.
- Issued new reporting requirements for small and micro companies in response to the implementation of the EU Accounting Directive; and considered consequential amendments to FRS 102.
- Continued to influence the International Accounting Standards Board (IASB) agenda, particularly its Conceptual Framework and its work on disclosures, including specific research to influence developments in cash flow reporting.
- Published the latest findings from the Lab project on Corporate Reporting in a Digital World and published the outcomes of the Lab's work on disclosure of dividend policy and capacity.

Objective High quality corporate reporting that is fair, balanced and understandable	
Key effectiveness indicators	Outcomes
Quality of reporting evidenced by the corporate reporting reviews	The overall quality of the 192 corporate reports reviewed in the year was generally good although the most common areas of challenge remain broadly the same as in previous years. Some improvement in respect of principal risk reporting, presentation of cash flows statements and capital management disclosures. Appropriate effort was made to implement new reporting standards and the strategic report.

Assessment of the contribution of Lab project and Strategic Report guidance to clearer and more concise reporting	We undertook a study on the impact of the Strategic Report and related FRC Guidance. The study found that companies are taking on board the objectives of the FRC's 'Clear & Concise' initiative, including the work of the Lab; and that the overall quality of corporate reporting has improved since the introduction of the Strategic Report. However, it also highlighted areas where further improvements could be achieved.
Evidence on the root causes of problems in reporting by smaller listed and AIM companies	We identified that many smaller quoted companies incorrectly believe that investors place little value on their annual reports; and that these companies see the preparation of the annual report as a necessary compliance exercise rather than an opportunity to provide relevant information to stakeholders. We identified proposals to help improve the quality of their reporting, including facilitating greater dialogue between preparers and investors and encouraging investors to give more feedback to Boards on the quality of the financial information.
Evidence of the extent of voluntary adoption of FRS101 and the impact of FRS102	Many companies did not adopt the new standards before the effective date of 2015, and therefore, given the small number of early adopters of FRS 101 and FRS 102, there was insufficient data for an effective review of the impact of the standards this year.
The impact of our work to secure user views on IFRS and how effectively we have represented them in our responses to and work with the IASB	We have continued to influence IFRS including through representation on the IFRS Advisory Council and responding to all major consultations to feedback the views of UK stakeholders through our outreach and Council activities. We have contributed significantly to EFRAG through representation on its Board and Technical Expert Group in support of its work to reinforce the EU's contribution to the development of IFRS.
The extent of direct company and investment community participation in Lab projects and influence of the Lab's reports on corporate reporting practice.	The Lab continues to build its base of project participants. While FTSE 350 participation continues to be strong, small companies now represent nearly a quarter of participating companies, and over 300 retail investors participated individually or through associations. The Lab's work on debt and cash flows helped to influence changes made by the IASB that will require better information on cash and non-cash changes in reported debt. We are already seeing examples of improved disclosures of dividend policy and practice following the Lab's report in November.

- Our aim is to encourage all those involved in the financial reporting process to focus on communication and the clear presentation of information that is material and relevant.
- The Financial Reporting Lab provides an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs

Corporate Governance

High quality corporate governance and investor stewardship foster trust in the way companies are run.

The FRC sets the UK Corporate Governance Code that is based on the underlying principles of good governance including the exercise of judgement, accountability, transparency, probity and a focus on the sustainable success of an entity over the long-term. It includes a clear principle that boards should provide annual reports and accounts that present a fair, balanced and understandable assessment of the company's position and prospects.

During 2015/16, we:

- Continued an assessment of the quality of board succession planning and considered how to develop best practice.
- Considered further how best to assess company culture and practices and how effective companies are at embedding good corporate behaviours, and considered how to promote good practice.
- Sought evidence of companies' early experience of implementing risk management and viability reporting, following the 2014 changes to the UK Corporate Governance Code
- Considered, in advance of any formal consultation, possible changes to the Code in 2016 as result of the CMA recommendations in relation to audits of FTSE 350 companies.
- Consulted on changes to the Corporate Governance Code to incorporate the requirements of the ARD.
- Updated our Guidance on Audit Committees.

Investor Stewardship

The FRC sets the UK Stewardship Code that support the principles of effective stewardship by institutional investors, which help build confidence in the system and give force to the 'comply or explain' approach as well as increasing accountability to clients and beneficiaries.

In 2015/16 the FRC focused on:

- Developing the evidence base for engagement practice and the benefits of effective engagement.
- Encouraging asset managers and owners to provide better accounts of their engagement policies and practices.
- Undertaking scrutiny of adherence to the Stewardship Code.
- Influencing the development of the new EU Shareholder Rights Directive.

– Effective dialogue between investors and the companies in which they allocate funds is imperative to achieve sustainable long term growth in the UK economy.

Objective High quality corporate governance and investor stewardship that foster trust in the way companies are run	
Key effectiveness indicators	Outcomes
Compliance with the Corporate Governance Code (the 'Code'), including early take up of the changes and clarity of explanations given by FTSE 350 companies for non-compliance	Compliance with the Code remains high with 90% of FTSE 350 Companies reporting they either comply with all, or all but one or two, of its provisions. Evidence shows an improvement in the quality of explanations for non-compliance. Early adoption of the 2014 revisions to the Code were made by a small number of companies. Early adopters' viability statements included a good explanation of how the viability period was chosen and what principal risks were considered and mitigated.
The percentage of mandates awarded by asset owners to asset managers that explicitly refer to stewardship. The frequency and scope of reporting by asset managers to clients and levels of satisfaction with that reporting. The percentage of Stewardship Code signatories with independent opinions on their engagement who make those opinions available to clients.	Surveys carried out by the Investment Association (June 2015) and Pensions & Lifetime Savings Association (PLSA - December 2015) found that: 74% of asset managers have mandates that explicitly refer to stewardship. 68% set out stewardship expectations in their mandates for managers. 90% of asset managers report to clients or beneficiaries with approximately three quarters doing so regularly. 81% of asset owners said they were satisfied with their asset managers reporting, but only 9% were 'very satisfied`. 18% of asset managers had obtained an independent opinion on both their voting and engagement processes in the previous 12 months.

Actuarial

Actuarial work is central to many financial decisions in insurance and pensions and is an important element in other areas requiring the evaluation of risk and financial returns. High-quality actuarial work promotes well-informed decision-making and mitigates risks to users and the public.

Actuarial Standards and related matters

During 2015/16, we published an update on our consultation on a new framework for Technical Actuarial Standards (TASs). This related to the development of a new TAS 100 covering high-level principles applicable to all technical actuarial work providing greater assurance to users and simplifying the framework for practitioners.

We issued feedback on the standards framework and TAS 100 in the second quarter of 2016 and at the same time issued a consultation on technical actuarial standards specific to areas of work with a high degree of public interest. This consultation will close in August 2016 and responses will reviewed over the summer.

- Reflecting on the 48 responses to our consultation on our new framework for Technical Actuarial Standards we issued an update paper in July 2015.

We also published the results of a survey of transfer activity from Defined Benefit (DB) to Defined Contribution (DC) schemes: “Joint Forum on Actuarial Regulation: Review of transfers from Defined Benefit to Defined Contribution Schemes following pension freedoms”. The main finding of the survey was that while the level of transfer activity has increased, the numbers are still low. The JFAR agreed that this was still a developing area and that ongoing monitoring is required.

Continuing our collaborative work with other regulators, in 2015/16 we led a review on DB to DC transfer activity.

In addition, we published the results of the survey of accumulation rates used in Statutory Money Purchase Illustrations (SMPI): “Accumulation rates used by providers of statutory money purchase illustrations since 6 April 2015”.

During 2015/16 we continued to influence the development of International and European model standards through participation in bi-annual meetings of the respective bodies and responding to consultation. We will continue this work over the 2016-19 strategy period.

Actuarial oversight

We have a Memorandum of Understanding with the IFoA following the decision to establish a voluntary arrangement to oversee the professional bodies and to set technical actuarial standards.

During 2015/16, we continued to conduct independent oversight of the IFoA in its role as regulator of those of its members who practice in the UK. We began preliminary work to review the FRC’s responsibilities in respect of actuarial oversight. This work will continue in 2016/17.

Through our regular communication with the IFoA and continuing review of its regulatory initiatives, we have carried out, among other things, the following work:

- Supported the IFoA’s development of its quality assurance scheme for employers of actuaries which was launched in September 2015, in response to our previous recommendations which highlighted the working environment for actuaries as a driver for actuarial quality. This new regulatory scheme is in the public interest and the employers of around 20% of the UK’s actuaries are now accredited under it.

- Ensured that the IFoA's programme of transition training in relation to its new cross-practice standard on the review of actuarial work and independent peer review was sufficiently accessible before the new standard took effect and the standard for compliance review in pensions was simultaneously withdrawn in July 2015. The training reduced the risk to the public interest arising from a subset of actuarial work in the pensions sector that could potentially be subject to a lower level of review under the new standard than had previously been the case.
- Engaged with the IFoA on its high level regulatory objectives in its current review of the ethical code for its members, providing strategic input to the project's scope. The code's purpose is to ensure the integrity, competence and transparency of the actuarial profession in the public interest.

Further information in respect of the FRC's actuarial oversight role can be found at appendix 1(v).

Objective Actuarial oversight and standards that underpin high quality actuarial practice and the integrity, competence and transparency of the actuarial profession	
Key effectiveness indicators	Outcome
Compliance with our standards, including through survey evidence and information from the monitoring activities of JFAR members	The JFAR thematic review of general insurance provisioning, due to be reported on later in 2016, will include a high level review of adherence to reporting standards for the sample of reports in the review. We contributed to the development of the IFoA Quality Assurance Scheme that was introduced in 2016.

We contributed to the development of the IFoA Quality Assurance Scheme that was introduced in 2016.

Enforcement

Our Enforcement Division enables us to hold individuals and organisations to account where this is necessary in the public interest.

The FRC's independent disciplinary arrangements continued to contribute to the achievement of the FRC's overall mission by taking enforcement action against organisations and/or individuals where it is in the public interest to do so.

The FRC investigates misconduct by auditors, accountants and actuaries through the independent arrangements required by Schedule 10 of the Companies Act 2006 (for audit) and as otherwise agreed with the accounting and actuarial professions pursuant to the Accountancy and Actuarial Schemes and Regulations in force from time to time. Following the FRC's review of its governance structure, Professional Discipline was replaced by a new Enforcement Division headed by the Executive Counsel on 1 April 2016.

During the year the FRC consulted on a new Audit Enforcement Procedure, designed to respond to the new audit regulatory framework. The Audit Enforcement Procedure (the Enforcement Procedure) was implemented in relation to statutory audit cases, replacing the FRC's existing sanctions procedure and disciplinary scheme, to provide a single, streamlined procedure for audit enforcement. We anticipate that this will contribute to our aim in dealing with cases more quickly and in a cost effective manner. The FRC will delegate the majority of investigation and sanctioning of non-PIE cases to the professional bodies.

Our 2016/17 plan notes that we will aim to complete our investigations under the Audit Enforcement Procedure and disciplinary schemes in about two years, from the date on which our Conduct Committee decides to institute an investigation by Executive Counsel until the service of a Proposed Formal Complaint, an Initial Investigation Report under the Enforcement Procedure or when the case is closed.

Investigations

Out of the 9 cases concluded during 2015/16: (i) in 5 cases, Members and/or Member Firms reached a settlement agreement with Executive Counsel on the basis of their own admissions that their conduct fell significantly short of the standards reasonably to be expected of a Member or a Member Firm; (ii) 2 cases were concluded on the basis of the findings of Misconduct by a Disciplinary Tribunal; (iii) 1 case was Closed by Executive Counsel having concluded that there was no realistic prospect that a Tribunal would make an Adverse Finding in respect of matters within the scope of the investigation.

In April 2015, the FRC published the final report of the Appeal Tribunal on sanctions in the case concerning MG Rover against Deloitte & Touche (Deloitte), who were advisers to the MG Rover Group and, Maghsoud Einollahi, who was a partner at Deloitte. The Appeal Tribunal imposed sanctions of a fine of £3 million and a Severe Reprimand against Deloitte and a fine of £175,000 and a Severe Reprimand against Maghsoud Einollahi. An additional theme identified by the Appeal Tribunal in this case was a lack of clarity in how accountants should discharge their responsibilities in the public interest. The FRC and the profession are currently in the process of addressing this issue.

Since April 2016 we have we have commenced four investigations under the Accountancy Scheme, into the conduct of:

- KPMG Audit Plc in relation to their consideration of and compliance with ethical standards in connection with the provision of non-audit services during their audit of the financial statements of Ted Baker plc and one of its significant affiliates for the periods ended 26 January 2013 and 25 January 2014.

- Members and a Member Firm, Deloitte LLP, in relation to the preparation, approval and audit of the financial statements of companies within the Serco group for the financial years ended 31 December 2011 and 31 December 2012
- KPMG Audit Plc's audit of HBOS plc for the year ended 31 December 2007;
- PricewaterhouseCoopers LLP in relation to the audit of the financial statements of BHS Limited for the year ended 30 August 2014.

Details of the FRC's work on individual cases are available on the website at https://www.frc.org.uk/Our-Work/Enforcement/Enforcement.aspx

Objective Effective, proportionate and independent investigative, monitoring and enforcement procedures	
Key effectiveness indicator	Outcome
Progress on concluding broadly equivalent disciplinary investigations in a timely manner	The number of cases that are under investigation at any time has remained at about 20 during the last 3 years with considerable improvement in the pace of progression of cases from the investigation stage of the disciplinary process to the prosecution stage. Two in-house accountants were recruited in 2015; which contributed to improvement in efficiency and a reduction of costs of investigation.

GOVERNANCE

The Board is committed to high standards of governance and believes that the Code is the appropriate benchmark.

Corporate governance statement

The Board is committed to high standards of governance and believes that the the Code is the appropriate benchmark. This report explains how the underlying principles of the Code have been met. The FRC does not have shareholders in the usual sense; as a company limited by guarantee, the members of the Company are the directors. However, the FRC has a wide range of stakeholders and conducts an extensive engagement programme, through holding annual open meetings, consulting on the annual plan and budget, the annual report and individual consultations, all designed to ensure the views of our stakeholders are heard.

The membership of the FRC Board, its Committees and Councils consists predominantly of non-executives which we consider meets the provisions of the Code in respect of independence. The Deputy Chair fulfils the role of a senior independent director. In 2015/16 we reviewed our executive and governance structure to ensure that we could deliver our new strategy. Table 2 shows the structure in place at the time of reporting and the relationship between the Board and its Committees.

