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**FINANCIAL REPORTING COUNCIL**

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REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 MARCH 2020

HC 403



# **ANNUAL REPORT AND FINANCIAL STATEMENTS OF THE FINANCIAL REPORTING COUNCIL LIMITED**

Presented to Parliament by the Secretary of State for Business, Energy and Industrial Strategy by Command of Her Majesty

Ordered by the House of Commons to be printed on 16 July 2020

HC 403



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# THE PURPOSE OF THE FRC IS TO SERVE THE PUBLIC INTEREST BY SETTING HIGH STANDARDS OF CORPORATE GOVERNANCE, REPORTING AND AUDIT AND BY HOLDING TO ACCOUNT THOSE RESPONSIBLE FOR DELIVERING THEM.

## IN THIS REPORT

### Strategic Report

1	FRC at a Glance
2	2019/20 Highlights
3	Former Chairman's Statement
5	Chief Executive's Report
13	Strategic Priorities
15	Stakeholder Engagement
21	Risk Management
26	Managing Complaints to the FRC
29	Financial Review

### Governance

32	Governance and Transparency
43	Audit Committee Report
48	Nominations Committee Report
50	Remuneration Committee Report
57	Directors' Report

### Financial Statements

58	Independent Auditor's Report
65	Financial Statements

### Appendices

78	Appendix 1 FRC's Oversight Responsibilities 2019/20
92	Appendix 2 Abbreviations



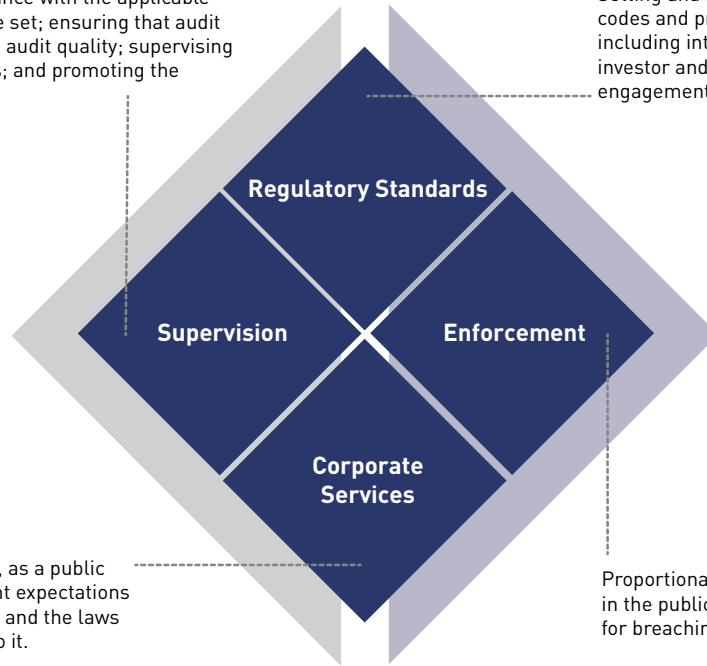
# FRC AT A GLANCE

The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.

## OUR BUSINESS MODEL

Monitoring and assessing compliance with the applicable laws, codes and standards that we set; ensuring that audit firms prioritise actions to improve audit quality; supervising the work of professional institutes; and promoting the resilience of the audit market.

Setting and influencing standards and codes and promoting good practice, including international liaison and investor and other stakeholder engagement.



Running the FRC effectively, as a public body in line with Government expectations of an independent regulator and the laws and regulations that apply to it.

Proportionately holding to account, in the public interest, those responsible for breaching required standards.

### Our Values

- Effective – timely, decisive, innovative and relevant
- Fair – consistent and proportionate
- Independent – taking decisions based on evidence
- Influential – in the UK and internationally, demonstrating thought leadership

### Our Objectives

- To set high standards in corporate governance and stewardship, corporate reporting, audit and actuarial work and assess the effectiveness of the application of those standards, enforcing them proportionally where it is in the public interest.
- To promote improvements and innovation in these areas, exploring good practice with a wide range of stakeholders.
- To transform the organisation into a fit-for-purpose, independent regulator.
- The FRC will promote a more resilient audit market and in due course the Government will decide our role in ensuring appropriate competition in that market. We have anticipated that we will need to enhance our capacity and capability to respond to this.

## 2019/20 HIGHLIGHTS

Throughout the year the FRC has been delivering against its plan, including regular monitoring and supervision work, enforcement cases, policy and standard-setting work, encouraging good practice and, when necessary, improvements in governance, corporate reporting and auditing.

April  
2019

The CMA published its final report on its Statutory audit services market study. This is one of three reports that is shaping the transformation of the FRC into the ARGA.



May  
2019

A guide to help smaller listed and AIM quoted companies improve their financial reporting was published by the FRC and the ICAEW.



June  
2019

PwC sanctioned in relation to its 2015 and 2016 audits of Redcentric plc. This included a £4.55m financial sanction and non-financial sanctions.



July  
2019

The latest FRC audit inspection results were released. 75% of FTSE 350 audits inspected were assessed as good or requiring limited improvement. Poor quality audit work unacceptably frequent.



Our first *Annual Enforcement Review* was issued highlighting robust enforcement action taken in the previous year.



August  
2019

Financial Reporting Lab newsletter provides an update on its Climate and Workforce reporting projects, which generated a lot of interest from companies, investors and other parties.



September  
2019

Financial Reporting Lab publishes a report on *Disclosures on the sources and uses of cash*. It provides guidance on how companies can give more information to investors about how they generate cash and intend to use it.



The auditing standard on going concern was strengthened following concerns about the rigour and quality of audit in this area.



October  
2019

Sir Jon Thompson joins the FRC as its new Chief Executive, with a mandate to transform it into the ARGA.



A revised and strengthened *UK Stewardship Code* is issued substantially raising expectations of investors.



November  
2019

A Corporate Reporting Thematic Review was issued on disclosures in interims, during the first year of application of IFRS 16 Leases. It identified a number of areas where disclosure could be improved in the year end financial statements.



December  
2019

Sir Donald Brydon's report into the quality and effectiveness of audit was issued. This is the third report underpinning the transformation of the FRC and the activities it regulates.



The *Ethical Standard* was revised to support the delivery of high-quality audit by strengthening auditor independence.



January  
2020

The *Annual Review of the UK Corporate Governance Code* notes companies need to improve their governance and reporting if they are to demonstrate their positive impact on the economy and wider society.



February  
2020

Research in relation to boardroom diversity finds positive steps in relation to gender balance, although more to be done to develop succession. However, most companies' approach to ethnic diversity is unsatisfactory.



March  
2020

In response to the COVID-19 pandemic the FRC issues advice to companies and auditors on the associated governance, reporting and auditing issues.



The FRC also adapted its ways of working, supporting all staff working from home, and aims to continue its regulatory functions as much as possible.



Enforcement



Supervision



Regulatory Standards



Transformation



Research



FRC-wide



## FORMER CHAIRMAN'S STATEMENT



**SIMON DINGEMANS**  
FORMER CHAIRMAN

This year has been an important year of transition for the FRC as it began to implement the recommendations of the Kingman Report and lay the foundations for the creation of the ARGA. While Government has still to conclude on a number of the recommendations before it for audit reform, the FRC is already moving within its existing powers to start to build a very different regulator, one that is fit for purpose, independent, decisive and agile.

The aim is to build a regulator that serves the public interest by setting high standards of corporate governance, reporting and audit. Standards that maintain confidence in the UK's leading position as an attractive place to invest and do business, supporting economic growth in the future to the benefit of society as a whole. Given the shocks to the economy of the COVID-19 pandemic, such confidence will be even more vital than normal. As companies responded to the challenges of the COVID-19 pandemic, we issued guidance on governance,

reporting and auditing matters, that aims to assist companies and their auditors in achieving high standards and communicating well with stakeholders. The impact of the COVID-19 pandemic on the economy is likely to be felt for some time, and is a factor that will continue to influence our regulatory activities going forward.

During my term of appointment, from the beginning of October 2019 until the end of May 2020, the reform agenda in front of the FRC has become even more expansive and complex. Three separate reports have been issued over the last eighteen months making the case for reform of the FRC itself and the activities that the FRC regulates. To Sir John Kingman's *Independent Review of the Financial Reporting Council* and the Competition and Markets Authority's final report on its Statutory audit services market study, has now been added Sir Donald Brydon's review into the quality and effectiveness of audit *Assess, Assure and Inform – Improving audit quality and effectiveness*. Working closely with BEIS, the FRC is bringing these proposals and recommendations together into a unified transformation programme.

One of the first things to be addressed was the core purpose of the FRC and its key objectives. These are set out on page 1, and strengthen the focus on serving the public interest. The FRC wants to see sustainable improvements in standards of corporate governance, investor stewardship and reporting but is especially focussed on driving higher standards of audit quality. The need for this is urgent given some of the significant shortfalls of recent years, but the way in which the audit profession has begun to respond to the challenge is

## FORMER CHAIRMAN'S STATEMENT

encouraging. Although it remains early days, there is substantial additional investment into audit and active engagement with our proposals for operational separation of the audit businesses of the larger firms in the UK which will give the FRC, as regulator, clearer visibility of the state of those businesses. Supervision of the major audit firms is also deepening. This will be a new type of supervision for the firms. Sustainable improvements will take time, but these steps are moving in the right direction.

In order for the FRC to meet the expectations of it, including the recommendations set out in the three reports, it needs to change as an organisation. This has been embraced, with a new strategy and transformation plan. *The FRC's Strategy 2020/21* sets out the objectives and current priorities, although like most organisations there has been a need to refocus some activities in the short-term because of the impact of the COVID-19 pandemic. In relation to the transformation of the FRC itself, the intention is to make changes ahead of legislation when possible, within the existing powers or where expectations of future powers are clearer. However, to deliver on a number of the key recommendations for reform, the Government needs to legislate to strengthen powers and put the FRC on a statutory footing, including for its funding basis, so that it can build the resources and capabilities necessary to be effective as it transitions to the ARGA.

One of the key elements of the transformation plan has included a thorough review of the FRC's governance. This review is now complete, and a number of proposed changes have been announced; designed to streamline

and simplify the structure, clarify accountabilities between the Board and the Executive, and improve the effectiveness and speed of our decision making. The FRC needs to consult on a small number of these changes but, in light of the COVID-19 pandemic, this has been deferred until the Autumn with the intention that the new arrangements will take effect from 1 January 2021. I would like to thank all of the members of the various councils, panels and advisory groups who have assisted the FRC so ably in the past and hope that many will continue to make their expertise available to the FRC in the future.

Since the last annual report there have been a number of changes in Board membership. As expected, Sir Winfried Bischoff and Stephen Hadrill left the FRC as our new Chief Executive, Sir Jonathan Thompson, and I joined the Board in October 2019. Sir Brian Bender, Olivia Dickson and Nick Land have also left the Board during the year or before the approval of this report, when their terms of appointment came to an end. I thank them all for their contributions over the years.

I have also decided to step down as Chairman and left the Board at the end of May. As the Chairman's role is a part-time one, it was agreed as part of my appointment process that I could take on other roles provided they did not conflict with my FRC responsibilities. Unfortunately, this has not proved possible and so, with great regret, I informed the Board and the Secretary of State for Business, Energy and Industrial Strategy that I would be returning to the private sector. The Department for Business, Energy and Industrial Strategy (BEIS) is leading the process to appoint my successor and, in the meantime,

Sir Jonathan Thompson continues to press ahead with the reform agenda. I have every confidence in Sir Jonathan Thompson and his new Executive team to continue to build on the momentum already established.

Finally, I would like to thank the people of the FRC for their energy, commitment, professionalism and focus on delivering on our priorities over the year, with a particular thank you for their flexibility during the period of restrictions made necessary by the COVID-19 pandemic. With so much change underway, I have been continually impressed by the enthusiasm with which the team here has embraced the reform agenda and are engaged in the challenge to create a very different organisation and a more effective regulator operating in the public interest. I wish the FRC, and the ARGA, every success in delivering the reform agenda.

**SIMON DINGEMANS**  
**FORMER CHAIRMAN**  
 31 May 2020

## CHIEF EXECUTIVE'S REPORT



**SIR JONATHAN THOMPSON**  
CHIEF EXECUTIVE

**T**his report sets out progress against our plans for 2019/20 and looks forward into 2020/21 and beyond.

This is my first Chief Executive's Report having joined the FRC in October 2019.

In the FRC Strategy, published initially in draft in February 2020, we made it clear that we must act in the public interest. Shareholders, suppliers, employees, customers, communities and financial institutions all have a stake and an interest in the health of companies within our existing regulatory scope. The failure of a major company impacts society widely, not only in losses incurred by shareholders and the resultant impact on the investments and pensions of a wide range of people, but also on individuals, communities, the environment and society.

The breadth of our work in 2019/20 demonstrates that we are striving to set high standards in many aspects of corporate life and hold to account those responsible for delivering standards.

We have continued to promote best practice in a range of areas, publishing reports and supporting other standard setters, both nationally and internationally. We recognise that working in partnership with others helps to set high standards and raise compliance with them.

Given the significant number of recommendations for change before the Government, we have taken action to implement as many as possible with existing powers and influence. We have worked very actively with policy makers to decide on the public policy choices they face ahead of prospective legislation in due course. To help that policy development we have expanded our engagement with all stakeholders and will continue to do so.

Towards the year end, and into 2020/21, the COVID-19 virus impacted significantly on the UK. The FRC responded swiftly, with other regulators, to provide flexibility in corporate reporting and accounting deadlines as well as clearly stating the goals for auditors in the unique circumstances. We also issued information to help investors and other stakeholders understand expected changes in audit reporting, such as limitations of scope, and help them in decision making as a result.

Our work in 2019/20 has included several notable highlights.

### **PROGRESS DURING 2019/20**

Our *Plan & Budget 2019/20* acknowledged that this year was likely to be one of transition for the FRC, as we started on the path towards the ARGAs. In advance of legislation to establish the ARGAs, we intended to work with the Government to take forward

## CHIEF EXECUTIVE'S REPORT

aspects that could be pursued without legislation and our plan for the year reflected this.

Our key priorities for the year, in addition to supporting the transition to the ARGA, were to continue to drive a step change in audit quality, to continue to promote quality corporate reporting through our corporate reporting reviews, setting a new Stewardship Code for investors and continuing to use our enforcement powers effectively.

### TRANSFORMATION INTO THE NEW ARGA

During the year, with the finalisation of the CMA audit market study in April 2019 and Sir Donald Brydon's report issued in December 2019, the transition to the new ARGA envisaged by Sir John Kingman has become a wider transformation programme. We have now implemented 20 of the 83 recommendations in the Kingman Review. We are progressing as much as we can whilst waiting for the legislation to establish the ARGA on a statutory footing.

To take forward the CMA audit market study we have been engaged with BEIS on working up alternatives for Ministers, and await their decisions in due course. We have been actively discussing operational separation of the audit practice with the largest firms, although post year end progress has been paused whilst businesses of all types respond to the COVID-19 pandemic.

On the Brydon Review we have started preparatory work on all of the recommendations, some of which interact with the recommendations of the other reviews, and are engaged with BEIS on advice to Ministers on the potential for their implementation over time.

Allied to our transformation we have issued a new strategy. Our *Strategy 2020/21* clarifies our purpose, our objectives and our key outputs for the year. I have also reorganised the FRC into four divisions, as set out in our Business Model on page 1, which provides us with the structure to deliver the transformation. We are reporting on the basis of this new structure.