We have processes in place for information to flow through the Board, its Committees and Councils through update reports, Chair updates and annual governance events.

The FRC Board

Role and composition

The Board's role is to provide strategic leadership of the FRC within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the FRC's strategic aims and culture. It ensures that the necessary financial and human resources are in place for the FRC to meet its objectives and it reviews management performance.

Matters reserved to the Board and those which the Board considers suitable for delegation are set out in the terms of reference for its Committees and Councils and are published on the FRC website – https://www.frc.org.uk/About-the-FRC/Procedures/Governance-and-procedures.aspx

Board members as at 31 March 2016

Sir Winfried Bischoff [photo]

Chairman of the FRC Board and Nominations Committee

Appointed 1 April 2014

Skills and experience:

Sir Win brings experience of leading complex international committees and boards, drawn from a range of sectors, including banking and capital markets, finance and government regulation and public policy.

Current appointments:

- JP Morgan Securities plc – Chair
- JP Morgan Chase London Branch – Oversight Committee - Lead independent advisor
- S&P Global Inc - Director
- Akbank TAS, Turkey - Member of the International Advisory Board

Gay Huey Evans [photo]

Deputy Chairman

Appointed 1 April 2012

Skills and experience:

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

Current appointments:

- Standard Chartered PLC - Director
- Conoco Philips - Director
- Itau BBA International plc - Director
- Wellbeing of Women (UK) (charity) - Trustee
- Beacon (UK) (charity) - Chair

Stephen Haddrill [photo]

Chief Executive Officer

Appointed on 16 November 2009

Skills and 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 a wealth of experience in government and regulation.

Current appointments:

- Royal Institute of Chartered Surveyors (RICS) Regulatory Board – Chair and Non-Executive Director

Mark Armour [photo]

Independent Non-Executive Director

Appointed 2 July 2012

Skills and experience:

Mark brings strong financial 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.

Current appointments:

- SABMiller plc - Non-Executive Director and Chair of the Audit Committee
- Tesco PLC - Non-Executive Director and Audit Committee member.

Sir Brian Bender KCB [photo]

Independent Non-Executive Director

Appointed 1 March 2014

Skills and experience:

Brian brings a wealth of 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 at DEFRA.

Current appointments:

- London Metal Exchange - Chair
- Pool Reinsurance - Non-Executive Director

David Childs [photo]

Independent Non-Executive Director, Conduct Committee Chair

Appointed on 1 May 2014

Skills and experience:

After a career spanning 40 years at Clifford Chance, the last eight years as Global Managing Partner, David brings strong expertise of corporate practice.

Current appointments:

- Leigh Academies Trust Limited - Non-Executive Director

John Coomber [photo]

Independent Non-Executive Director

Appointed 23 July 2015

Skills and 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 where he continues as a non-executive director.

Current appointments

- Pension Insurance Corporation - Director
- MH (GB) Ltd - Chairman
- Tempus Energy Technology Limited - Director

Elizabeth Corley [photo]

Independent Non-Executive Director, Remuneration Committee Chair

Appointed 1 April 2011

Skills and experience:

Elizabeth brings expertise of Global asset management and is a Non-Executive Director on two FTSE 100 boards, including chair of a remuneration committee. Through previous roles Elizabeth also brings experience and an understanding of the life & pensions industry.

Current appointments:

- IMA - Board Member
- Pearson plc - Non-Executive Director

- BAE Systems plc - Non-Executive Director
- Forum of European Asset Management Managers - Management Committee Member
- TheCityUK - Member of the Advisory Council
- Future of Finance Council - Member

Olivia Dickson [photo]

Independent Non-Executive Director, Actuarial Council Chair

Appointed 2 July 2012

Skills and 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.

Current appointments:

- Canada Life Ltd - Non-Executive Director and Chair of the Risk Committee
- Travers Smith LLP - Non-Executive Advisor to Senior Partner

Paul George [photo]

Executive Director, Corporate Governance & Reporting

Appointed on 2 July 2012

Skills and experience

Paul brings strong expertise in corporate reporting and governance, international regulatory matters and the audit of public interest entities.

Ray King [photo]

Independent Non-Executive Director, Audit & Assurance Council Chair

Appointed 23 July 2015

Skills and experience:

Following a career in senior finance positions, and four years as chief executive of BUPA, Ray brings strong financial expertise, and, through a number of non-executive positions, expertise of chairing audit committees.

Current appointments:

- Saga plc – Non-Executive Director
- Rothesay Hold Co UK Ltd – Chair
- Rothesay Life Ltd – Chair

Nick Land [photo]

Independent Non-Executive Director, Codes & Standards Committee and Audit Committee Chair

Appointed on 1 April 2011

Skills and experience:

After a career spanning 36 years at Ernst & Young where Nick was a Managing Partner, he brings strong financial expertise and experience of dealing with major corporations in many parts of the world.

Current appointments:

- Vodafone Group plc - Non-Executive Director
- Ashmore Group plc – Non-Executive Director
- The Vodafone Group Foundation - Chair of the Board of Trustees

Roger Marshall [photo]

Independent Non-Executive Director, Corporate Reporting Council Chair

Appointed on 1 November 2010

Skills and 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 is currently acting president of EFRAG.

Current appointments:

- Old Mutual plc - Director
- Pension Insurance Corporation, UK - Director
- EFRAG - Director and Acting President

Melanie McLaren [photo]

Executive Director, Audit

Appointed 2 July 2012

Skills and experience:

Following a career that included roles as an audit and regulatory assurance partner at PWC and Chief Risk Officer at Friends Life she led the FRC's Codes & Standards Division, responsible for developing policy initiatives in corporate governance, reporting, audit and actuarial work. Melanie brings a wealth of experience in professional and financial services and in risk and regulation.

Current appointments:

- UK Municipal Bonds Agency plc - Non-Executive Director

Keith Skeoch [photo]

Independent Non-Executive Director

Appointed 1 March 2012

Skills and experience:

With a career spanning 20 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.

Current appointments:

- Standard Life plc – Director
- HDFC Asset Management, India – Director
- HDFC Life, India - Director

Board diversity and succession

The FRC's commitment to promoting diversity extends to the membership of the Board and its Committees. The Board satisfies this commitment by keeping under review the composition of the Board, its Committees and Councils members in terms of the mix of skills, experience and backgrounds.

As the Directors of the FRC are also its members, the submission of Directors for re-election is not appropriate. The Board has put in place an alternative to annual re-election; its annual effectiveness evaluation which includes consideration of the continuation of each of the Directors in their current role. The Chairman and the Deputy Chairman are appointed by the Secretary of State for BIS and the Secretary of State is invited to consider the continuation of the Chairman and Deputy Chairman on an annual basis. The FRC's approach to succession planning was reviewed during 2015/16 and the approach is set out in the Nominations Committee report on pages 49 to 50.

- Boards that are diverse in background and experience, geography and ethnicity, not only encourage better leadership but also contribute to better all-round performance, engagement and innovation

Board and Committee member attendance for the period from 1 April 2015 to 31 March 2016

The attendance matrix is in Table 5 of the Directors' report on pages 75 to 76. Where a member was unable to attend a meeting due to a prior commitment, he or she provided comments on the papers to the Chairman prior to the meeting.

Activities of the Board

In addition to the 7 scheduled meetings, the Board held a Strategy Day on 17 September 2015. At each meeting, the Board considers a number of standard reports, such as the CEO report and reports from the Chairman of the Board and Chairmen of the Committees. On a quarterly basis, the reports from the Executive Directors of Codes & Standards and Conduct are considered and the issues arising within each function are discussed. The Non-Executive Directors actively and robustly challenge management and the Executives Directors on key issues to ensure proposals and issues for decision are aligned to the strategic objectives of the FRC and its mission.

During the period of 2015/16, a key areas of focus for the Board was the implementation of the Audit Regulation and Directive (ARD). The Board dedicated considerable time to reviewing key issues consequential to the ARD including the framework, proposed legislation and procedures, amendments to auditing and accounting standards and the Corporate Governance Code. Updates on the progress of discussions with BIS and consultation with the professional bodies were given regularly at meetings. In this work the Board was supported by a Board Steering Group, comprising Sir Win Bischoff, Gay Huey Evans, Stephen Haddrill, David Childs, Nick Land, Ray King, Melanie McLaren and Paul George. The Group, assisted by the General Counsel & Company Secretary and her team, advised and made recommendations to the Board in relation to all aspects of the implementation including changes to the FRC's powers and constitution and plans for new funding mechanisms, arrangements with delegate bodies; and monitoring and enforcement procedures. In developing its advice the Group had regard to risk and to the FRC's regulatory philosophy. The Group oversaw the preparation of associated cost-benefit analyses and the impact assessment.

The Board dedicated the Strategy Day to discussing the 2016-19 strategy. The Board confirmed the mission of the FRC – to 'promote high quality corporate reporting and governance to foster investment' and the supporting strategies that promote trustworthy information and high standards of behaviour. The Board constructively worked together to formulate the new strategy and objectives for the next 3 years.

Following discussions at the Strategy Day, the Board approved in January 2016 the new governance structure. This was in response to the changes to the executive structure designed to support an evolving strategy focused on: embedding recent changes, establishing the FRC as a regulator that leads the way in working with those it regulates to promote best practice as set out in the Effectiveness Project and on the successful establishment of the FRC role as the Competent Authority. As part of the 3-year strategy review, the Board considered changes to the funding model; more details are on page 16.

During the year the Board discussed a number of other topics, including, the annual budget and a new funding model, the external advisers' recommendations that led to the implementation of the Effectiveness Project, amendments to various accounting standards, issues related to the deregulatory agenda, the development of a new TAS framework. The minutes of the Board meetings are published https://www.frc.org.uk/About-the-FRC/FRC-structure/FRC-Board/Minutes-of-meetings.aspx

Board effectiveness review

Board effectiveness is reviewed every year. Agreed actions arising from reviews are monitored by the Board. Over the year the Board received updates on the actions that were implemented to address the areas for improvement identified during the 2014/15 review. As a result a framework for horizon scanning was introduced, sessions on report writing and presentation skills were provided to staff and the succession planning process was reviewed and revised.

Having undertaken an internally led review in 2014/15, the 2016 review was externally facilitated. The review was carried out by Independent Audit Limited. During 2016, Independent Audit supported the FRC's Culture Coalition project for a fee of £6,000. There is no other connection between Independent Audit and the FRC.

The scope of the 2016 review included the effectiveness of the Board and its main Committees: Audit, Remuneration, Nominations, Codes & Standards and Conduct. In undertaking their work, Independent Audit interviewed all Board members, the General Counsel & Company Secretary, the Committees' Secretary and members of the Codes & Standards and Conduct Committees. Independent Audit attended Board and Committee meetings held in February and March 2016 and had access to recent Board and Committee papers, which included the findings of the 2014-15 internally led review. At the conclusion of their work, Independent Audit presented and discussed their report with the Board at its meeting on 14 April 2016.

The 2016 review supported the findings of the 2014/15 review in demonstrating that the Board and its Committees work well. While the Board is a little larger than usual, this reflects the need for a broad range of skills and experience and does not hinder its effectiveness. The Board members are collegiate and work well together; they contribute actively to the Board and Committee meetings, all of which are well chaired.

Independent Audit made a number of recommendations on the structure and length of papers on codes and standards and on the relationship between the Board and the Conduct Committee.

Independent Audit recommend that a review of the FRC risk framework would enhance the oversight responsibilities of the Board and its Committees and the approach to horizon scanning. A review of the FRC's approach to risk, and oversight of risk, is in progress and the FRC's assurance map is being developed. A second horizon scanning exercise is underway using the framework developed in response to the 2014/15 review.

The review of individual directors' performance is undertaken by the Chairman. The Conduct Committee and the Codes & Standards Committee include members who are not members of the FRC Board and these members' performance is reviewed by the Chairs of the respective Committees. The Deputy Chair led the review of the effectiveness of the Chair; it was felt that the Chair continued to provide good leadership to the Board, ensuring that it operated effectively.

The Board focus on culture will be further considered following the conclusion of the FRC's culture coalition project. Succession planning and the associated nominations processes will focus on the long term requirements of the organisation.

Internal controls and risk management

The FRC risk policy was reviewed in September 2015. The policy outlines the approach to risk management identifying specific risk management roles, accountabilities and responsibilities. The Board is responsible for the maintenance and monitoring of an effective system of internal controls, including financial, operational and compliance controls. The risk management framework is outlined at pages 19 to 23. The Audit Committee's role and activities performed during the year with regard to risk management and internal controls are set out at pages 46 to 48.

Board Committees

The Board is supported by the following committees:

- **Audit Committee**
- **Nominations Committee**
- **Remuneration Committee**
- **Codes & Standards Committee**
- **Conduct Committee**

Table 2 – Governance Structure

[Governance structure diagram]

NB. Table 2 sets out the governance structure as at from 17 June 2016 and reflects the changes introduced in response to our role as the Competent Authority. The terms of reference for the Board, its Committees and Councils can be found in the FRC governance bible on our website: https://frc.org.uk/About-the-FRC/Procedures/Governance-and-procedures.aspx

Audit Committee report

The members of the Audit Committee are all independent Non-Executive Directors (see Table 5 for membership and attendance at meetings), and at least one member has relevant financial experience. In January 2016, Keith Skeoch stepped down and was replaced by John Coomber.

In addition to the members, meetings are attended by the external auditor, haysmacintyre and by invitation by the Chief Executive, the Director of Finance, the Head of Finance and the General Counsel & Company Secretary. Members of the Committee meet with the external auditor in private at least once a 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 Chairman of the Committee also meets with the external auditors outside of the formal Committee process during the year.

The FRC has not established a dedicated internal audit function because of its size and nature but has kept the position under review. Following an internal risk assessment, a process map was developed to identify the control areas considered to be of particular risk. An independent third party, Grant Thornton, was appointed to carry out the internal audit reviews of internal controls and to report their findings to management and to the Audit Committee.

What the Audit Committee did in 2015/16

In addition to receiving the regular reports from the Finance Director on the financial performance of the FRC, the Audit Committee reviewed the assessment and monitoring of the principal risks and considered the findings of the audit reviews undertaken by Grant Thornton on a rotational basis together with any remedial steps identified by management to strengthen the internal controls. This year, the Committee spent time reviewing the risk assessments of IT security, and reviewed progress of the measures aimed to strengthen the internal controls in this area. The Committee also reviewed and challenged management's proposals for reviewing the revenue strategy and the level of reserves appropriate for prudential financial management. Below are the specific areas of work that the Committee considered during the reporting year.