The totality of the transformation agenda is huge. It requires primary legislation for it to be fully delivered and the resulting regulator will be much larger, more proactive and communicate better. There is a lot to do to deliver this and we are embracing the necessary changes. However, to realise the full benefits others also need to play their part, such as auditors, companies and shareholders. Together we can deliver lasting improvements in corporate reporting and auditing.

### REGULATORY STANDARDS

Our new Regulatory Standards Division brings together our work in setting and influencing standards and codes, and promoting best practice, including international influencing and investor and other stakeholder engagement.

### Corporate Governance and Stewardship

In October 2019 we issued the *UK Stewardship Code 2020*. This was a significant revision to the Code, setting a high standard for asset owners and asset managers and the service providers that support them. It links to our earlier revision of the *UK Corporate Governance Code*. With Boards placing a greater emphasis on a company's purpose and its impact on wider stakeholders the *UK Stewardship Code 2020* requires asset owners and asset managers to provide similar disclosures and how this enables effective stewardship.



Our *Annual Review of the UK Corporate Governance Code* was issued in January 2020, and considers the quality of reporting against the UK Corporate Governance Code. Although the most recent changes to the *UK Corporate Governance Code* were not effective until 1 January 2019, some companies chose to early adopt which enabled us to identify themes that might assist companies when reporting in 2020. We want to see improvements in governance practices and reporting so that companies can demonstrate their positive impact on investors and wider stakeholders. Greater focus is needed, from companies, on stakeholder engagement, diversity and the importance of corporate culture.



### Accounting and Reporting

This year we have been working on our project on the Future of Corporate Reporting. This project is intended to challenge existing thinking about how companies report and consider how they might better meet the information needs of investors and other stakeholders. In taking this forward we were assisted by an Advisory Group with a diverse membership, as well as input from other stakeholder engagement including a survey and our citizen's juries.

## CHIEF EXECUTIVE'S REPORT

Our thought leadership paper will be issued during 2020/21.

Over the last year the Financial Reporting Lab has published three reports, all of which aim to help companies report in a way that most meets investors' needs. The reports are:

- Disclosures on the sources and uses of cash;
- Climate-related corporate reporting; and
- Workforce-related corporate reporting.

All aimed to consider areas of interest to wider stakeholders, and highlight the need for clear reporting, including in relation to strategy, risks and metrics and targets. To assist in the COVID-19 pandemic we also produced an infographic around cash and viability.



### Auditing Standards

We continue to be actively involved in the International Auditing and Assurance Standards Board (IAASB), whose standards form the basis of UK auditing standards, as well as delivering a programme of work to address UK priorities. This year we have revised:

- Practice Note 19 *The audit of banks and building societies in the UK* to support auditors in dealing with new accounting and auditing requirements for loan loss provisioning;
- ISA (UK) 570 *Going concern* – which is now significantly stronger than the current international standard, and was revised to address weaknesses in audit work identified through

our enforcement and audit inspection work;

- the *Client Asset Assurance Standard*;
- the *Ethical Standard* – which strengthens auditor independence and mitigates the risk of conflicts of interest, including those caused by the provision of non-audit services;
- eight ISAs to reflect conforming amendments in relation to the auditing of estimates; and
- Standards for Investment Reporting, to reflect changes to UK regulatory requirements and the new Prospectus Directive.

In addition, we issued guidance for auditors covering factors to be taken into account when carrying out an audit during the COVID-19 pandemic.

### Actuarial Standards

We continue to participate in the Joint Forum on Actuarial Regulation (JFAR), which allows five regulators to come together and share expertise and reduce the risk of regulatory gaps or overlaps. In April 2019 we issued the JFAR *Risk Perspective: 2018 Update*. Reporting on risk hotspots helps actuaries take account of these risks in their work and mitigates the risk to high quality actuarial work.

### SUPERVISION

Our new Supervision Division brings together our work on monitoring and assessing compliance with applicable law, standards and codes, reviewing corporate reporting, supervising audit firms in order to promote audit quality, overseeing the work of the professional accountancy bodies and promoting the resilience of the audit market. We are increasing our forward-looking supervision and taking a more risk-based approach to our work.

### Audit Inspection and Supervision

In November 2019 we issued *Developments in Audit 2019*, our latest annual review of audit quality, and other supervisory work. This provides more information on our inspection results for 2018/19 that were reported in last year's Annual Report.



In 2019/20 we carried out 130 reviews (2018/19: 160). Our *Plan & Budget 2019/20* said we were looking to expand the number of reviews carried out as well as broadening the depth of our work on each audit inspection. Whilst we have increased the scope of our work by reviewing more aspects of an audit and have focussed on higher risk audits, resource constraints have meant that we have not achieved the number of reviews initially intended. Going forward, our plan is to recruit additional inspectors in order to increase the number of reviews again, with a target of 145-165 for 2020/21. The COVID-19 pandemic is, however, a risk to achieving this goal.

Based on our inspection results, audit quality remains too inconsistent. In 2019/20, 33% (2018/19: 24%) of the audits we reviewed at the seven largest audit firms needed more than limited improvements. We have increasingly targeted more complex, higher risk audits for review because they are where reliable reporting and high-quality audit matter most. These higher-risk audits are disproportionately those that we find require improvements.

## CHIEF EXECUTIVE'S REPORT

We are moving to a supervisory approach for the largest audit firms. Based on inspection findings and cross-firm analysis, we will assess what steps firms need to take to improve audit quality and hold them accountable for delivering the changes. For example, we continue to find improvements needed in the same three audit areas: impairment of goodwill and intangibles; revenue and contracts; and provisions, including loan loss provisions. Over the past three years nearly half of the drivers of reviews requiring more than limited improvements have been in these areas.

We are also taking initiatives across the market to improve audit quality. For example, we are asking the Big 4 firms to separate operationally their audit practices from the rest of their business so that they are focused above all on achieving audit quality.

Our Audit Firm Monitoring & Supervision team has been evolving during 2019/20. The team's activities have included work to assess the effectiveness of the audit firms' governance arrangements; understand the firms' business models; assess arrangements for internal audit and how the firms are monitoring for and acting to deal with instances of poor behaviour, known as "non-financial conduct". The work on governance and business models has informed the development of the principles for operational separation.

This year we completed two thematic reviews:

- *Transparency Reporting* – This assessed the effectiveness of the Transparency Reports that firms that audit public interest entities are required to issue. These reports are an opportunity for the firms to communicate a balanced self-assessment

of the challenges in relation to audit quality and how they have overcome them. We found that the reports are currently not effective; those they are intended for are largely unaware of the reports, and the reports are too long and overly positive. We made suggestions to increase the usefulness of these reports.

- *The Use of Technology in the Audit of Financial Statements* – This report highlighted that the use of automated tools for audit such as data analytics has grown dramatically in the last three years and, if used appropriately, these can improve audit quality.

### Corporate Reporting Review

In our *Annual Review of Corporate Reporting 2018/19*, issued in October 2019, we noted that our enquiries of companies had frequently covered the same topics as we have been raising for the past few years, such as judgements and estimates, and cash flow statements. The balance of these enquiries has moved from identifying basic errors to encouraging better articulation by companies in their disclosures.



We have increased slightly the number of reviews carried out this year, 216 (2018/19: 207), with a further increase planned for 2020/21. This is fewer than we had targeted due to recruitment challenges. We wrote to 43% (2018/19: 39%) of companies reviewed to ask for additional explanation or information about their reporting. We delayed sending the opening letter on seven cases due to the COVID-19 pandemic, all of which have subsequently been sent. This year we issued one Press

Notice and four FRC References were required by companies (2018/19: none and 12 – the comparatives have been revised as reviews were completed after the annual report was issued).

We have continued to make effective use of thematic reviews as part of our programme of reviews. We issued four thematic reviews this year:

- Impairment of non-financial assets;
- IFRS 15 – Review of disclosures in the first year of application;
- IFRS 9 – Review of disclosures in the first year of application; and
- IFRS 16 – Review of interim disclosures in the first year of application.