November 2015	**February 2016**	**May 2016**	**June 2016**
• Draft Budget 2016/17, Revenue Strategy update and Reserves • IT security • Internal and external whistle-blowing polices • Findings arising out of the independent third party audit report on FRC payroll processes	• Audit plan, in particular assessment in the following key risk areas: revenue recognition / significant accounting estimates / disciplinary case costs and provisions • Auditors remuneration • Risk monitoring (see pages 19 to 23)	• 2015/16 financial statements, in particular: the clarity of disclosures and compliance with the applicable financial reporting standards and relevant financial and governance reporting requirements • Internal audit plan and review of procurement audit review • Preliminary report on the audit • Auditor engagement letter approval • Terms of reference review • Requested the development of a risk management assurance map • Outcome of the committee effectiveness review	• 2015/16 financial statements for recommendation to the Board • Auditor's report on the 2015/16 financial statements • Letter of representations • Management's assurances

The Committee’s work in relation to the 2015/16 financial statements

The Committee’s primary responsibility is to review with management and the auditors the appropriateness of the financial statements. No changes were made to the accounting policies from the previous year.

In February, the Committee received the auditor’s audit plan in relation to the 2015/16 financial statements. The Committee discussed the plan that outlined the areas of focus which were based on those risks most likely to give rise to significant financial misstatements, namely revenue recognition, management override of controls, disciplinary case costs and provisions, and approved the audit materiality level. The Committee also reviewed the key reporting issues, and challenged both management and the auditor with regard to the process and controls in place for claiming and charging disciplinary case costs.

At its May meeting, the Committee had the opportunity to review the year-end Finance Director’s report and a preliminary draft of the report and accounts. In addition they discussed the development of a risk management assurance map. On internal audit the Committee considered the findings of the internal audit review on procurement, considered the internal audit plan and agreed with management the internal audit reviews for 2016/17. The Committee was kept informed of the work on IT security.

At the start of the year, the external auditor presented their audit plan; their findings were discussed at its meeting in June. In particular the Committee discussed revenue recognition and focused on the findings relating to the methodology and review of the disciplinary case costs and provisions. As part of the Committee’s assessment on whether the annual report, taken as a whole, is fair, balanced and understandable, the Committee commissioned an independent review which this year was carried out by an independent member of one of the FRC committees.

The Audit Committee reviewed the draft viability statement and challenged the underlying assumptions.

To assess the effectiveness of the auditor, the Committee reviewed the extent to which the auditor fulfilled the agreed audit plan and any variations from it and also received feedback from management on their assessment of the auditor. The Committee also reviewed the external auditor's findings arising from the audit and robustly challenged the work performed by the auditor to test management’s assumptions, key judgements and estimates made for each risk area. Based on their own interaction with the auditor together with input from management, the Audit Committee recognised that the auditors provided a challenging and sceptical review of management’s key judgements and therefore it continued to be satisfied with the auditor’s effectiveness.

Committee effectiveness

The Committee’s annual evaluation was undertaken as part of the overall board evaluation process that was externally facilitated by Independent Audit. The overall findings are set out on pages 43 to 44. The Committee had the opportunity to consider and discuss the findings related to the Committee at its May meeting. The evaluation did not identify any significant areas for improvement.

Risk management

The FRC’s principal risks are set out on pages 19 to 22. Reports on the assessment of the principal risks facing the Company to ensure that significant risks were clearly identified and appropriately managed were received by the Committee. The Committee reviewed the internal audit plan, discussed the findings of internal audit reviews and provided an independent challenge to ensure the continued effectiveness of the internal controls which management is responsible for establishing and maintaining. Where areas for improvements were identified, processes are in place to ensure that necessary action is taken and the progress is monitored.

Nick Land

Chairman of the Audit Committee

13 July 2016

Nominations Committee report

The members of the Committee are listed in Table 5, together with their attendance during the year. The Committee met three times. The focus areas remained succession planning and selection processes for the recruitment of members of Committees and Councils.

What the Committee dealt with in 2015/16

1 July 2015	**1 December 2015**	**2 March 2016**
• Review of succession planning • Revised FRC policy on terms of office • Recruitment process to appoint a member of the Audit & Assurance Council • Composition of interview panel for the recruitment of a member of the Conduct Committee • Establishment of a pool of independent assessors • Revised FRC Code of Conduct	• Succession planning for Chair of Accounting Council and Audit Committee • Selection process for the recruitment of members of the Accounting and Actuarial Council	• Composition of the Board, Codes & Standards Committee and Accounting Council • Nominations Committee Report for the Report and Accounts for the year ended 31 March 2016 • Re-appointment of members to the Conduct Committee and Codes & Standards Committee • Review of the terms of reference • Review of register of interests

Board and Committee changes

As previously reported, John Coomber and Ray King were appointed to the Board on 23 July 2015. John Coomber strengthens the Board's skills with his actuarial background and international experience. Ray King, who was also appointed as Chair of the Audit & Assurance Council, brings to the Board broad corporate experience including in the non-listed sector.

Following Keith Skeoch's request to retire from the Audit Committee, the Committee evaluated the skills, diversity and expertise of Board members, and agreed to recommend to the Board John Coomber for appointment to the Audit Committee in his place.

The Committee considered the selection process for recruiting up to four new members of the Case Management Committee to replace retiring members and members of the Conduct and Codes & Standards Committees. The selection process typically involves open advertising, interviews by a selection panel and by an independent assessor where appropriate.

Succession planning

At each meeting, the Committee reviewed the FRC's non-executive succession planning. It considered the skills and knowledge required to successfully deliver the strategic objectives of the FRC. The Committee identified that there is potential gap for an individual with Small-Medium Entities expertise and this will be taken in to consideration as part of the succession planning exercise.

Diversity

The Board remains committed to ensuring Board diversity. Diversity across the governance structure is reviewed regularly and forms part of the quarterly succession planning reports submitted to the chairs of the Board, Committees and Councils, and approved by the Committee. Chairmen and members of interview panels have regard to diversity in all recruitment efforts. A process is in place to focus the attention of chairmen of committees and councils on gender diversity. Although no specific targets are set, 27% of the FRC Board are women.

Committee effectiveness

The Committee's annual evaluation was undertaken as part of the overall board evaluation process that was externally facilitated by Independent Audit. The findings are set out on pages 43 to 44.

Professional advisers

The Committee has the authority to appoint external advisers. No external advisers were engaged during the reporting year.

Sir Winfried Bischoff

Chairman of the Nominations Committee

13 July 2016

Remuneration Committee report

The members of the Committee are listed on table 5, together with their attendance at meetings held during the year. The Committee met three times during the reporting period.

What the Committee dealt with in 2015/16

15 June 2015	**30 November 2015**	**16 March 2016**
• Timetable for FRC pay and bonus (2015/16) • People strategy 2015/16 and beyond (this included a review of people development, the framework of the Leadership and Management Programme designed to develop future leaders)	• The budgetary provision for the general salary review, company-wide bonus and individual bonus (2015/16) supporting a recommendation to the Board by the Chief Executive in that regard • FRC pay policy • People strategy 2015/16	• The salary review and bonus awards to staff (2015/16) • The salary pay review and bonus awards of Executive Committee • CEO pay review and bonus • Remuneration Committee Report for the report and accounts for the year ended 31 March 2016 • Review of Remuneration Committee's terms of reference • Executive Committee objectives for 2016/17

During the year, the Committee focused on the HR strategy and related initiatives developed to support the wider corporate strategy for 2016-19, with a view to ensuring that the reward strategy was aligned with the corporate strategy. The Committee continued to be kept regularly updated on the progress of the Leadership and Management Development Programme designed to provide a framework to develop future leaders within the FRC and on the implementation of the effectiveness review following the external advisers' work.

In March 2016, the Committee reviewed and approved the total remuneration and bonus pool for staff, including the Chief Executive and members of the Senior Leadership Group. The Committee's review of the remuneration of the FRC Executive was informed by the views of the Non-Executive Directors on the performance of the FRC Executive and members of the Executive Committee. Annual awards were considered in the light of the criteria set in the Remuneration policy described in the Directors' Remuneration Report, the budgetary provisions, the peer benchmarking and taking into account the financial position of the FRC following consultation with the Chair of the Audit Committee and the Finance Director. Detail on the remuneration policy, remuneration and benefits for Executive and Non-Executive Directors is in the Directors' Remuneration report on pages 55 to 57. The collective and individual objectives of the Executive Committee for the year 2016/17 were reviewed and approved.

Committee effectiveness

The Committee's annual evaluation was undertaken as part of the overall board evaluation process that was externally facilitated by Independent Audit. The findings are set out on pages 43 to 44.

Elizabeth Corley

Chairman of the Remuneration Committee

13 July 2016

Codes & Standards Committee report

The Committee continued to exercise oversight of the FRC's work on its codes, standards and related material. This included approving a codes and standards framework and reviewing procedures to support that framework. More details of the work carried out by the Committee during the reporting year can be found in the Activity Report on pages 28 to 37. Work plans were agreed in line with the FRC's strategy and annual plan and budget and progress was monitored against the plan. The Committee held an away-day to contribute to the development of the FRC's 2016-19 strategy.

On a regular basis, the Committee carried out risk management and horizon scanning activity, including regular review of the FRC's risk register and received updates on Financial Reporting Lab initiatives.

The Committee reviewed and recommended to the Board all draft codes and standards, taking into account the advice of the respective Council. During the year, the Committee reviewed, developed and recommended to the Board:

- The Statement of Recommended Policy (SORP) in the light of the annual review of SORP-making bodies and exploring the expansion of the policy to matters beyond financial reporting.
- A consultation on revised Ethical and Auditing standards to meet the requirements of the ARD, taking into account our experience, alongside related amendments to the UK Corporate Governance Code and updated guidance for Audit Committees.
- Further development of the framework for technical actuarial standards and the supporting risk perspective, developed through the JFAR.
- UK GAAP for micro and small entities and matters arising from early implementation of new UK GAAP.

Amongst the other topics discussed by the Committee were: the publication of reports and discussion papers on UK corporate governance and stewardship; developments in strategic and non-financial reports; risks to quality of actuarial work; UK Board succession planning and tiering for Stewardship Code signatories. On the FRC's role in influencing international standards and guidance, the Committee continued to monitor developments and provide input to the IASB and the IAASB.

The Committee is responsible for appointing Council members, for reviewing the effectiveness of the Councils and their working groups annually.

Conduct Committee report

During the year the Committee approved the Conduct Executive's work plan and monitored progress against plan. There was a particular focus on the impact of the ARD, notably the increased scope of Audit Quality Review (AQR) inspections, and in light of increased responsibilities, the need to drive further improvements in quality assessing and improving the effectiveness of the FRC's Corporate Reporting Review (CRR) and AQR activities.

The Committee considered the outcome of an external review of the effectiveness of the FRC's monitoring activities and reviewed implementation of the recommendations. The Committee approved the AQR Annual Report, AQR thematic reports, the CRR Annual Report, and amendments to the CRR Operating Procedures.

The Committee monitored progress against the agreed plan during the period. With regard to professional oversight, the Committee approved the work plan for 2015/16, monitored progress, and approved applications from the ICAEW and ICAS for RSB status under the Local Audit and Accountability Act 2014. The Committee considered the establishment of new MOUs and amendments to existing MOUs with professional bodies and other regulators.

In addition to reviewing progress on Professional Discipline cases, the Committee has various specific responsibilities under the Accountancy and Actuarial Schemes. Pursuant to these responsibilities, the Committee commenced 4 investigations and amended the scope of 3 cases. The Committee received Formal Complaints in relation to 2 matters and decisions to close investigations in 7 matters and set and reviewed the budgets in all active disciplinary cases. The Committee also established an Enforcement Procedures Working Group to advise on the development of a new professional discipline framework under the ARD.

The Committee considered quarterly updates on complaints, supervisory inquiries and other matters on the radar. The Committee reviewed progress on cases under the Auditor Regulatory Sanctions Procedure and approved amendments to the Procedure.

The Committee is responsible for appointments to the Financial Reporting Review Panel, the Case Management Committee and the Monitoring Committee (now the Audit Quality Review Committee).

More details of the work carried out by the Committee during the reporting year can be found in the Activity report on pages 28 to 37.

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 2015/16 the FRC received 10 disclosures in its capacity as a prescribed person.

In respect of the disclosures made, the following action was taken:

- one was referred to the FRC Audit Quality Review team to include within the relevant firm-wide inspection to ensure that the firm's procedures comply with ethical standards;
- one concerned matters that do not fall within the scope of the FRC's regulatory duties and advice was given to contact the company's internal compliance team;

- three were referred to the relevant accountancy professional body for action;
- three were reviewed by the FRC Corporate Reporting Review team in accordance with the Conduct Committee's operating procedures for reviewing corporate reporting;
- two are still being considered for action in conjunction with other regulatory agencies.

The FRC's Whistleblowing Policy can be found here: https://www.frc.org.uk/About-the-FRC/Making-a-complaint-to-the-Financial-Reporting-Coun/Whistleblowing.aspx

Complaints about the FRC

From time to time complaints are directed against the FRC and these are dealt with in accordance with the policy set out on the FRC's website at https://www.frc.org.uk/About-the-FRC/Making-a-complaint-to-the-Financial-Reporting-Coun/Making-a-complaint-about-the-FRC.aspx. Where the FRC identifies it has made mistakes as a result of investigating complaints, it will acknowledge them and take any required appropriate action.

During 2015/16, the FRC did not receive any complaints about the organisation or its staff. Over the next year, the FRC will look to add an independent layer to its process for dealing with complaints about the FRC and will report further on this in due course.

Directors’ remuneration report

The remuneration of Non-Executive Directors, including the Chairman and Deputy Chairman is determined by the Board. The Board 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.

Table 3 – Non-Executive Director remuneration

	Annual fees 2015/16	Annual fees 2015/14
Non-Executive Director – Chair	£120,000	£120,000
Non-Executive Director – Deputy Chair	£35,000	£35,000
Non-Executive Directors	£25,000	£25,000
Non-Executive Director and Chair of either the Audit Committee or Remuneration Committee	£5,000*	£5,000*
Non-Executive Director and Chair of the Conduct Committee	£90,000	£90,000
Non-Executive Director and Chair of the Codes & Standards Committee	£70,000	£70,000
Non-Executive Director and Council Chair	£50,000**	£50,000**
Non-Executive Director & Member of the Conduct Committee or Codes & Standards Committee	£10,000*	£10,000*

[* additional fees]

[**plus any supplemental fees determined by the Remuneration Committee for work falling outside a Chair’s normal duties].