We found positive responses to the new standards and examples of better practice, but overall companies have considerable scope to improve their reporting under IFRS 9, IFRS 15 and IFRS 16.

### Professional Oversight

The FRC oversees the regulation of auditors, accountants and actuaries by their professional bodies. The Appendix sets out the principal findings and conclusions from this oversight activity in 2019/20. We have developed proposals and plans for implementing Sir John Kingman's recommendations in relation to the registration of auditors of public interest entities and accountancy oversight.

During the recent COVID-19 pandemic, we worked closely with the professional bodies to ensure that necessary changes to the delivery of education, examinations and practical training which form the basis of the audit qualification continued to meet the companies act requirements.

## CHIEF EXECUTIVE'S REPORT

### ENFORCEMENT

Our Enforcement Division proportionately holds to account, in the public interest, those in the accounting and actuarial professions responsible for breaching relevant auditing and actuarial standards or committing misconduct.

During this year we published our first *Annual Enforcement Review 2019*. This provided information about our work during 2018/19 and will continue to be published annually.



Our cases may be taken forward with full enforcement action, or through constructive engagement. Constructive engagement is a process introduced by the Audit Enforcement Procedure (AEP) for resolving cases where the audit quality concerns can be appropriately and satisfactorily addressed without the time and cost of full enforcement action.

We continue to progress a large number of cases as well as publish

details of sanctions imposed as soon as we are able to in accordance with our publication policies. We concluded 44 (2018/19: 29) cases during the year, which were either full enforcement action or constructive engagement.

### Constructive engagement

We used constructive engagement to resolve 31 (2018/19: 16) cases during the year, by agreeing bespoke remedial actions with firms, usually on a firmwide basis, to address the risk of repetition and so drive audit quality. We monitor the actions agreed and will take further action if the same issues arise in audits subsequently conducted by the same firm.

### Full enforcement action

Cases opened and closed during the year	2019/20	2018/19	2017/18
Open as at 1 April	41	39	34
Opened	14	15	14
Concluded	(13)	(13)	(9)
Open as at 31 March	42	41	39

Cases that we have concluded during the year include the following financial sanctions:

- £3.5 million for KPMG in relation to BNY Mellon entities (discounted from £5.0 million);

- £4.6 million for PwC in relation to Redcentric plc (discounted from £6.5 million for settlement);

- £0.5 million for KPMG in relation to the statutory audit of the financial statements of a company for the 2015/16 financial year (discounted from £0.7 million);

- £0.4 million for Grant Thornton in relation to a publicly listed company (discounted from £0.7 million); and

- £2.0 million (discounted from £3.0 million) in relation to a case which has been concluded but not yet published.

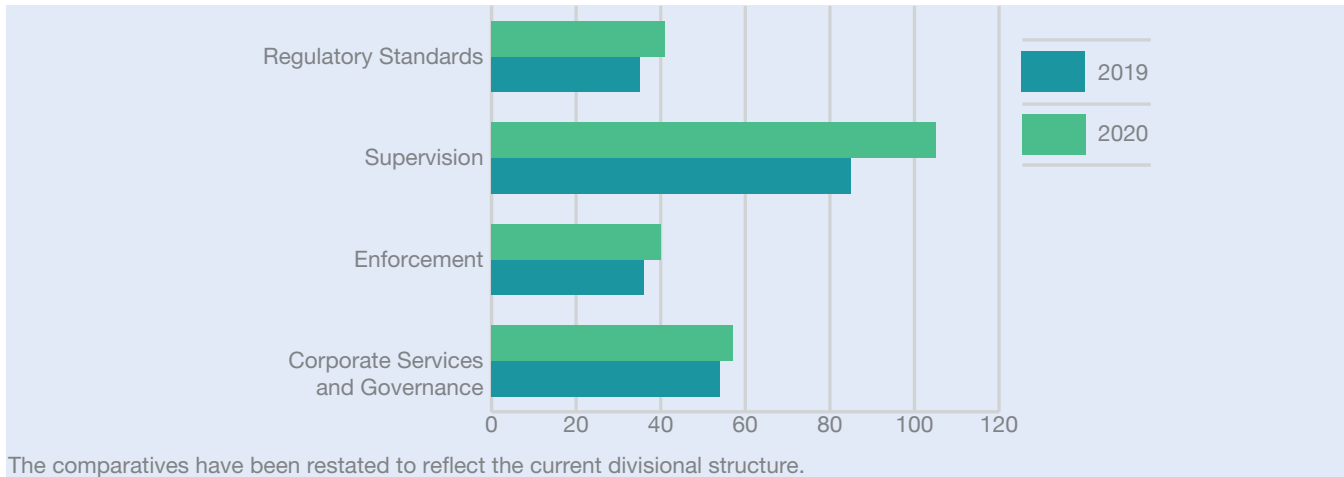
	2019/20 £m	2018/19 £m	2017/18 £m
Total financial sanctions imposed	11.3	32.0	13.1

	2019/20 Number	2018/19 Number	2017/18 Number
Number of financial sanctions imposed	11	27	11
Number of non-financial sanctions imposed	27	38	11
Of which: exclusions	–	6	2

These sanctions reflect those imposed or agreed during the relevant year. In some cases sanctions were announced in a later year, in accordance with our publication policies.

## CHIEF EXECUTIVE'S REPORT

### OUR PEOPLE BY DIVISION



In addition to financial sanctions we continue to make effective use of non-financial sanctions including requiring specific internal quality reviews to be introduced and the results reported to us, to improve audit quality. The true measure of effective enforcement is improved behaviour in those we regulate, identifying and responding to the root causes of errors or failures, with the audit firms driving sustainable improvements in audit quality. Non-financial sanctions are imposed where no or insufficient remedial work has been carried out.

We have a large number of cases ongoing, and continue to increase resources to enable us to progress these cases on as timely a basis as robustness of analysis and fairness permit. Some very large and complex cases necessarily take time to conclude. Our investigation into the audit and preparation of the financial statements of Carillion plc continues and we have provided a number of updates on our progress. The scale and complexity of the case is exceptional, covering a four-year period and numerous audit areas; we expect to complete the first stage of our investigation this summer.

We continue to seek to improve the timeliness of our investigations, with more resources and

changes to our processes. We are reconsidering how, most meaningfully, to express our KPI in this area to reflect that not all cases can be addressed in the same time period, for example those of exceptional size or those delayed by lengthy litigation or parallel criminal proceedings.

#### CORPORATE SERVICES

Our new Corporate Services Division brings together all the departments needed to run the FRC effectively and efficiently, in line with the Government's expectations of a public body and a regulator. This includes Finance, Human Resources, Legal, and Economics, Strategy and Analytics.

#### People

Our people are our strength and we have been working over a number of years to improve our culture and diversity.

As part of our transformation into the ARGA we need to recruit many new colleagues to help us deliver on our new purpose and expanded activities. As at 31 March 2020 we had 243 employees (2019: 210).

The most significant change in employee numbers is in the Supervision Division, where we have recruited additional staff across all areas, audit inspections and supervision, corporate reporting review and professional

oversight. In shaping our new divisions we have reflected on the changing nature of some of the work we do, as well as recruiting additional capacity for existing roles. In our *Plan & Budget 2019/20* we noted that we intended to recruit 80 new colleagues during 2019/20. Although we have filled 47 positions during the year, and at the year end had ten new colleagues ready to join us in the first few months of 2020/21, the overall increase in staff numbers is fewer than might have been expected. This is partly due to leavers; although our voluntary staff turnover remains low at 11.4%.

To deliver our strategy we need people with the technical skills, practical experience and authority to set, influence, monitor and enforce standards and codes. This requires many of our people to be experts. In 2020/21 we are again seeking to recruit people into new roles to expand our activities and transform into the ARGA. Our *Strategy 2020/21* forecasts over 100 new roles during the year, in addition to replacing any leavers. Our ability to recruit enough people with the requisite skills and experience is a significant challenge to our strategy; during the COVID-19 pandemic we adapted our processes enabling us to continue to welcome new colleagues into the organisation. The COVID-19 pandemic may also



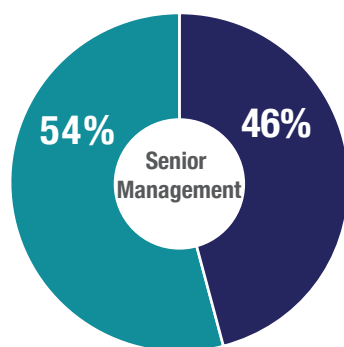
## CHIEF EXECUTIVE'S REPORT

have implications for the wider market in which we are recruiting.

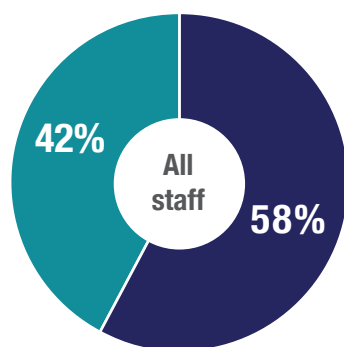
Our staff survey this year had a response rate of 77%, showing a good level of engagement by staff in the process. The survey identified strengths, opportunities and areas for improvement. Using our employee engagement index, the FRC scores 60% compared to a Civil Service average of 63%. Overall there are a lot of positives from the feedback, but also areas to improve, and the Executive Committee will be developing an action plan to bring about the changes that we would all like to see to enhance further the FRC as a place to work. This includes broad themes relating to understanding our purpose, effective management of change, values and culture, leadership of the FRC, and career development. These themes also reflect the FRC's current position as an organisation in transformation. One particular positive from the survey was in terms of wellbeing, which is an area the FRC has been focusing on in the last few years, where the FRC scored well in comparison to the Civil Service.

The FRC is committed to diversity. In terms of gender balance, at 31 March 2020:

- 25% (2019: 50%) of the Executive Committee were female;
- 46% (2019: 44%) of the senior managers (including the Executive Committee) were female (there were 25 female and 29 male senior managers as at 31 March 2020 (2019: 24 female and 30 male)); and
- 58% (2019: 60%) of all staff were female.



■ 25 Women ■ 29 Men



■ 142 Women ■ 101 Men

In March 2020 we reported our third year of voluntary gender pay gap data, covering the year 2018/19. We do this because we believe that by participating, we show our commitment to diversity and inclusion and we lead by example for those we regulate. Our reporting showed a decrease in our mean gender pay gap from 23.9% in 2017/18 to 22.7% in 2018/19. We continue to consider carefully how we take remuneration decisions and believe this, and other actions, will reduce the gap over time. We have a higher proportion of women in more junior, lower paid roles, but this has decreased in the last year; small but significant progress.

There are many facets to diversity and inclusion. Examples of our policies and activities include:

- During 2019/20, the FRC office became fully wheelchair accessible. The FRC is a Level 1

accredited Disability Confident Employer and is committed to achieving Level 2 accreditation in 2020/21.

- In July 2019, the FRC sponsored six students from London Boroughs, who wouldn't otherwise have access to industry-leading organisations, in undertaking a week-long work experience with the FRC. This was through the social mobility programme *Speakers4Schools*.
- The FRC supports flexible working arrangements, including accommodating those with caring responsibilities and encouraging work/life balance, and 18% of our people work part-time. Of these, the proportion of men working part-time at the FRC has increased to 18% in 2019 from 14% in 2018 (as reported in our gender pay gap report).

The FRC is committed to supporting the physical and mental health of its people and fostering employee wellbeing. A number of training opportunities and other activities in this area have been championed by our Diversity and Inclusion Committee and Wellbeing Group. Towards the end of the year, in response to the COVID-19 pandemic, we closed our offices and all staff worked from home. For many of our people this was a significant change, in addition to other concerns and responsibilities they may have; our managers have been supporting staff as much as they can during this uncertain time.

Per employee, the average working days lost to sickness absence for the 12 months to 31 March 2020 was 5.4 days (2019: 4.3 days).

### UK exit from the EU

The UK has exited the EU and is now in the implementation period. The FRC is supporting the Government in delivering EU exit

## CHIEF EXECUTIVE'S REPORT

activities in relation to accounting and auditing. In particular, the FRC has been working closely with BEIS:

- in setting up the UK Endorsement Board, which is expected to take decisions on the endorsement of IFRS for use in the UK in the future. A small number of dedicated Endorsement Board staff have been recruited, and the FRC is providing advice to the Secretary of State before the Endorsement Board becomes fully operational; and
- to deliver EU exit audit outcomes and meet Ministerial objectives. Work includes developing the UK's application to the EU for audit equivalence and adequacy as well as preparations for the continued operation of the Third Country Auditor regime for foreign entities listed on UK markets.

### Research

The 2020 Parker Review includes FRC research into ethnic diversity on Boards. This showed the UK's record on boardroom ethnicity is poor, with most FTSE 350 companies not setting measurable ethnicity targets. The UK Corporate Governance Code was strengthened in 2018 to promote diversity in a variety of forms, and the FRC expects to see better quality commentary from companies in future reports.

### Environmental matters

The FRC strongly advocates paperless working, with the vast majority of our correspondence and publications sent electronically. Staff are actively supported in working from home for a proportion of their working week, reducing travel emissions and providing staff with a stronger work/life balance.

The FRC leases one floor of office space within 125 London

Wall. During 2019 the FRC introduced agile working and restructured its office space to facilitate the predicted growth in staff numbers over the next few years. New furniture for this office reconfiguration was sourced based on cost, the sustainability of materials and the proximity of the suppliers to London. Additional recycling facilities for paper/card, plastic and coffee pods were installed across the floor and disposable cups were no longer supplied at water stations or in the staff kitchen to promote the use of reusable water and coffee cups.

The FRC is not currently within the scope of the Streamlined Energy and Carbon Reporting Regulations and is considering how it might comply in future years.

### EXECUTIVE COMMITTEE

In delivering the FRC's purpose and strategy I am supported by my colleagues on the Executive Committee. The Executive Committee currently<sup>1</sup> consists of:

Sir Jonathan Thompson	Chief Executive Officer and Accounting Officer (from 1 October 2019)
Mark Babington	Acting Executive Director, Regulatory Standards (from 1 April 2020)
Elizabeth Barrett	Executive Counsel and Director of Enforcement
David Rule	Executive Director, Supervision (from 1 September 2019)

I would like to echo the Former Chairman's thanks to all my FRC colleagues for their contributions over the last year, and adaptability to different ways of working as we responded to the COVID-19 pandemic.

### SIR JONATHAN THOMPSON CHIEF EXECUTIVE OFFICER AND ACCOUNTING OFFICER

1 July 2020

<sup>1</sup> Executive Committee members that stepped down from the Committee during the year are:

- Paul George, Executive Director, Corporate Governance & Reporting (to 31 March 2020);
- Stephen Haddrill, Chief Executive Officer (to 30 September 2019);
- Anne McArthur, General Counsel and Company Secretary (to 13 March 2020);
- Mike Suffield, Acting Executive Director, Audit & Actuarial Regulation (to 26 July 2019); and
- Tracy Vegro, Executive Director, Strategy & Resources (to 28 February 2020).

# STRATEGIC PRIORITIES

## STRATEGIC PRIORITIES FOR 2019/20

Our *Plan & Budget 2019/20* set out six strategic priorities for the year. These were developed in line with our remit as set out in the Secretary of State's letter, and to support the Government's view that high quality audit, corporate governance and financial reporting are vital to the success of continued growth of the UK economy; and that the confidence that shareholders, employees, investors and the wider public can place in company reports and audited accounts is dependent in part on the effectiveness of the regulatory framework.