The fees detailed above were determined following the review undertaken during the FRC reforms in 2012 and will be reviewed in June 2016. 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 at Table 4 that has been subject to audit (see also note 3 to the Financial Statements).

On behalf of the Board, the Remuneration Committee determines the remuneration framework and policy for the FRC Chairman and the Executive Directors and recommends their total remuneration package for approval.

The remuneration of the Executive Directors comprises the following components: salary, bonus of up to 20% of annual salary, pension contributions of 10% and other contractual benefits including private health and dental cover, death in service and permanent health insurance. Both salary review and bonus eligibility depend on Executive Directors achieving the necessary ratings for performance and ‘citizenship’ – living the FRC values. Executive Directors are required to achieve higher citizenship ratings to qualify for a bonus and higher performance and citizenship ratings than members of staff to achieve a salary review. The performance of Executive Directors is assessed against both individual and collective objectives. A quarter of each Executive Director’s bonus potential is assessed on the extent to which collective objectives have been achieved and that Executive Director’s contribution to the achievement.

The FRC Remuneration Committee agreed that where an executive director serves as a Non-Executive Director elsewhere the director may retain those earnings. Stephen Haddrill is a Non-Executive Director of the Royal Institute of Chartered Surveyors (RICs) Regulatory Board for which he receives an annual fee of £25,000. Melanie McLaren is a Non-Executive Director of the UK Municipal Bonds Agency plc for which she receives an annual fee of £34,000.

Table 4 – Remuneration of Non-Executive and Executive Directors

	2015/16	2015/16	2015/16	2015/16	2015/16	2015/16	2014/15
Non-Executive Directors	Fees/ salary	Bonus	Pension	General Health Insurance	Private Medical/ Dental	Total	Total
Sir Win Bischoff (from 1st May 2014)	120,000					120,000	110,000
Baroness Hogg (to 30 April 2014)						-	10,000
Gay Huey Evans (Deputy Chair from 1 May 2014)	45,000					45,000	44,167
Glen Moreno (to 31 April 2014) (1)						-	
Mark Armour	25,000					25,000	25,000
Sir Brian Bender	35,000					35,000	35,000
Peter Chambers (to 30th April 2014)						-	2,917
David Childs (from 1 May 2014)	90,000					90,000	82,500
Elizabeth Corley (2)	30,000					30,000	30,000
Olivia Dickson	50,000					50,000	50,000
Richard Fleck (to 1 July 2015) (3)						-	7,500
Nick Land	75,000					75,000	56,667
Roger Marshall	85,000					85,000	85,000
Keith Skeoch (4)	35,000					35,000	35,000
John Stewart (to 1 July 2015)	9,067					9,067	35,000
Jim Sutcliffe (to 16 January 2015)						-	47,727
Ray King (from 23 July 2015)	34,601					34,601	
John Coomber (from 23 July 2015)	24,095					24,095	
Sub-total	**657,763**	**-**	**-**	**-**	**-**	**657,763**	**656,477**
Executive Directors							
Stephen Haddrill (5)(6)	369,951	65,000	36,995	5,459	-	477,405	469,206
Paul George (5)(6)	305,973	40,527	30,020	4,237	2,317	383,074	370,663
Melanie McLaren (5)(6)	323,116	46,831	-	4,297	-	374,244	363,650

Sub-total	**999,040**	**152,358**	**67,015**	**13,992**	**2,317**	**1,234,722**	**1,203,518**
Grand Total	**1,656,803**	**152,358**	**67,015**	**13,992**	**2,317**	**1,892,485**	**1,859,995**

Where Directors were appointed during the year, the amounts shown are for the period from the date of their appointment.

(1) Glen Moreno waived his fees from 1 December 2013.
(2) From 1 April 2014 Elizabeth Corley waived her Remuneration Committee Chair fees of £5,000 in favour of charity.
(3) Richard Fleck's fees as shown are for the period up to the date of the end of his term as a Director and Chair of the Conduct Committee. He continued to receive fees as Chair of the FRRP, Chair of the Monitoring Committee a member of the Conduct Committee until the end of the year.
(4) From 1 April 2012 Keith Skeoch waived his fees in favour of charity.
(5) Executive Directors are entitled to receive pension contributions and other benefits. The figures shown are the cash equivalents of their full pay and benefits.
(6) The average salary and reward increases including the cash equivalent benefits were 2% in 2015/16 for all staff including the executive Directors (2014/15: 2%).
(7) Total Directors remuneration in 2015/16 amounted to 10.8% of total Company remuneration, including secondees (2014/15: 11.5%).

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE FINANCIAL REPORTING COUNCIL LIMITED

Opinion

In our opinion the financial statements of The Financial Reporting Council Limited ("FRC"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 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.

The financial statements comprise the:

- Profit and Loss Account;
- Balance Sheet;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- notes to the financial statements.

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 UK and Republic of Ireland.

An overview of the scope of our audit

As the Financial Reporting Council Limited is a standalone entity based in London the scope of our work was an audit of the financial statements of the Company. The scope of the audit was tailored by obtaining an understanding of the company, its activities and its control environment. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risks of material misstatement.

We obtained an understanding of how the Company uses service organisations in its operations and evaluated the design and implementation of relevant controls at the Company that relate to the services provided by service organisations. We visited the Financial Conduct Authority and Kier Business Services, the service organisations engaged by the FRC to collect levy income.

We undertook an interim visit to 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.

The Senior Statutory auditor and Audit Manager met regularly throughout the year with the senior members of the Company's finance team in order to maintain and reinforce our knowledge of the FRC and the risks it faces. This dialogue continued throughout the audit process, as we reassessed and re-evaluated audit risks where necessary and tailored our approach accordingly.

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 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, we determined materiality for the Company to be £340,000, based on 1% of budgeted expenditure (gross of the case cost awards).

On the basis of our risk assessments, together with 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 £255,000.

We agreed to report to the Audit Committee all audit differences in excess of £17,000, 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.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

Risk area	**Our response**
Revenue recognition - Risk of errors within revenue recognition, including the completeness of levy income.	We reviewed material income streams in order to consider whether revenue is recognised correctly and considered whether the treatment is appropriate, and in accordance with UK GAAP. Our review included consideration of the operating effectiveness of procedures and controls implemented by the FRC and service organisations engaged by it in respect of revenue recognition. In addition our review of income included an assessment of the recoverability of trade debtors and accrued income after the year end in order to assess the validity of their recognition and carrying value as at 31 March 2016.
Disciplinary case costs and provisions - There are various associated risks that the FRC may face in respect of its disciplinary activities. The key risks are: (i) The risk of reputational damage or claims for significant damages or costs following	We reviewed the controls and procedures used to monitor and record case costs, including the allocation of internal costs to particular cases and considered the operating effectiveness of these systems. We reviewed a sample of significant cases ensuring that the FRC's stated protocols, controls

unsuccessful disciplinary scheme actions. (ii) The risk that the FRC is unable to recover from the participants all the costs it incurs in relation to these cases. (iii) The risk that costs are not accurately allocated to the correct cases.	and procedures have been followed. For instance ensuring that the FRC has acted reasonably and in line with Counsel's opinion as to the strength of the case. As part of our review of a sample of significant cases we considered the effectiveness of the procedures that have been implemented to ensure that the risk of damages or other claims against the FRC are mitigated. We reviewed the case costs and considered whether internal FRC costs have been allocated appropriately between cases.
Disciplinary case costs and provisions - Given the nature of the costs incurred by the FRC in the course of its regulatory and disciplinary activities, a risk arises in connection with the completeness and valuation of litigation cost accruals.	We tested the operating effectiveness of procedures and controls implemented by the FRC in respect of its regulatory activities and disciplinary schemes. We reviewed a sample of cases, specifically checking that the procedures and controls were being followed and reviewed substantively the recognition of liabilities.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

We have nothing to report in respect of the above.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

David Cox (Senior Statutory auditor)
for and on behalf of haysmacintyre,
Statutory Auditor
26 Red Lion Square
London
WC1R 4AG

13 July 2016

Profit and Loss account for the year ended 31 March 2016

	Note	2015/16 £'000	2014/15 £'000
Revenue		**30,171**	**28,848**
Operating expenses	2	**(30,155)**	**(29,103)**
Operating profit/(loss)		**16**	**(255)**
Interest receivable		**73**	**71**
Profit/(loss) on ordinary activities before taxation		**89**	**(184)**
Tax on profit/(loss) on ordinary activities		**(14)**	**(14)**
Profit/(loss)		**75**	**(198)**

THE FINANCIAL REPORTING COUNCIL LIMITED

Balance Sheet at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Fixed assets			
Intangible assets	5	**19**	8
Tangible assets	6	**2,530**	2,803
		2,549	2,811
Current assets			
Debtors	7	**3,026**	3,447
Current asset investments	8	**7,024**	8,008
Cash at bank and in hand	8	**2,238**	476
		12,288	11,931
Creditors – amounts falling due within one year	9	**(5,150)**	(5,814)
Net current assets		**7,138**	6,117
Total assets less current liabilities		**9,687**	8,928
Creditors – amounts falling due after more than one year	10	**(2,036)**	(1,382)
Provisions for liabilities	12	**(60)**	(30)
Net Assets		**7,591**	7,516
Capital and reserves			
Accounting, auditing and corporate governance:			
-General reserve		**2,275**	2,420
-Corporate reporting review legal costs fund		**2,000**	2,000
Actuarial standards and regulation:			
-General reserve		**1,316**	1,096
-Actuarial case costs fund		**2,000**	2,000
		7,591	7,516

The financial statements and notes on pages 58 to 73 were approved by the board of directors on 13 July 2016 and were signed on its behalf by Sir Winfried Bischoff, Chairman:

Statement of Changes in Equity for the year ended 31 March 2016

	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 2014	2,563	2,000	1,151	2,000	7,714
Loss for the year	(143)	-	(55)	-	(198)
At 31 March 2015	2,420	2,000	1,096	2,000	7,516
Profit/(Loss) for the year	(145)	-	220	-	75
At 31 March 2016	**2,275**	**2,000**	**1,316**	**2,000**	**7,591**

Cash Flow Statement for the year ended 31 March 2016

	Note	**2015/16**	2014/15
		£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the financial year		**89**	(184)
Adjustments for:			
- Interest income		**(73)**	(71)
- Depreciation and amortisation		**370**	378
- Increase in dilapidation provision		**30**	30
- Decrease in trade and other debtors		**421**	695
- (Decrease) in trade and other creditors		**(10)**	(245)
Net cash inflow from operations		**827**	787
Corporation tax paid		**(14)**	(23)
Total cash inflow from operating activities		**813**	764
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible and intangible assets		**(109)**	(1,998)
Current asset investments sold/(acquired)		**984**	(2,108)
Interest received		**74**	48
Total cash inflow from investing activities		**949**	(4,058)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,762**	(3,478)
Cash and cash equivalents at 1 April	8	**476**	3,954
CASH AND CASH EQUIVALENTS AT 31 MARCH	8	**2,238**	476

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 2AS.

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.

Basis of Preparation

These financial statements for the year ended 31 March 2016 are prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. 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, as is the case with the provision for dilapidations.

Presentation of Financial Statements

The presentational and functional currency is the British Pound Sterling.

a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The FRC has a variety of sources of revenue and accounts for them as described below:

- Revenue in respect of levies is accounted for on a receipts basis, as levies are voluntary contributions.
- The following revenue is received from participants to fund specific activities:
  - Revenue receivable from the ICAEW in respect of Audit Quality Review costs is recognised as the costs to be recovered are incurred in each financial year.
  - Revenue receivable from professional accounting bodies in respect of Accountancy disciplinary case costs is recognised as the costs to be reimbursed are incurred in each financial year.
- 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 the 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.

b) 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, 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

c) 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.

d) 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 under FRS 102 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 subsequently recharged. 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.

e) 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 from Government to enable the Conduct Committee to take steps to pursue compliance with the relevant 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 of Business, Innovation and Skills (BIS) for the purposes of section 456 of the Companies Act 2006.

The Legal Costs Fund is currently maintained at £2m. In making the 2014/15 grant-in-aid to the FRC, BIS noted that if the Financial Reporting Council's Legal costs fund falls below £1million in any year, BIS 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.

f) Deferred lease incentive

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

2. Operating expenses

	2015/16	2014/15
	£'000	£'000
Core staff and related people costs (note 3)	**19,544**	17,679
IT and facility costs	**1,907**	2,201
Lease expense	**751**	912
Depreciation and amortisation costs	**370**	378
Auditor's remuneration:		
- audit	**43**	44
- non - audit services	**0**	0
XBRL taxonomy development costs	**179**	285
Accountancy and actuarial case costs - gross	**4,707**	5,563
- Less cost awards recovered	**(478)**	(1,148)
Accountancy and actuarial case costs - net	**4,229**	4,415
Other operating expenses		
- Travel and conferences	**629**	762
- Legal and professional fees	**1,235**	666
- Contribution to EFRAG	**261**	284
- All other costs	**1,007**	1,477
Total operating expenses	**30,155**	29,103

3. Staff and related people costs (including directors)

	2015/16	2014/15
	£'000	£'000
Permanent staff:		
Salaries	**15,326**	13,423
Social security costs	**1,861**	1,732
Other pension costs	**1,286**	1,333
Total permanent staff costs	**18,473**	16,488
Other people related costs:		
Seconded staff and contractors	**59**	127
Fees paid to Board, Committee and Council members	**1,409**	1,292
Other costs	**314**	223
Total staff and related people costs	**20,255**	18,130
Staff costs transferred to case costs	**(711)**	(451)
Total core staff and related people costs	**19,544**	17,679

The FRC does not operate a pension scheme. Other pension costs comprise payments to individual personal pension schemes.

Note 3 continued

Directors' emoluments

	2015/16	2014/15
	£'000	£'000
Fees (included in staff costs)	**1,825**	1,794
Other pension costs	**67**	66
Total directors' emoluments (see page 56-57)	**1,892**	1,860
Social security costs	**229**	225
	2,121	2,085

Details of the emoluments of the directors are contained in the Directors' Remuneration Report on page 56-57.

4. 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 is 1.0% (2015: 0.9%) 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.