### Support the transition to the ARGA

#### Performance in 2019/20

We have implemented 20 of the 83 recommendations in the Kingman Review, and are taking forward many others.

Since this strategic priority was set the transformation programme has evolved into a wider programme supporting delivery of the Kingman Review, CMA market study and Brydon review recommendations.

With new leadership, the FRC has set a new purpose and a revised strategy going forward to transform into a very different regulator, one that is fit for purpose, independent, decisive and agile.

#### Key Milestone

Appointment of Director of Strategy and Change as a catalyst to evolve the transition to the ARGA into a wider Transformation Programme.

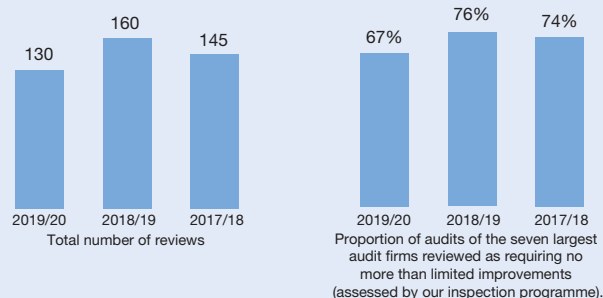
### Use our powers to set audit standards and monitor and supervise auditors to drive a step change in audit quality

#### Performance in 2019/20

We have carried out fewer Audit Quality Reviews this year than we had planned, and than we have carried out in previous years, due to resourcing constraints. The results of our audit inspection work do not yet show a step change in audit quality. We are moving to a supervisory approach for the largest audit firms, covering firm-wide matters, in addition to our inspections. Based on inspection findings and cross-firm analysis, we will assess what steps firms need to take to improve audit quality and hold them accountable for delivering the changes.

During the year we have strengthened the auditing standard on going concern and the Ethical Standard, to address weaknesses in audit work and strengthen auditor independence.

#### KPIs



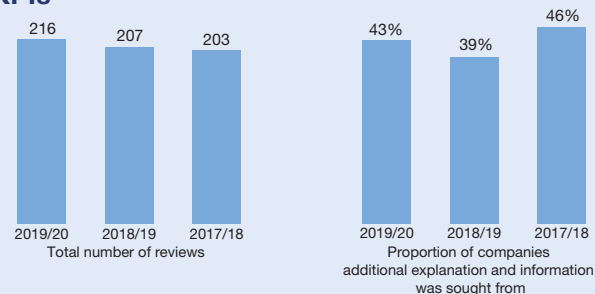
### Monitor and take action to promote the quality and usefulness of corporate reporting

#### Performance in 2019/20

We have continued to increase the number of our corporate reporting reviews and challenge companies to improve their reporting, when necessary.

Our project on the Future of Corporate Reporting progressed during the year and our thought leadership paper will be issued during 2020/21.

#### KPIs



## STRATEGIC PRIORITIES

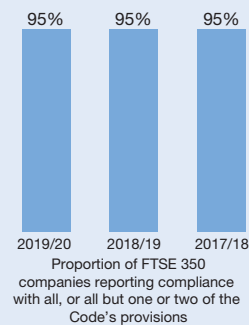
### Promote corporate governance and investor stewardship that contribute to trust in business

#### Performance in 2019/20

We have reported on compliance with the UK Corporate Governance Code, including early adoption of the 2018 Code. We want to see improvements in governance practices and reporting so that companies can demonstrate their positive impact on investors and wider stakeholders.

We issued the UK Stewardship Code 2020 requiring asset owners and asset managers to provide enhanced disclosure about how this enables effective stewardship.

#### KPIs



### Use our enforcement powers effectively

#### Performance in 2019/20

We continue to expand our team and manage a significant caseload, including large and complex cases. We concluded 13 full enforcement action cases during the year.

During this year we published our Annual Enforcement Review 2019, the first such review we have published. This provided more information about our work during 2018/19 and will continue to be published annually.

Improving the timeliness of our investigations and enforcement action remains a priority. Our continuing actions to address this are yielding results with a significant improvement this year.

#### KPIs

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

**44%** (2018/19: 35%)

There are a number of reasons why the target has not been met, including the size and complexity of the cases (**17%**) and being in advanced settlement discussions that were subsequently successfully concluded (**17%**).

### Ensure an effective regulatory framework following EU exit

#### Performance in 2019/20

The UK has exited the EU and is now in the implementation period. The FRC is supporting the Government in delivering EU exit activities in relation to accounting and auditing.

## STAKEHOLDER ENGAGEMENT

**The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The long-term success of the FRC, and in the future, of the ARGAs, is measured by whether we have met that purpose.**

Success is measured both by the performance and actions of the entities the FRC regulates, and by the FRC's actions to hold those responsible to account if that performance is not of an appropriate standard.

In taking decisions to promote the success of the FRC in its standard setting role, the Board has regard to the views of, and the impact on, its stakeholders through formal consultation, informal consultation, committees, councils, advisory groups, citizens' juries, public meetings and private meetings. The FRC's Investor Advisory Group and Stakeholder Advisory Panel both continued to meet regularly throughout the year. A key strength of the FRC's decision making process is the extent of outreach that we undertake. In taking decisions to promote the success of the FRC in its role of holding to account, the Board seeks to ensure a fair but tough approach which is proportionate and transparent, through consistent application of processes which have been the subject of that outreach and consultation.

As we progress our strategic priorities we are taking steps to forge stronger relationships with our stakeholders and ensuring that their views are listened to during the transformation process through an integrated communications and stakeholder management strategy. Since the year end we have appointed a new Director of Investor and Stakeholder Engagement, who will develop and deliver this strategy. This will provide the insights that we need to develop policies, maximise the impact of our work and regularly

and clearly communicate with our stakeholders. We continue to work closely with BEIS to ensure that our work meets the expectations of Government and the UK strategy.

The transformation programme has had and will continue to have a significant effect on our staff as we alter our structure, our work, and increase the size of the organisation. Our staff are critical to the success of the FRC and a member of the Board now attends all people forum meetings in order to ensure that their views are heard at Board level.

While the transformation programme absorbs a significant level of Board and staff time, we continue to listen to our stakeholders and direct our work to reflect demands and needs. For instance our guidance on COVID-19, published in conjunction with the FCA and the PRA, was issued very quickly, in response to calls from stakeholders and was well received.

The FRC continues to comply with the managing public money requirements of being a public body and the Board is obliged to take these requirements into account in every decision.

The success of the FRC is dependent on strong engagement from all of our stakeholders. We recognise the valuable contribution to our work that our stakeholders provide and thank them for their continued commitment to our work.

Examples of outreach that influenced policy outcomes include:

- Outreach with investors and preparers to inform thematic reviews for AQR on Audit Quality Indicators and the Use of Technology in Audit. We held a series of roundtables to gather input to shape the areas of focus of the reviews and then later to test conclusions and recommendations. Stakeholder views on relative areas of importance and emphasis helped to guide the research and to inform our recommendations to the firms as a result of the reviews.
- In our standard setting work, we ran extensive consultations and outreach activities to support the updates to the Audit and Ethical Standards and the Going Concern Standards, resulting in tougher new rules for audit firms.
- The FRC strategy and plan was informed by significant stakeholder feedback. The new CEO and Executive Committee members met with a wide variety of stakeholders to gather views of the FRC and how we should best move forwards on our transformation journey as well as with our regulatory and standard setting activities. We held a variety of small group discussions and targeted stakeholder meetings with institutional investors, groups representing large and small listed companies and audit committee chairs as well as with the regulated entities and the accountancy profession. We also held a half-day event for retail shareholders to explain our work and to get their feedback on possible areas of focus. All of

## STAKEHOLDER ENGAGEMENT

these insights helped to inform the new strategy and plan.