5. Intangible assets

	Software
	£'000
Cost at 1 April 2015	289
Additions	21
Cost at 31 March 2016	**310**
Amortisation at 1 April 2015	281
Charge for year	10
Amortisation at 31 March 2016	**291**
Net book value at 31 March 2016	**19**
Net book value at 31 March 2015	8

6. Tangible assets

	Leasehold improvements	Office equipment	Fixtures, fittings and furniture	Total
	£'000	£'000	£'000	£'000
Cost at 1 April 2015	2,500	1,632	1,195	5,327
Additions	12	67	9	88
Disposals		(622)	(828)	(1,450)
Cost at 31 March 2016	2,512	1,077	376	3,965
Amortisation at 1 April 2015	171	1,499	854	2,524
Charge for year	233	73	54	360
Disposals		(622)	(827)	(1,449)
Amortisation at 31 March 2016	404	950	81	1,435
Net book value at 31 March 2016	**2,108**	**127**	**295**	**2,530**
Net book value at 31 March 2015	2,329	133	341	2,803

7. Debtors

	2016	2015
	£'000	£'000
Debtors	**56**	595
Prepayments	**693**	1,048
Accrued income	**2,184**	1,517
Other debtors	**93**	287
	3,026	3,447

8. Cash and investments held

	Cash 2016 £'000	Deposits 2016 £'000	Total 2016 £'000	Cash 2015 £'000	Deposits 2015 £'000	Total 2015 £'000
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	2,238	3,024	5,262	476	4,008	4,484
Totals at 31 March 2016	**2,238**	**7,024**	**9,262**	**476**	**8,008**	**8,484**

9. Creditors – Amounts falling due within one year

	2015/16 £'000	2014/15 £'000
Trade creditors	**320**	693
Other taxation and social security	**1,094**	1,029
Accruals	**1,964**	1,483
Deferred income	**1,054**	1,120
Deferred lease incentive	**343**	343
Other payables	**361**	**1,132**
	5,136	5,800
Corporation Tax at an effective rate of 20% (2014/15: 20%) on interest income of £73,000 (2014/15: £71,000).	**14**	14
	5,150	5,814

10. Creditors – Amounts falling due after more than one year

	2016 £'000	2015 £'000
Deferred lease incentive	**2,036**	1,382
	2,036	1,382

11. Significant transactions with other standard setters

Due to the requirement of the Government, the FRC raises the UK's annual contribution to the funding of the International Accounting Standards Board (IASB) alongside its preparers levy. The FRC makes a small charge for providing this service. The amount of monies collected during the year was £862,000 (2014/15: £845,000), of which £3,000 (2014/15: £27,000) remained to be paid over by the FRC to the IASB as at 31 March 2016.

12. Provisions for liabilities

	2015/16	2014/15
Dilapidations	**£'000**	£'000
Balance at 1 April 2015	**30**	-
Amount charged to Profit and Loss account	**30**	30
Balance at 31 March 2016	**60**	30

13. Commitments

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

	2015/16	2014/15
	Total	Total
	£'000	£'000
Payments due within one year	743	743
Payments due within two to five years	2,951	2,953
Payments due after more than five years	2,933	3,672
	6,627	7,368

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

	2015/16	2014/15
	£'000	£'000
Payments due within one year	14	14
Payments due within two to five years	40	51
Payments due after more than five years	-	2
	54	67

14. Related party transactions

Key management compensation

The Directors represent key management personnel for the purposes of the FRC's related party disclosure reporting and their compensation is as disclosed in note 3.

Transactions with related parties

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

15. 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.

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 at pages 56 to 57. The attendance of the Directors to the meetings held during the year is in Table 5.

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.

Directors' insurance and indemnities

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.

The Strategic Report

The Strategic Report contains information on the following matters and can be found at pages 6 to 27.

- The FRC's financial risk management policy
- Important events affecting the Company since the end of the financial year
- Likely future developments in the business of the Company.
- Activities in the field of research and development

Disclosure to the auditor

The Directors, at the date of this report, confirm that, as far as each Director is aware, there is no relevant audit information of which the FRC's auditor is unaware. Each Director has taken all steps that he/she 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.

Fair, balanced and understandable

The Directors consider that this annual report is fair, balanced and understandable and contains the information necessary for the user to assess the position, performance, business model and strategy of the FRC.

Auditors

The auditors, haysmacintyre, have expressed their willingness to remain in office and the Audit Committee has recommended their re-appointment to the Board. A resolution to re-appoint the auditors and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting of the Company.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law 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 judgments 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;
- 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.

By order of the Board
Anne McArthur
Company Secretary
13 July 2016

Table 5 - The attendance of the Directors to the meetings held during the year.

	FRC Board	Nominations Committee	Remuneration Committee	Audit Committee	Codes & Standards Committee	Conduct Committee
Sir Winfried Bischoff (Chairman)	8/8	3/3	4/4			
Gay Huey Evans (Deputy Chair)	8/8	3/3				9/11
Stephen Haddrill (CEO)	8/8					
Mark Armour	7/8			4/4		
Sir Brian Bender	6/8					8/11
David Childs	8/8	2/3				11/11
John Coomber* (from 23/7/2015)	5/5			0/1	6/7	
Elizabeth Corley	7/8	2/3	4/4			
Olivia Dickson	7/8				8/8	
Paul George (Executive Director)	8/8					11/11
Ray King (from 23/7/2015)	5/5				4/7	
Nick Land	8/8	3/3	4/4	4/4	8/8	

Roger Marshall	5/8				6/8	
Melanie McLaren (Executive Director)	8/8				8/8	
Keith Skeoch**	5/8			0/3	5/8	
John Stewart (to 1/7/2015)	1/3				1/1	
Keith Barton (to 1/10/2015)					3/3	
Ashok Gupta (from 1/10/2015)					5/5	
Sue Harris (from 1/10/2015)					5/5	
Liz Murrall					8/8	
Allister Wilson (to 1/10/2015)					2/3	
Peter Baxter						9/11
Lillian Boyle						10/11
David Cannon (from 1/9/2015)						7/7
Sean Collins (from 1/9/2015)						6/7
Mark Eames						10/11
Geoffrey Green						8/11
Helen Jones (from 1/9/2015)						6/7
John Kellas (to 1/9/2015)						4/4
Malcolm Nicholson						10/11
Joanna Osborne						10/11
Martin Slack						11/11
Ian Wright***						2/11

* John Coomber was appointed to the Audit Committee with effect from 27 January 2016.

** Keith Skeoch retired from the Audit Committee with effect from 27 January 2016.

***Acting Deputy Chair, Financial Reporting Review Panel – receives papers and is invited to meetings as necessary.

APPENDICES

1. FRC's Oversight responsibilities:

i. FRC's statutory oversight of the regulation of auditors by recognised professional bodies in 2015/16

ii. FRC's statutory oversight of local audit

iii. FRC's statutory responsibilities as the Independent Supervisor of Auditors General

iv. FRC's oversight responsibilities for the regulation of Third Country Auditors

v. Other oversight responsibilities

2. Abbreviations

Appendix 1

The FRC's oversight responsibilities

This Appendix reports on:

(i) the FRC's statutory oversight of the regulation of auditors by recognised professional bodies in 2015/16

(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 oversight responsibilities for the regulation of Third Country Auditors

(v) the FRC's other oversight responsibilities

(I) The FRC's statutory oversight of the regulation of auditors by recognised professional bodies in 2015/16.

SUMMARY

1.1. Our conclusions from our work in 2015/16 are positive and much of the regulatory practice we see continues to be of a high standard. Our conclusions should be seen in the context that all the recognised bodies devote substantial resources to their regulatory responsibilities and are open to making improvements to their processes. Where weaknesses are found the bodies often take action without waiting for us to make recommendations in our reports. We confirm that we have continued to receive a high level of cooperation from the bodies.

1.2. We follow a risk-based approach to determine both the regulatory elements we should address in a particular year and our relative monitoring effort at the different bodies. Our approach is based on our assessment of the inherent risks of the main regulatory activities and the length of time since we reviewed each activity. In 2015/16 our focus at the Recognised Supervisory Bodies (RSBs) was audit monitoring, continuing professional development (CPD) monitoring and the follow up of actions taken by the bodies in response to our previous recommendations. At the Recognised Qualifying Bodies (RQBs) our focus was on student training records and the monitoring of approved training offices. Accordingly we may not identify all errors and weaknesses in each body's systems and procedures for audit regulation.

1.3. Against this background, our principal conclusions are:

- We see no reason at present to withdraw recognition from any recognised body.
- Staff at the bodies carry out audit monitoring competently, and in compliance with each body's regulations and procedures. However, audit quality remains an issue for a substantial minority of firms and there continues to be work for the bodies to do to assist and encourage firms to improve and to ensure that their principals and staff complete the CPD needed to deal adequately with audit and financial reporting changes.
- The training of students is a fast-moving competitive environment where the bodies continue to make changes in how they train and examine their students and set their syllabus. Our main concern from our 2015/16 RQB monitoring work is in relation to the

difficulties encountered by the bodies in ensuring that both students and their employers record and review their practical audit work experience promptly and accurately.
- Overall the bodies have responded positively to recommendations made in our previous reports. However, some recommendations involve change over the longer term and in such cases we have sometime found that progress in making these changes is slower than we would have hoped.

INTRODUCTION: MONITORING OF RECOGNISED SUPERVISORY BODIES AND RECOGNISED QUALIFYING BODIES

1.4. Section 1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006 (the Act), requires the FRC to report once in each calendar year to the Secretary of State on the discharge of the powers and responsibilities delegated to the FRC under sections 1252 and 1253 of the Companies Act 2006. In essence these responsibilities are to oversee the regulation of statutory auditors by Recognised Supervisory Bodies (RSBs) and the award of the statutory audit qualification by Recognised Qualifying Bodies (RQBs).

1.5. The FRC has the following graduated range of enforcement powers:

- To direct an RSB or RQB to take specific steps to meet its statutory obligations.
- To seek a High Court order requiring the RQB or RSB to take specific steps to secure compliance with a statutory obligation.
- To impose a financial penalty on an RSB or RQB where it has not met a requirement or obligation on it.
- To revoke the recognition of the RSB or RQB, following due process, where it appears to us that a body has failed to meet an obligation under the Act.

1.6. These powers enable us to address both serious and lesser failures by the recognised bodies and we consider that knowledge of the existence of these powers in itself further encourages timely responses by RSBs and RQBs to our recommendations.

1.7. Audit firms that wish to be appointed as a statutory auditor in the UK must be registered with, and supervised by, a Recognised Supervisory Body (RSB). Individuals responsible for audit at registered firms must hold an audit qualification from a Recognised Qualifying Body (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)
- Chartered Accountants Ireland (CAI)
- Institute of Chartered Accountants of Scotland (ICAS)

1.9. In addition :

- Association of Authorised Public Accountants (AAPA) is an RSB
- Association of International Accountants (AIA) is an RQB
- There is a separate regime for local audit and local audit RSBs and RQBs are discussed in Section 2 below.

1.10. We exercised 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, and making recommendations;
- Annual compliance testing of the way in which each body's regulatory systems operate in practice, and making recommendations;

- Evaluating the effectiveness of specific aspects of the regulatory system across all the bodies;
- Review and discussion of the information in returns and regulatory plans submitted by the bodies;
- Keeping in regular contact with each body in order to discuss current issues and trends and future developments, for example proposed changes to a body's bye-laws or rules.

2015/16 OVERSIGHT AND MONITORING

1.11. We carried out annual monitoring visits to each RSB in 2015/16. This was our twelfth annual cycle of monitoring. We follow a risk-based approach to determine both the regulatory elements we should address in a particular year and our relative monitoring effort at the different bodies. The objective of these visits is to test how the RSBs have applied regulatory requirements in practice in one or more specific areas.

1.12. Most visits involve two staff members with the time required on site varying according to the level of activity at each body in the area under review. This is typically around five days. During our visits we also reviewed the bodies' responses to recommendations made in prior years and carried out testing to confirm that the changes that had been made by the bodies were effective in addressing the issues we had raised in our previous reports. The time and resource applied to our visits to the RQBs follows a similar approach.

1.13. A member of FRC professional oversight staff also accompanied inspection staff from each of the bodies to observe how the bodies carry out audit monitoring visits to registered audit firms and approved training offices. We found this helpful in gaining a better understanding of how the bodies carry out these functions before we reviewed a sample of visit reports.

1.14. At monitoring visits to ACCA and CAI we worked jointly with staff from the Irish Auditing and Accounting Supervisory Authority (IAASA). The RSBs are also Recognised Accountancy Bodies in Ireland and IAASA's objectives include supervision of the regulatory functions of these bodies. We consider that this approach of joint visits demonstrates "Better Regulation" and allows both regulators to gather evidence from a larger sample of items than would otherwise be the case whilst reducing the time required by the bodies to liaise with different regulators.

1.15. As discussed below at paragraph 1.28-1.30 the FRC considers complaints it receives about how a body has handled complaints about its members. This work helps to inform us about how the complaints processes at the bodies are working and may alert us to issues or individual cases that merit further enquiry during our monitoring visits.

1.16. We plan our work prior to each visit in accordance with our oversight plan and based on our existing knowledge of the body and of any significant regulatory developments since the previous year. We request information from the body before our visit to allow us to select a sample of items for testing on site. Following the on-site work we send the findings from our monitoring visits to each body for comment. Once the body has agreed the factual accuracy of the findings we prepare a private report to the body which may include recommendations. We require the bodies to send us their response to our recommendations including the actions they will take. At subsequent visits we review the progress made by the bodies in responding to our previous recommendations and close any recommendations where we consider that the body's actions have now resolved the issue that we raised.

1.17. We also reviewed and approved 13 reports in 2015/16 of inspections of smaller auditors of public interest entities undertaken by the RSBs. This was in support of our responsibilities to approve the inspection methodologies and the assignment of inspectors to undertake this work; and review the RSB's inspection reports on each firm.

1.18. We need good information to carry out this role. Each RSB and RQB provides an annual regulatory report which includes statistical information on their regulatory activities during the previous year. Each body has also provided us since 2012 with an annual Regulatory Plan, covering both RQB and RSB requirements. The Regulatory Plans are broad forward-looking documents that discuss all significant work that the bodies have in progress. Although it is not our role to formally approve changes to a body's bye-laws or regulations we are frequently given notice of such proposals by the bodies and offered the opportunity to provide our comments.

1.19. In addition we hold regular meetings with senior staff at the bodies to discuss current issues along with their key risks and future plans. We also discuss the findings and recommendations arising from our monitoring work. Each body is expected to inform us of urgent or emerging significant issues relevant to their role as a RSB/RQB as soon as they arise, with a view to ensuring that our views are taken fully into account before decisions are taken. We consider that the bodies have kept us adequately informed in 2015/16.