- In January 2019, the FRC published the consultation on the revision to the UK Stewardship Code. We received 110 responses and met with more than 200 individuals and organisations within the consultation period. There was broad support for the key proposals, however there were some concerns raised by stakeholders about the structure of the Code and the approach to reporting. After reviewing these concerns the Codes and Standards Committee approved a short delay to the publication of the Code to allow the team to revise the structure and reporting

approach and test proposals with stakeholders. The outcome was a simpler structure and approach to reporting that will be rigorous but less burdensome, and was well-supported by investors, companies and industry bodies.

The FRC has a broad impact and different types of stakeholders, reflecting the different ways in which our work affects others. Some stakeholders may fit into more than one category, for instance investors benefit from the FRC's work and are also regulated by the FRC as a result of the Stewardship Code. Stakeholders can be categorised as follows:

- those who benefit directly from the FRC's work because of

the increase in integrity and transparency of companies;

- those who are regulated by FRC and whose actions are affected by the FRC's work;
- those who interact with or are affected by the FRC in other ways; and
- The Government and public sector, to whom the FRC reports.

The FRC's customers are those that we regulate and those that benefit from regulation. Our supply chain is limited, but we are dependent on a few key relationships. Our stakeholders also include the stakeholders of the entities that we regulate.

### STAKEHOLDERS WHO BENEFIT DIRECTLY FROM THE FRC'S WORK

#### Investors

Key issues investors care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Quality and reliability of corporate reporting and audit</li> <li>– Transparency of corporate reporting</li> <li>– Executive pay and behaviour</li> <li>– The competitiveness and reputation of the UK as a place to do business</li> <li>– Impact of COVID-19</li> <li>– Impact of climate change</li> </ul>	<ul style="list-style-type: none"> <li>– Investor events</li> <li>– Investor round tables and briefings</li> <li>– Investor Advisory Group</li> <li>– Non-executive board members with investor experience</li> <li>– Public consultations</li> </ul>	<ul style="list-style-type: none"> <li>– Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>– To promote improvements and innovation, exploring good practice with a wide range of stakeholders</li> <li>– Deliver robust, fair and transparent regulatory outcomes</li> <li>– Support the Government's green finance strategy to embed climate-related issues into corporate reporting and investment decision making</li> </ul>

### Stakeholders of regulated entities

Key issues that stakeholders of regulated entities care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Quality and reliability of financial and non-financial reporting and audit</li> <li>– Transparency of corporate reporting</li> <li>– Executive pay and behaviour</li> <li>– Treatment of stakeholders by companies</li> </ul>	<ul style="list-style-type: none"> <li>– Stakeholder advisory panel</li> <li>– Public consultations</li> </ul>	<ul style="list-style-type: none"> <li>– Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>– To promote improvements and innovation, exploring good practice with a wide range of stakeholders</li> <li>– Deliver robust, fair and transparent regulatory outcomes</li> </ul>

### NGOs including environmental and societal groups

Key issues that NGOs care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Quality and reliability of corporate reporting and audit, particularly non-financial corporate reporting</li> <li>– Transparency of corporate reporting</li> <li>– Executive pay and behaviour</li> <li>– Treatment of stakeholders by companies</li> </ul>	<ul style="list-style-type: none"> <li>– NGO round tables</li> <li>– Non-executive board members with NGO experience</li> <li>– Public consultations</li> </ul>	<ul style="list-style-type: none"> <li>– Support the Government's green finance strategy to embed climate-related issues into corporate reporting and investment decision making</li> </ul>

### The public

Key issues that the public cares about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Understanding the work of the FRC</li> <li>– Trust in business</li> <li>– Executive pay and behaviour</li> <li>– Impact of a company's actions on individuals, communities, the environment and society</li> <li>– Impact of company performance on investments and pensions</li> <li>– Transparency of FRC actions</li> </ul>	<ul style="list-style-type: none"> <li>– Citizen's juries</li> <li>– AGM</li> <li>– Responding to complaints</li> <li>– Participating in 'Speakers4Schools', through which six students from London Boroughs took part in a week-long work experience with the FRC</li> </ul>	<ul style="list-style-type: none"> <li>– Transformation of the FRC into a fit-for-purpose, independent regulator</li> </ul>

## STAKEHOLDER ENGAGEMENT

### STAKEHOLDERS WHO ARE REGULATED BY THE FRC

#### Companies

Key issues companies care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Clarity, relevance and understandability of accounting standards</li> <li>– Clarity, relevance and understandability of Corporate Governance Codes in the UK</li> <li>– The competitiveness and reputation of the UK as a place to do business</li> <li>– Fairness and consistency of monitoring work</li> <li>– Fairness and consistency of enforcement action against companies</li> <li>– Provision of timely and helpful guidance on matters of relevance</li> <li>– Impact of the FRC's transformation into ARGA</li> </ul>	<ul style="list-style-type: none"> <li>– Advisory committee representation</li> <li>– Company round tables</li> <li>– Regular meetings with audit committee chairs</li> <li>– Regular meetings with chairs</li> <li>– Company events</li> <li>– Engagement as part of our monitoring, supervision and enforcement activities</li> </ul>	<ul style="list-style-type: none"> <li>– Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>– Assist the Government with creating new structures for setting accounting standards after leaving the EU</li> <li>– Update the UK Corporate Governance Code and/or related guidance for enhanced requirements on internal controls, risk management, going concern and resilience/ viability,</li> </ul>

#### Auditors

Key issues auditors care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Impact of the CMA review</li> <li>– Impact of the Brydon Review</li> <li>– Fairness and consistency of audit inspections across different audit firms</li> <li>– Fairness of enforcement action against auditors</li> <li>– Quality of auditing standards</li> <li>– Impact of the transition to incorporate firm level supervision of audit firms</li> <li>– Impact of Brexit on the cross border work of audit firms</li> <li>– Effect of operational separation of audit practices from the rest of the business</li> <li>– Maintaining the high global reputation of UK audit</li> </ul>	<ul style="list-style-type: none"> <li>– Close supervisory contact with audit firms</li> <li>– Regular meetings with audit firm heads</li> <li>– Advisory boards</li> <li>– Representation on committees</li> <li>– Engagement as part of our monitoring, supervision and enforcement activities</li> </ul>	<ul style="list-style-type: none"> <li>– Transformation of the FRC into a fit-for-purpose, independent regulator</li> <li>– Build and deepen our supervision of the major audit firms, including governance, structure, audit quality management, culture and resilience</li> <li>– Expand oversight of the professional bodies</li> </ul>



## Accountants

Key issues accountants care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Clarity, relevance and understandability of accounting standards</li> <li>– The competitiveness and global reputation of the UK as a place to do business</li> <li>– Fairness and consistency of monitoring work</li> <li>– Fairness and consistency of enforcement action against companies</li> <li>– Impact of COVID-19 on corporates and their reporting</li> <li>– Impact of the FRC's transformation into ARGAs</li> </ul>	<ul style="list-style-type: none"> <li>– Regular meetings with accounting technical partners</li> <li>– Advisory groups</li> </ul>	<ul style="list-style-type: none"> <li>– Assist the Government with creating new structures for setting accounting standards after leaving the EU</li> </ul>

## Actuaries

Key issues actuaries care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Quality of actuarial standards</li> <li>– Fair and transparent monitoring of the actuarial profession</li> </ul>	<ul style="list-style-type: none"> <li>– Working groups</li> <li>– JFAR meetings</li> </ul>	<ul style="list-style-type: none"> <li>– Launch a post-implementation review of the Technical Actuarial Standards</li> </ul>

## Investors as stewards

Key stewardship issues investors care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Publication of the new Stewardship Code</li> <li>– Clear expectations of behaviours and processes expected under the Stewardship Code</li> <li>– Fair monitoring processes of performance under that Code.</li> </ul>	<ul style="list-style-type: none"> <li>– Stewardship Code round tables and other events</li> <li>– Regular meetings</li> </ul>	<ul style="list-style-type: none"> <li>– Assess early reporting of implementation of the Stewardship Code Support signatories to the Code</li> </ul>