1.20. We focused our 2015/16 RSB visits on the following areas:

- The processes and practice in respect of audit monitoring. Each body has a team of inspectors who carry out monitoring visits to their audit registered firms. The overall purpose of the visits is to ensure that audits comply with professional standards and meet the requirements of each body's audit regulations. Visits may also provide assistance to firms by assessing the effectiveness of remedial actions where necessary. Each registered audit firm must be inspected at least once every six years. Firms with listed clients or clients falling within the scope of the FRC's Audit Quality Review Team (AQR Team) are subject to visits every three years. We reviewed a sample of files for visits closed in 2015. The sample selection focused on the audit work of the larger audit firms and of audits that approach the boundary between the RSB's responsibilities and those of the AQR Team and on firms with a poor regulatory history.
- The processes and practice in respect of continuing professional development (CPD), and in particular the CPD of those members carrying out statutory audit work. We selected a sample of members whose CPD had been monitored by their body to confirm that any follow-up actions are appropriate.
- The progress made by the bodies in implementing our recommendations made in prior years.

We report on this work at paragraphs 1.22 – 1.27 below

1.21. We focused our 2015/16 RQB monitoring visits on the following areas:

- The processes and practice in respect of student practical training records. There are specific requirements regarding the number of weeks of appropriately supervised work experience that students must spend doing statutory audit work and other audit work of a kind similar to statutory audit work in order to obtain the audit qualification. We reviewed a sample of practical training records to see the quality of the entries made by students, the frequency of the monitoring of the entries by firms and the nature and effectiveness of any quality control function carried out by the bodies before they approve the training record.
- The processes and practices in respect of approval of training offices. It is important that firms that train students take their responsibilities seriously and that employers are open with their students about the amount of audit work experience that a firm can provide.
- The progress made by the bodies in implementing our recommendations made in prior years. We also continued some work on a thematic review across all the RQBs focusing on the practical training of statutory auditors. This work is not yet complete. We report on our RQB monitoring work at paragraphs 1.31 -1.41 and progress on the thematic review at paragraphs 1.42 -1.44.

RESULTS OF 2015/16 RSB MONITORING – MAIN POINTS

1.22. Where appropriate we refer in this report to the individual bodies to which findings and recommendations apply. However, we invite all the bodies to consider the relevance of our findings to their situation. We also look carefully at the manner and speed with which individual bodies have responded to our previous recommendations. Whilst we report separately on the results of our RSB and RQB monitoring it is important to bear in mind that there are linkages between both areas.

1.23. All the bodies devote substantial resources to their regulatory responsibilities. We continue to see much regulatory practice of a high standard. We have made fewer recommendations across the bodies in 2015/16 because either we considered a finding to be an isolated instance or because a body had already acted or changed its processes to deal with the issue found. Where we do make recommendations these are aimed at encouraging the bodies to adopt best practice or to raise standards rather than to correct major failings. In more complex areas, it may take longer for a body to take action and change takes place over a number of years. We give particular focus to those areas where we have felt it necessary to make repeated recommendations over several years and where action from a body has been slower than we have expected.

1.24. The main points, from our 2015/16 RSB monitoring work in relation to each body are as follows:

ICAEW

- We found that the audit monitoring work we reviewed had been completed, documented and reviewed to a good standard and that issues we had raised in previous years have now been addressed. In particular the work packs showed that all points identified in the file reviews had been disposed of either through discussion with the firm or included in the closing meeting notes. We also found that reviewers had provided sufficient explanation of the client files and of the sections within these files they selected for review. In that overall context we consider that the small number of points where documentation might be improved are minor weaknesses.
- Our review also covered a sample of inspections carried out by ICAEW to recognised auditors in the Crown Dependencies. Recognised auditors are auditors who audit market traded companies incorporated in a Crown Dependency and these firms are in many cases also registered auditors in the UK. We found that these visits had been carried out in compliance with ICAEW's audit monitoring procedures.
- ICAEW has introduced a procedure whereby follow-up telephone calls are made to firms by reviewers between the in-person on-site monitoring visits. The purpose of the calls is to check with firms that there are no circumstances suggesting that a further monitoring visit may be required urgently. We consider that these calls are a useful tool in improving audit quality.
- We reviewed ICAEW's procedures for monitoring the CPD of a sample of its members. We found some cases where ICAEW had not followed-up promptly those members sampled who did not submit their CPD records in a timely manner. There were some other cases where we found it difficult to follow the reviewer's conclusions. We were pleased to find that since our visit, ICAEW has increased the staff resources engaged in CPD reviews.

ACCA

- ACCA's processes and procedures for the award of its practising certificate with audit (PCAQ) were subject to an external review in 2014. We visited ACCA in 2015 in order to obtain evidence that ACCA had taken steps to address satisfactorily the recommendations in the review report and in our private reports in prior years. We were pleased to find that all the review recommendations have now been implemented and that as a result our previous recommendations could also be closed.

- We also carried out a joint review with IAASA of ACCA's process for the licensing of auditors covering both individuals and firms. Whilst generally positive, the report makes a number of recommendations directed towards enhancing the processes for assessing applications. These include matters such as staff training, the design and completion of training records and greater consistency in how applications are reviewed and how such review is documented.
- ACCA reviews the CPD records of a sample of its members each year. From ACCA's 2014 sample we selected our own sample of members holding a PCAQ. We considered the level of audit-related CPD, whether the reflective narrative completed by members demonstrated the sufficiency and relevance of their CPD activities and whether ACCA's follow-up action was appropriate in cases of non-compliance. Whilst we consider that ACCA's monitoring is effective in regulating the CPD activity of its members we have made recommendations that communications with members should be clearer about the consequences of non-compliance with the CPD requirements and that there should be a minimum level of verifiable audit-related CPD for those members working in audit.
- The focus of our work on audit monitoring was on the effectiveness of ACCA's approach to ensuring that firms take effective remedial action in cases where there has been an adverse visit outcome. We had previously asked ACCA to undertake a number of pilot studies intended to identify measures that are effective in improving the quality of a firm's audit work but unfortunately these did not provide any conclusive results. The main component of ACCA's approach to improving audit quality is to require firms to prepare action plans that set out the steps they will take and the timescales. In previous years we found that some of the action plans we reviewed did not provide a sufficiently detailed commitment from firms to make the changes required. This is an area where inspectors reach judgements about firms' attitude and motivation to improve based on the outcome of monitoring visits. ACCA has now introduced a revised action plan template that addresses these points and we found that the actions plans we reviewed this year had improved. Nevertheless it will take a number of years for ACCA to be able to conclude whether the revised action plans have been effective in improving audit quality. Accordingly we think it will be beneficial for ACCA to further develop its analysis of a firm's visit history so that it can assess whether a firm's action plans have been effective or whether a firm is persistently poor.

ICAS

- We reviewed how ICAS monitors its members' compliance with the CPD requirements. The CPD of RIs and other audit staff is reviewed during audit monitoring visits. Until the end of 2015 ICAS provided an accredited employer scheme for CPD which included some major employers both in public practice and in business. This scheme is no longer available. Given the closure of the scheme we focused our CPD review on ICAS's monitoring of individual members which is based on its review of a sample of members and on its audit monitoring. We were able to confirm that the quality of information provided by members was of an acceptable standard and complied with ICAS requirements.
- Our review of audit monitoring at ICAS focused on firms where the inspection is delegated to ICAS from the AQR Team and on firms with a poor audit monitoring history. ICAS's audit monitoring processes are manual rather than automated and accordingly the comprehensive tracking of points from the visit findings to the closing meeting notes is key to the effective working of these processes. We found that the audit monitoring work had been completed, documented and reviewed to a good standard.

CAI:

- We carried out a joint review with IAASA of CAI's process for the licensing of auditors. The review covered both the award of the audit qualification by CAI's Education and Training Department and the registration of audit firms and the approval of RIs by the

Chartered Accountants Regulatory Board (CARB) which is the regulatory arm of Chartered Accountants Ireland. The review report highlights that all the staff involved in these processes have a good understanding of the legislative framework and of the issues that may impact on a member's eligibility for appointment as a statutory auditor. However the report also identified a number of areas of current performance where there is scope for improvement. These areas include the follow-up by staff of conditions placed on registration of individuals or firms, referrals of cases to committee for decision, the completion of checklists and other documentation and assessment of applicants' CPD. Some of these matters will be addressed when CAI's IT systems are upgraded during 2016.

- During 2015 CARB completed 244 audit monitoring visits in order to meet its objective of visiting all Irish registered firms within a six year period by May 2016 as required by the Audit Directive. It expects to achieve this. We reviewed a sample of audit monitoring visits focusing on visits to the Big 4 firms and on firms with a record of good quality audit work. Given the substantial number of audit monitoring that had been completed we were pleased to find that the standard of the reviews had been maintained. The visit statistics indicate a larger proportion of audit firms visited where the quality of the audit work was unsatisfactory than at some other RSBs. This is due, at least in part, to the long period between monitoring visits to some smaller firms. In our view it is important that CARB takes prompt and effective action to require such firms to improve their audit work or that they cease to be audit registered. We also reviewed the process for reviewing the CPD of RIs during audit monitoring visits. This was satisfactory but the procedures will in future need to take into account IES 8.

Other Issues

1.25. We report below on other regulatory issues that relate across all the RSBs:

Audit quality

1.26. We held a meeting of the bodies in June 2015 to discuss the outcomes of the three-year plans for raising audit quality first developed in 2010/11. We discussed what measures had worked well and where further improvement was required. The bodies agreed to continue and develop the actions already implemented but felt that there was no additional benefit in setting this commitment within the more formal context of a new action plan. The meeting allowed the bodies to share examples of best practice and successful initiatives. We encourage the bodies to continue to share information about the outcome of the measures they have taken to improve audit quality. We will assess the effectiveness of the actions taken by the bodies during our monitoring visits.

International Education Standard (IES) 8 (revised)

1.27. The revised standard focuses on the professional competencies required for engagement partners who have responsibility for audits of financial statements. There are two main areas to consider: demonstration of compliance at the point when a body registers a Responsible Individual (RI) for audit purposes and the monitoring of on-going compliance by the RI. Our meeting with the bodies in June 2015 discussed their views on the revised standard, their planned approach to implementation and the implications for FRC's Professional Oversight and AQR Team. The bodies agreed to keep the FRC informed of their implementation plans and we will ask to see evidence that implementation has occurred during future monitoring visits.

Complaints

1.28. Schedule 10 of the Companies Act 2006 sets out the requirements all RSBs must meet relating to complaints and discipline, including:

- The RSB must have effective arrangements for the investigation of complaints against (a) persons who are eligible under its rules for appointment as a statutory auditor; and (b) the RSB in respect of matters arising out of its functions as a supervisory body.

1.29. As part of its non-statutory oversight role the FRC considers complaints about the way in which the six "chartered" accountancy bodies have handled individual complaints about their members. During the year we conducted a small number of reviews of the handling of particular complaints by professional bodies. These reviews did not indicate any systemic issues with the complaints process at any of the bodies about which we received complaints and also provide some additional confirmation that the bodies meet the statutory requirement to have effective arrangements for the investigation of complaints. However we did identify a small number of cases where the body's own processes either had not worked as well as they should have done of where we considered that existing policies and procedures could be improved in order to work more effectively, and have made recommendations to the bodies concerned.

1.30. Throughout 2015/16 we continued to meet regularly with the ICAEW (which regulates most of the largest audit firms) to discuss how best to handle cases which come close to the threshold for referral to the FRC.

MAIN ISSUES IDENTIFIED AT THE RECOGNISED QUALIFYING BODIES (RQBS)

1.31. We carried out more RQB monitoring in 2015/16 than in the previous year when we limited our work to a follow-up review of the actions taken in response to previous recommendations. This was because we considered that the regulatory risks in this area had increased due to the number of changes made or in progress. The main points from our 2015/16 RQB monitoring work in relation to each body are as follows:

ICAEW

1.32. Our review of the monitoring of Approved Training Employers (ATEs) found that the visit reports prepared by Training Managers were of an acceptable standard. We found some minor deficiencies relating to completion of report documentation and other related matters. The process for the withdrawal of ATE status from a firm also requires to be clearer. We are pleased that ICAEW has re-introduced a process of consistency checking of visit reports across the team with findings being discussed at team meetings.

1.33. We reviewed a sample of on-line training records of students that had recorded some audit experience. In most cases we found that the quality of the information provided by students was of an adequate standard. However there were also cases where the quality was poor and where the training record had not been regularly reviewed by the employer and appropriate feedback had not been provided to the student. A proportion of students do not record any audit experience on their record. It is difficult to establish whether these are students not keeping their training records up to date or whether some individuals deliberately do not record any audit experience because they do not intend to pursue a career in audit.

ACCA

1.34. In 2015 we again reviewed progress in implementing our recommendations on the award of exemptions to students by the ACCA. We selected a sample of 50 cases from UK students granted five or more exemptions since September 2014. We found two cases where the students had not been given the correct exemptions. Whilst there has been a reduction in the error rate compared with previous years we were disappointed to find evidence that a proportion of the more complex exemption applications still continue to be processed incorrectly.

1.35. ACCA has built a considerable number of checks into its processes for granting exemptions and has made a number of procedural changes to improve its exemptions assessment process. At the time of our visit it was not yet possible for us to assess how far the more recent changes are being successful in bringing improvements in error rates. We wish to see ACCA sustain a negligible level of processing errors over a long period and we consider this is an area of high priority for ACCA in 2016.

1.36. We reviewed a sample of pre-membership practical experience records (PER). Whilst some records had been completed by students in a detailed, original and well-thought out way, others were less good. ACCA relies on experienced work-place mentors to assess and sign-off student achievements. In some cases mentors sign off records without questioning the lack of detail on the basis that they already know the scope of a student's work.

ICAS

1.37. We made a recommendation to encourage better completion of documentation authorising the approval of training offices. ICAS requires students to record their practical experience and attainment of competencies in an Achievement Log. We found that the quality of information provided by students was good and complied with ICAS's requirements. However this was only after each Achievement Log had been reviewed at least once, and often more than once by qualified ICAS staff and students and employers had made the changes and documented additional experience to meet ICAS's requirements.

CAI

1.38. In previous years we have made a number of recommendations directed at improving the way in which audit experience is recorded in CAI's "CA Diary" system. CAI will make improvements to the CA Diary system as part of its project to replace its IT systems. The new systems are expected to be implemented in mid-2016. We continue to emphasise to CAI that we attach considerable importance to the successful and timely implementation of this project and that regulatory requirements must be met.

1.39. We found some examples where students had used the CA Diary system well. As is the case with other RQBs we also found examples where the system had not operated properly because of issues such as late sign-off by student mentors, poor quality of mentor comments and competencies claimed by students that were not adequately supported by the accompanying narrative in the CA Diary.

1.40. We also reviewed sample of reports of visits to recognised training offices. We consider that this system works effectively although in our view its operation is overly dependent on one person. We have made suggestions to improve some aspects of this process.

AIA

1.41. Our visits included a monitoring visit in 2016 to the AIA. The objectives of the visit were to assess the AIA's progress in implementing the recommendations made in the 2013 external review of AIA's Recognised Professional Qualification and the recommendations from our 2015 monitoring visit. Our visit confirmed that AIA continues to meet the requirements for a RQB.

THEMATIC REVIEW OF PRACTICAL TRAINING OF AUDITORS

1.42. We issued our initial report which discusses the findings of our review to the RQBs in February 2016. Our review assessed whether the existing interpretations of the Companies Act requirements regarding practical work experience remain sufficient to provide an adequate base of knowledge and skills on which newly qualified members may build as they progress to becoming a statutory auditor.

1.43. We have received responses from the RQBs to some questions in the report about the areas where we believe that the existing framework should be modified and updated. These include the views of the RQBs on the costs and benefits of the proposals and the practical issues that might be encountered on implementation.

1.44. We are currently evaluating the responses and we expect that our next steps will be further discussions with both the RQBs and with training firms in order to reach a consensus on which proposals should be implemented, in what way and on what timescale. We will also wish to ensure that any agreed changes are consistent with the current working-practices in audit of firms and take into account other recent developments such as the competencies included in the revised IES8 and the research by ICAS and the FRC into the skills required for the audits of the future.

MUTUAL RECOGNITION OF AUDIT QUALIFICATIONS

1.45. The qualifications of the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants in Australia are approved third country qualifications under Section 1221 of the Companies Act 2006. The Canadian Institute has since merged with other bodies in Canada and the Institute of Chartered Accountants in Australia and the Institute of Chartered Accountants of New Zealand have also merged.

1.46. It is our intention to undertake a review of the qualifications of the successor bodies for the purpose of designating their new qualifications as approved third country qualifications, provided the conditions of Section 1221 relating to equivalence and mutual recognition have been met. We have held some preliminary discussions with the RQBs regarding how we might carry out these reviews which will involve a detailed assessment of the new qualifications.

1.47. Currently student work experience gained on the audit of market traded companies in the Crown Dependencies may count towards the practical training requirements for a UK audit qualification provided that such experience is supervised by a UK Responsible Individual and gained within an approved training firm which is a UK or EU registered auditor. There are some concerns in the Isle of Man that the limited availability of such audit experience may make it increasingly difficult for individuals to gain a UK audit qualification. We are therefore considering proposals put forward by one of the RQBs whereby Isle of Man audit firms may elect to carry out audit work in full compliance with UK legislation and Standards. This work experience would then be eligible to count towards the practical training requirements for the UK audit qualification.

(II) REPORT ON THE FRC'S STATUTORY OVERSIGHT OF LOCAL AUDIT

2. LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

2.1 The Local Audit and Accountability Act ("LAAA) abolished the Audit Commission on 31 March 2015 and brought into effect a new transitional body, the Public Sector Audit Appointments Company (PSAA). The PSAA will manage local audit contracts until December 2017 when the transitional regime will end. The new arrangements for the regulation in England of the auditors of the accounts of local authorities and some other public bodies are being implemented progressively. We expect that the first audits to be inspected by the FRC under the new structure will be in relation to accounts for the financial year ending 31 March 2017.

2.2 The LAAA delegated three specific responsibilities to the FRC; to issue guidance on the recognition of individuals as key audit partners; to issue regulations for the keeping of the register of Local Auditors; and to issue regulations for local audit firms on the requirement to publish transparency reports. Following approval by the Board these were published in May 2015.

2.3 The FRC approved the Institute of Chartered Accountants of Scotland (ICAS) and the Institute of Chartered Accountants in England and Wales (ICAEW) as recognised supervisory bodies for the new local audit regime which commenced on 1 April 2016 following a review of their policies and procedures to ensure these were consistent with the requirements of the LAAA. Both bodies have now approved a number of firms as local audit firms ahead of new contracts for local audits being put out to tender towards the end of 2016.

2.4 The Association of Chartered Certified Accountants (ACCA) has also indicated that it may be interested in applying to be recognised as a RSB for local audit.

2.5 CIPFA, which was approved as a Recognised Qualifying Body in relation to local audit in 2014 has enrolled a number of students on both its local audit qualification and a new joint qualification (developed with ICAS). The joint qualification provides students with both the recognised professional qualification for statutory Companies Act audits and local audit. CIPFA has also approved Grant Thornton as an authorised training office for local audit students.

2.6 We continue to work closely with the Department for Communities and Local Government and other interested parties to develop the detailed regulatory arrangements for a smooth transition to the new structure.

(III) REPORT OF THE INDEPENDENT SUPERVISOR OF 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 Companies Act 2006 (2006 Act).

3.2. Section 1228 of the 2006 Act requires the Independent Supervisor to report on the discharge of its responsibilities at least once in each calendar year to the Secretary of State, the First Minister of Scotland, the First Minister and the Deputy First Minister in Northern Ireland, and to the First Minister for Wales. This report meets the statutory reporting requirements.

3.3. The Comptroller and Auditor General (C&AG) and the other Auditors General are eligible for appointment as the statutory auditors of companies under the 2006 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 statutory audit work. To date only the C&AG has entered into the necessary arrangements with the FRC and undertakes statutory audits under the 2006 Act. The year to 31 March 2015 was the seventh year in respect of which staff at the National Audit Office (NAO) undertook statutory audit work, auditing the accounts of 24 companies. This is a minor part of the NAO's work but enables the NAO to undertake the statutory audit of 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 other work of the C&AG.

4. SUPERVISION ARRANGEMENTS

4.1. Section 1229 of the 2006 Act requires the Independent Supervisor to establish supervision arrangements with any Auditor General who wishes to undertake statutory audit work, for:

- Determining the ethical and technical standards to be applied by an Auditor General;
- Monitoring the performance of statutory 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 statutory audit by an Auditor General.

4.2. 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 statutory audit work by the FRC's Audit Quality Review (AQR) team, on behalf of the Independent Supervisor.

5. REPORTING REQUIREMENTS

5.1. 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

5.2. The supervision arrangements require that the C&AG and relevant NAO staff follow technical and ethical standards prescribed by the FRC when conducting statutory audits and sets out the investigation and disciplinary procedures that would apply were there a need to discipline the C&AG in his capacity as a statutory auditor. The relevant standards are those set by the FRC for auditors generally.

5.3. We meet periodically with 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 2006 Act

5.4. As noted above, to date only the C&AG has undertaken statutory audits, all of which have been of companies within the public sector.

5.5. The AQR inspection in 2015/16 of the C&AG's statutory audit work comprised:

- Updating its understanding of the processes, policies and procedures supporting audit quality that applied to these audits; and
- Reviewing the performance of two of the 26 statutory audits carried out by NAO staff in respect of financial periods ended on 31 March 2015.

5.6. Progress has been made in addressing the prior year inspection findings. There are areas where further action is required, however to date none of these findings is in respect of Companies Act entities.

5.7. The audits reviewed have increased in size and complexity year on year and the nature and number of our findings continue to reflect this; areas in which issues were identified this year included group audits, valuation of investments and consideration of independence. However, we did not consider any issues raised on either audit to be significant.

5.8. On the basis of the findings of the AQR, and subject to the NAO's action plan to deal with those findings, in our view the NAO has policies and procedures in place that are generally appropriate to the conduct of its Companies Act statutory audits.

5.9. We found no evidence that any Auditor General was in breach of duties under the 2006 act.

(c) Notification by Auditors General under Section 1232 of the 2006 Act

5.10. No Auditor General was required to notify the Independent Supervisor of any other information under Section 1232 of the 2006 Act.

(d) Independent Supervisor's Enforcement Activity

5.11. We issued no enforcement notices and made no applications for compliance orders in 2015.

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

5.12. 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

6. REGULATION OF THIRD COUNTRY AUDITORS

6.1 The European Union sets specific requirements for the regulation of the auditors ('third country auditors' or TCAs) of companies from outside the EU that issue securities traded on EU regulated markets. The FRC is responsible for applying these requirements, including monitoring the quality of a TCA's audit work in some circumstances where the firm is not separately subject to equivalent external monitoring. Regulation of TCAs is important because there are some 205 issuers from 45 countries outside the EU whose securities are traded on a UK regulated market.

6.2 The legal requirements for an inspection of a TCA firm by the FRC arises from the Statutory Audit Directive (2006/43/EC) ('SAD') which was adopted by the European Union in May 2006 and transposed into UK Company Law in June 2008. The SAD included specific provisions on the regulation of TCA. In particular, the Directive and the UK implementing legislation require the FRC to subject registered TCAs to its systems of oversight and quality assurance reviews. 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.

6.3 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, in particular, local confidentiality laws can hinder access to audit working papers. We endeavour to overcome these challenges.

6.4 Our monitoring focuses on those UK market-traded companies considered to be of significance for UK investors. In the year to 31 March 2016, our third year of inspections, we completed inspections of selected aspects of six audits at six TCAs: two in India and one in each of Israel, Zambia, Chile and Nigeria. Two of the audits were categorised as 'limited improvements required', one was categorised as 'improvements required' and three were categorised as 'significant improvements required'. In the prior year we inspected four audits of which all were categorised as 'limited improvements required'. A report on this work is included within our annual Audit Quality Inspections Report which is on the website at https://frc.org.uk/Our-Work/Conduct/Audit-QualityReview/Audit-Quality-Review-annualreports.aspx

V. Other oversight responsibilities

This Appendix reports on: the FRC's non-statutory oversight of the regulation of actuaries in the UK by the Institute and Faculty of Actuaries (IFoA), "the body".

SUMMARY

- The body continues to make regulatory progress and the level of cooperation from the body is very high;
- The launch of its Quality Assurance Scheme is a significant and encouraging step;
- A number of IFoA reviews of key areas, including ethics, are in hand;
- The nature and timing of FRC's actuarial oversight work programme has been reviewed;
- The FRC wishes to review the current regulatory arrangements and intends to issue a consultation in 2017.

1. INTRODUCTION

1.1 One of the central recommendations of the Morris Review of the Actuarial Profession (published in March 2005) was that self-regulation by the actuarial profession should be subject to independent oversight by the Financial Reporting Council. The FRC assumed responsibility for independent oversight of the UK Actuarial Profession (now the IFoA) in April 2006 at the request of HM Treasury.

1.2 Since 2006, the FRC has issued technical actuarial standards and has overseen the body putting conduct standards into place such as the Actuaries Code in 2009 on behavioural ethics, a cross-practice standard on work review in 2015 and the voluntary quality assurance scheme for employers of actuaries also in 2015. The FRC assumed responsibility for public interest disciplinary cases that involve actuaries in 2007. The FRC developed an actuarial quality framework to guide the FRC, IFoA and other stakeholders in promoting actuarial quality.

1.3 The FRC reviewed the sources of monitoring of actuarial work in detail in 2008-2009, identifying gaps. This monitoring 'map' was updated in 2014 and found largely to be unchanged. Indirect monitoring in insurance has now increased as a result of scrutiny of Solvency II implementation by the PRA.

1.4 In 2012-13, the FRC reviewed the framework for actuarial regulation with the IFoA and continued to set technical standards, oversee the body's regulatory activities and operate a public interest disciplinary scheme. We updated our Memorandum of Understanding with the body in 2014.

1.5 In 2013, the FRC established the Joint Forum on Actuarial Regulation (JFAR) which is described below in 2.2. In 2014, the FRC with the JFAR published a Risk Perspective document which outlined the public interest risks relating actuarial work and mitigation options.

1.6 The FRC now plans to consult in early 2017 on the future of actuarial regulation including on whether independent oversight of the actuarial profession remains necessary and appropriate. Until any post-consultation decisions are taken, the FRC will continue to undertake its current role in accordance with its work programme which was reviewed and agreed with the body in 2015/16.

2. REPORT ON THE IFOA'S REGULATORY PROGRESS IN 2015/16

2.1 The public letter of 10 August 2015 from the Chair of the FRC's Conduct Committee to the Chair of the IFoA's Regulation Board set out the matters which the FRC considered should be the body's priorities for the year ahead. We asked the body to be proactive on regulatory matters and to continue to focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis. The IFoA plans to include in its regulatory policy statement, to be finalised in July this year, an appendix which seeks to clarify what acting in the public interest means to the body.

(a) IFoA review of its standards framework

2.2 In April 2016, the IFoA published the consultation feedback document of its review of its standards framework. The main conclusions were:

- the current structure is broadly fit for purpose and should be retained;
- the labelling and structure should be simplified, consistent terminology used and accessibility enhanced;
- the IFoA will enhance communication and proportionately monitor the framework's effectiveness.

(b) Public interest risks to which actuarial work is relevant

2.3 The IFoA has continued to participate in the Joint Forum on Actuarial Regulation (JFAR); a unique collaboration between regulators to co-ordinate, within the context of its members' objectives, the identification and analysis of public interest risks to which actuarial work is relevant. The JFAR comprises the Financial Reporting Council, the Institute and Faculty of Actuaries, the Financial Conduct Authority, the Pensions Regulator and the Prudential Regulation Authority.

2.4 Following the publication of JFAR's Risk Perspective Document, we encouraged the IFoA, like the FRC, to reflect and embed the risks and associated mitigations identified through the JFAR into its regulatory strategy. The IFoA embarked upon its "Risk Outlook" project in 2015, to identify, prioritise, and where appropriate, publicise risks to the public interest in connection with actuarial activity. As the IFoA reported to the JFAR in March 2016, single topic "risk alert" communications will be published to bring relevant risks to the attention of the body's members and stakeholders. The Risk Outlook project is ongoing and will inform the IFoA's regulatory strategy and the prioritisation of its regulatory work.

2.5 The IFoA led JFAR's review of "Group Think" in 2015/16, which resulted in publication of a paper in June 2016 to raise public awareness of this risk after identifying this as a key way to mitigate the risk.

(c) Quality Assurance Scheme for firms

2.6 The IFoA launched its Quality Assurance Scheme (QAS) for firms in September 2015, which had been developed in response to recommendations that the FRC made in 2009. The QAS is a voluntary initiative which encourages active engagement with actuarial quality by firms which employ actuaries, although the IFoA has no jurisdiction to regulate firms. It strengthens the regulatory regime which is in the public interest. Under the QAS, the first batch of applications from firms which collectively employ approximately 20% of the body's UK membership have now been independently externally assessed and approved for accreditation. These initial accreditations took effect from 12 April 2016 and demonstrate a very good initial take up for a voluntary compliance arrangement. The IFoA is now considering how to use outputs from the QAS to inform its regulatory strategy.

(d) IFoA standards on review of individuals' work

2.7 The IFoA's new principles-based cross-practice standard, APS X2: Review of actuarial work, came into force on 1 July 2015 and at the same time the more prescriptive standard, APS P2: Compliance review: pensions, was withdrawn. The IFoA's programme of implementation training is ongoing. We engaged with the body to ensure that the transition training put in place was sufficiently accessible before the new standard was implemented and old one simultaneously withdrawn in July 2015.

2.8 The IFoA's post-implementation review of APS X2 has begun: oral and written feedback has been obtained from some larger firms on how APS X2 has been applied to work that was formerly covered by APS P2. We expect the IFoA's post-implementation review in 2016/17 to be evidence-based and to focus on public interest outcomes, in particular on the way in which APS X2 has been applied to work in the public interest which was formerly covered by APS P2. Our view remains that effective peer review must be a robust challenge that is both objective and effective.

(e) Ethical code for actuaries

2.9 The IFoA's substantive review of the Actuaries Code is still at an early stage. We have provided strategic input to the project's scope and we continue to encourage the body to share its draft proposals with us, which will include outputs from its standards framework review and from wider consultation, The IFoA has confirmed that it plans to complete its review and implement the revised code by summer 2017.

(f) Actuarial skills and competencies

2.10 In April 2016, the IFoA published the findings of its commissioned research into the knowledge skills and competencies that users can expect of actuarial practising certificate holders, to provide a learning reference point for its members. The body is now considering how best to embed these key attributes into its programme of education, continuing professional development (CPD) and other regulatory activities and remains on track with our expectations that it should respond to the findings in 2015–17. CPD is a key pillar of the regulatory regime.

2.11 In line with our mutual expectations, the IFoA launched a new Practising Certificates regime for the Chief Actuary role in July 2015, in time for the implementation of Solvency II in January 2016.

2.12 The IFoA published further Professional Skills training materials for its members. We had suggested that the IFoA should monitor whether the key messages taken away by participants from the professionalism case studies are aligned with the outcomes the body intended. The new materials are clearer in this regard. Additionally a new recording requirement was introduced for student members in relation to professional skills. Broad compliance in relation to the established CPD requirements can now be evidenced, demonstrating that the new Professional Skills regime is becoming embedded.

(g) Disciplinary process

2.13 The IFoA has refreshed the membership of its Disciplinary Board and Disciplinary Pool. New tribunal guidance is under development in relation to sanctions. Increased efficiency has resulted in improved case handling timescales.

(h) Education strategy

2.14 The IFoA has completed a major review of its curriculum and examinations to reflect the changing nature of actuaries' work. The draft curriculum has been shaped in consultation with learners, employers and other relevant stakeholders. The draft curriculum was circulated for further stakeholder comment in May 2016, prior to anticipated implementation from 2019.

3. THE FRC'S ACTUARIAL OVERSIGHT ACTIVITIES IN 2015/16

3.1 We carried out an internal review of whether the scope and substance of our ongoing actuarial oversight role should be changed and whether we are carrying out the current role in the best way. Our review included input from external stakeholders and the IFoA was particularly helpful in this. Following this review, we agreed that there was a need for:

- more FRC involvement at earlier stages on strategic and regulatory matters;
- direct FRC review of the body's regulatory processes.

3.2 In connection with the IFoA's five-year refresh of its regulatory strategy, we gave input to its strategy refresh principles and to its regulatory deliverables for 2016/17.

3.3 The FRC oversaw the build up to the IFoA's launch of its new quality assurance scheme (QAS) for firms in September 2015. We are supportive of the scheme as an initiative to embed drivers of actuarial quality into organisational culture. We encouraged the body and supported its development of criteria which would enable the entities themselves and those responsible for monitoring or awarding accreditation, to assess objectively whether the QAS outcomes are met by the entities' processes.

3.4 We also engaged significantly with the IFoA prior to the respective implementation and withdrawal of its IFoA's actuarial standards, APS X2: Review of Actuarial Work and APS P2: Compliance Review – Pensions in July 2015. We stressed the need for the body to make available sufficient timely accessible training on the transition to APS X2, and to monitor the approach to compliance with APS X2, particularly in relation to work where compliance with

APS P2 had hitherto been required. The IFoA is still developing its approach to monitor compliance with APS X2 and its programme of education and training is ongoing.

3.5 We outlined to the IFoA the key aspects that its 2016/17 review of the ethical code for actuaries should include, in the public interest and will continue to provide input as the review develops.

3.6 We contributed to the IFoA's analysis of its research into actuarial knowledge, skills and competencies, to assist the body with its development of a 'key skills' guide. The guide will facilitate the embedding of these key attributes both into the IFoA's regulatory activities and into its members' competencies.

3.7 We reviewed, from a public interest perspective, the IFoA's consultation feedback and response documents in relation to the body's new obligations on actuaries who carry out the Chief Actuary role under Solvency II with effect from 1 January 2016.

3.8 We visited the IFoA's Edinburgh office in November 2015 to observe its processes in relation to complaints/discipline and CPD/practising certificates. The processes appeared to be fit for purpose and we will make a second visit in the coming year to test their application.

3.9 We reviewed, and gave feedback on, the IFoA's latest post-qualification professional skills training materials for its members. We have also provided input to the IFoA on alternative proposals which it is currently considering for possible alteration to its disciplinary processes.

4. THE FRC'S PRIORITIES FOR THE IFOA IN 2016/17

4.1 The FRC expects the IFoA to continue to focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis.

4.2 We look forward to the completion of the IFoA's review of its ethical code for actuaries, "the Actuaries' Code", in 2016/17 building on the body's articulation of its members' public interest role within its regulatory policy.

4.3 We expect the IFoA to continue to embed the principles of the Code in its educational and regulatory initiatives, recognising the scope for these principles to mitigate some of the risks associated with actuarial work. It is particularly important that actuaries are supported throughout their careers by training, where appropriate, so that their communications are clear to those who rely upon them.

4.4 Following the JFAR's review of the "group think" risk in relation to actuarial work, on which the IFoA took the lead, we anticipate further initiatives by the IFoA to mitigate this risk via education and training. We would encourage the body to continue to play an active role in the JFAR in terms of identifying public interest risks and also by responding to these including with initiatives in training, education and guidance for its members. We consider that the IFoA would be well placed to take ownership of a new JFAR risk-based review in 2016/17.

4.5 Building on the JFAR's updated Risk Perspective and the IFoA's new Risk Outlook, and referencing the Actuaries' Code and the standards framework, we now look forward to the IFoA's conclusions in 2016/17 on how best to ensure that its regulatory initiatives continue to focus on an up-to-date assimilation of the drivers and indicators of actuarial quality.

4.6 As the IFoA continues to increase the range and diversity of organisations accredited under its new Quality Assurance Scheme, we look forward to its assessment of how the outputs from the Scheme can be used as a measure of actuarial quality.

4.7 We consider the IFoA's development in 2016/17 of an effectiveness review programme for its standards and guidance to be an essential strand of its regulatory strategy. We expect that such reviews should be evidence-based and should focus on public interest outcomes.

4.8 We expect the IFoA, through its reviews of education strategy and of the practising certificate regime to ensure that the professional qualification and practising certificates remain fit for purpose. Building on the online professionalism skills training that the body has developed in recent years, training is now needed for its members on the application of the technical actuarial standards, TASs.

4.9 We welcome the conclusion of the IFoA's research into the skill sets expected of role holders and now look forward in 2016/17 to the embedding of these into the body's programme of education, CPD, member support and other regulatory activities.

4.10 In order to oversee the IFoA's CPD, certification, disciplinary and education arrangements, we need to be able to test the body's processes in these key areas. We also expect the body to alert us when there are new developments and to self-report to us on an exceptions basis.

4.11 In support of the FRC's publication of the framework for technical actuarial standards (TASs), TAS 100 and the exposure drafts of the specific TASs, the IFoA has formed a working group to consider and draft any necessary guidance for IFoA members.

4.12 We are working with the IFoA to agree how best to influence the development of international and European standards and the approach to adoption of these.

5. THE IFOA'S KEY PROJECTS FOR 2016/17

5.1 The Royal Charter to which the IFoA is held to account states: "The objects of the Institute and Faculty of Actuaries shall be, in the public interest, to advance all matters relevant to actuarial science and its application, and to regulate and promote the actuarial profession.

5.2 The IFoA's vision is: "to serve the public interest by ensuring that where there is uncertainty of future outcomes, actuaries are trusted and sought after for their valued analysis and authority".

5.3 The IFoA has refreshed the strategy that it devised in 2011 and will launch its new strategy in 2016/17. The IFoA's Corporate Plan for 2016/17 includes the following regulatory projects which the IFoA plans to complete during 2016/17:

a. deliver review of the Actuaries' Code after obtaining wide stakeholder input;

b. launch 'risk outlook' to raise awareness of areas of public interest risk and to underpin a proportionate and targeted risk-based approach to regulation;

c. develop an effectiveness review programme for the IFoA's standards and guidance;

d. further develop its professional skills training and reinforce the importance of organizational culture in embedding professional values;

e. review criteria for practising certificates;

f. complete the review of education strategy;

g. ensure appropriate examination support is available to all student members;

h. provide online annual reporting of work-based skills by student members;

i. continue ongoing review of disciplinary scheme for clarity and effectiveness;

j. continue to engage with the International Actuarial Association and the Actuarial Association of Europe in the development of actuarial standards.

6. THE FRC'S ACTUARIAL OVERSIGHT PRIORITIES FOR 2016/17

6.1 Our activities are focused on:

a. areas of potential risk to public interest;

b. areas where we consider that it is in the public interest that the IFoA should move more quickly;

c. the intended outcomes of IFoA regulation and the quality of its processes for achieving them.

6.2 In addition, we continue to monitor areas of regulation where the body has already developed an appropriate and robust approach.

6.3 In 2016/17 we will:

- provide an external perspective by high level and strategic review of the IFoA's regulatory initiatives, at an early stage;
- assist the IFoA to identify and prioritise regulatory matters that the FRC considers to be significant;
- encourage the IFoA to work more effectively with other regulators and co-ordinate through JFAR the identification of public interest risks and the IFoA's response to them;
- promote ongoing review by the IFoA of the effectiveness of its standards and guidance and their application by members and encourage challenge (e.g. through peer review);
- oversee the IFoA's development of its Quality Assurance Scheme (QAS) for firms;
- review the IFoA's governance process for deriving its education strategy and the associated work flows;
- oversee the effectiveness of the IFoA's procedures for ensuring that the professional qualification and the practising certificate regime remain fit for purpose for role holders;
- monitor the IFoA's published disciplinary cases and review the annual report of the IFoA's Disciplinary Board;
- visit the Edinburgh office again to test processes in relation to complaints and discipline, CPD and practising certificates;
- monitor (via the IFoA reporting to us) exceptional matters that have occurred;
- monitor the IFoA's initiatives to use its new Skill Sets Framework in its Education and Member Support directorates;
- influence the IFoA's education, training and guidance of its members;
- encourage knowledge sharing between the IFoA and other UK professional bodies.

6.4 We will consider with the JFAR the options to mitigate any shortcomings identified by its 2015/16 risk-based reviews. Our analysis of existing mitigants will include consideration of whether IFoA regulation is fit for purpose in terms of producing good quality actuarial work in the public interest.

Appendix 2

Abbreviations

AAE	Actuarial Association of Europe
ABI	Association of British Insurers
ACA	Association of Consulting Actuaries
ACCA	Association of Chartered Certified Accountants
AIM	Alternative Investment Market
APS	Actuarial Profession Standard
ARD	EU Audit and Regulation Directive
ASG	Actuarial Stakeholder Group
AS TM1	Actuarial Standard Technical Memorandum 1
BIS	Department for Business, Innovation and Skills
CCAB	Consultative Committee of Accountancy Bodies
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors
CESR	Committee of European Securities Regulators
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CMA	Competition and Market Authority
Company	Financial Reporting Council
CPD	Continuing Professional Development
EECS	European Enforcers Coordination Sessions
DWP	Department for Work and Pensions
EBA	European Banking Authority
ECB	European Central Bank
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
EGAOB	European Group of Auditors' Oversight Bodies
EIOPA	European Insurance and Occupational Pensions Authority
ES	Ethical Standard
ESAP	European Standard of Actuarial Practice
ESMA	European Securities and Markets Authority
EU	European Union
FASB	Financial Accounting Standards Board
FCA	Financial Conduct Authority
FEE	Federation of European Accountants
FPA	Funeral Planning Authority
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FRS	Financial Reporting Standard
FRSSE	Financial Reporting Standard for Smaller Entities
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Practice
GAD	Government Actuary's Department
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
IAA	International Actuarial Association
IAASB	International Auditing and Assurance Standards Board

IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFoA	Institute and Faculty of Actuaries
IFASS	International Forum of Accounting Standard Setters
IFRS	International Financial Reporting Standard
IFRIC	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee)
IFIAR	International Forum of Independent Audit Regulators
IOSCO	International Organisation of Securities Commissions
ISA	International Standard of Auditing
ISAP	International Standard of Actuarial Practice
JFAR	Joint Forum on Actuarial Regulation
ORSA	Own Risk and Solvency Assessment
PAAinE	Proactive Accounting Activities in Europe
PCAOB	Public Company Accounting Oversight Board
PRA	Prudential Regulation Authority
PRIP	Packaged Retail Investment Product
PLSA	Pensions and Lifetimes Saving Association
RQB	Recognised Qualifying Body
RSB	Recognised Supervisory Body
SEC	Securities and Exchange Commission
SIR	Standard for Investment Reporting
SME	Small and Medium sized Enterprises
SMPI	Statutory Money Purchase Illustration
SOA	Society of Actuaries
SORP	Statement of Recommended Practice
TAS	Technical Actuarial Standard
TPR	The Pensions Regulator
UK GAAP	UK Generally Accepted Accounting Practice