## STAKEHOLDER ENGAGEMENT

### OTHER STAKEHOLDERS

#### Employees of the FRC

Key issues employees care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Transition of FRC to ARGA</li> <li>– Implementation of Kingman, Brydon and CMA recommendations</li> <li>– Creation of the Endorsement Board</li> <li>– Work environment, including working arrangements in response to COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>– Regular meetings of the people forum, made up of elected staff members and a nominated board member</li> <li>– Staff surveys</li> <li>– All staff events</li> <li>– Regular firm-wide newsletters</li> </ul>	<ul style="list-style-type: none"> <li>– Improve staff morale and wellbeing</li> <li>– Achieving level 2 Disability Confident Employer accreditation in 2020/21</li> <li>– Actively supporting flexible working and working from home in a safe and supported manner</li> </ul>

#### Suppliers to the FRC

Key issues suppliers care about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Fair treatment under managing public money</li> </ul>	<ul style="list-style-type: none"> <li>– Regular meetings</li> <li>– On-site working from some critical suppliers</li> </ul>	<ul style="list-style-type: none"> <li>– Continue to improve the resilience and security of our IT, particularly in view of the impact of increased working from home</li> </ul>

### GOVERNMENT

#### Government and Public Sector

Key issues that the Government and the public sector cares about	How we engage	Priorities for the FRC for 2020/21
<ul style="list-style-type: none"> <li>– Fulfilment of statutory functions</li> <li>– Fulfilment of delegated functions</li> <li>– Operating within the boundaries of the <i>Managing Public Money</i> rules</li> </ul>	<ul style="list-style-type: none"> <li>– Reporting annually to Parliament</li> <li>– Reporting annually to BEIS</li> <li>– Regular meetings with BEIS</li> </ul>	<ul style="list-style-type: none"> <li>– Work with BEIS on any Consultation Documents in response to the Kingman and Brydon Reviews</li> <li>– Work with BEIS on their response to the Competition and Markets Authority assessment of competition in the audit market</li> <li>– Deliver change in line with Kingman recommendations with existing powers, or take major steps towards them</li> <li>– Integrate all reform for the FRC into a transformation programme with appropriate governance</li> </ul>

## RISK MANAGEMENT

Our risk management function focuses on identifying the key risks that may challenge or prevent us from delivering our strategy and developing appropriate mitigation plans to allow us to continue to serve the public interest effectively.

We integrate risk management into the way we work by encouraging risk-based decision making. Our risk register, available to all staff, is reviewed by the Executive Committee on a regular basis. Additionally, each risk owner takes part in an agreed cycle of assessment with regards to their risks. These assessments ensure that the appropriate mitigating actions are being applied as intended and kept up to date.



The Chief Executive is responsible for ensuring risks are managed effectively. The Board, supported by the Audit Committee, monitors the risk management and internal control system and reviews its effectiveness at least annually. The most recent review has identified the following principal risks and has approved mitigation plans. However, we are likely to have to enhance our risk mitigation around the transformation programme as the process of moving to ARGA accelerates.

Although the below table includes our principal risks as of 31 March 2020, including a new risk around COVID-19, the significant impact of the outbreak on the global economy has markedly disrupted business confidence and could reduce the FRC's ability to achieve our strategic objectives. To mitigate this risk, we have invoked business continuity plans to help ensure the safety and well-being of staff, while enhancing our ability to support markets and maintain business operations.



Whilst the increasing uncertainty will be challenging, to support planning for, and assessment of, the impact of COVID-19, we will continue to:

- assess our principal risks to understand their continuing relevance and what this means for delivering our strategic objectives;
- engage firms, companies and investors to discuss COVID-19;
- monitor programmes to manage risk exposures;
- review and enhance business continuity plans; and
- stress test plans, by:
  - considering internal macroeconomic and event-driven scenarios;
  - understanding the nature and extent of vulnerabilities to which markets are exposed;
  - identifying new emerging risks; and
  - ensuring robust mitigating actions are in place as required.




## RISK MANAGEMENT

#	PRINCIPAL RISK	MITIGATION	RISK TREND
1	The Framework in which we operate, including planned reform, fails or is delayed, due to misguided or ineffective regulatory standards and codes, supervision, enforcement and/or legislative delays, resulting in loss of public confidence in the regulatory regime.	<p>In the last year and a half, three independent reviews have made far-reaching recommendations to the Government which impact on our purpose, objectives and the roles and responsibilities of those we regulate. While the Government is yet to formally respond, we are taking interim steps to respond appropriately using our existing powers. For example, based on the principles of good regulation, we:</p> <ul style="list-style-type: none"> <li>– Have implemented 20 of the 83 recommendations in the Kingman Review, have prepared the majority of the remainder and engaged third parties on potential remedies.</li> <li>– Are engaged with BEIS on preparing for Ministerial decisions on the CMA's Statutory Audit Market Study report and Brydon Review and have prepared how we would implement the majority of the recommendations once a decision is made.</li> <li>– Strengthened our business model by redefining our purpose, principles, objectives and adopting six principles setting out how we will act as a regulator (see page 1).</li> <li>– Worked closely with international standard-setters and regulators to:               <ul style="list-style-type: none"> <li>• improve regulatory standards and codes;</li> <li>• maintain our influence internationally;</li> <li>• promote understanding of investors' views; and</li> <li>• develop best practice in corporate reporting.</li> </ul> </li> <li>– Maintained our programme of audit inspections and increased the intensity of our supervision of audit firms to prioritise the improvement of audit quality and the resilience of the audit market.</li> <li>– Enforced tough financial and other sanctions against those who breached required standards.</li> </ul>	
2	FRC fails to retain, recruit and motivate high-quality people at all levels to pursue its mission and deliver its regulatory responsibilities.	<ul style="list-style-type: none"> <li>– Increased our headcount from 210 in 2019 to 243 in 2020.</li> <li>– Focussed on development of our people and recruiting new colleagues with the requisite skills and behaviours.</li> <li>– Better aligned our purpose, values and behaviours through discussion with our people, including promoting diversity and flexible working.</li> <li>– Improved our learning and development strategy.</li> <li>– Strengthened our reward and appraisal strategies and encouraged colleagues to take advantage of wide-ranging training initiatives.</li> <li>– Promoted potential ARGAs career opportunities.</li> </ul>	



### KEY

Relative severity	Change during the year
 High	 Increasing risk
 Medium	 Decreasing risk
 Low	 Stable

## RISK MANAGEMENT

#	PRINCIPAL RISK	MITIGATION	RISK TREND
3	Members of the governance and executive structure and/or staff take decisions that are open to legal challenge or not in line with the FRC's purpose and objectives, including due to being too close to those we regulate, otherwise conflicted, or insufficiently diverse, resulting in exposing the FRC to justified criticism and reputational damage.	<ul style="list-style-type: none"> <li>– We are streamlining our governance systems to support better oversight, scrutiny and executive-led decision making; changes have been agreed and are being implemented through 2020/21.</li> <li>– Refreshed Board membership to encourage leaner decision making and oversight arrangements.</li> <li>– Enhanced policies for registering interests, gifts and other working practices to avoid real and perceived conflicts and ensure independence.</li> <li>– Streamlined and robust governance to ensure that decisions are taken based on appropriate information, a fair and transparent process, are carefully documented and appropriate legal advice is obtained in relation to major decisions made.</li> </ul>	
4	Credibility of the UK Corporate Governance regime is compromised by poor/ineffective governance, reporting, engagement or stewardship by investors.	<ul style="list-style-type: none"> <li>– Continued to monitor the implementation of the UK Corporate Governance Code, including scrutinising progress and highlighting areas where we expect to see improvements. We reported on high levels of compliance in our Annual Review, with few recommendations for change</li> <li>– Significantly revised the Stewardship Code to raise expectations on effective stewardship. Reporting against the Code is expected to focus on the outcomes achieved through stewardship activities undertaken by signatories. Early reporting is expected during 2020.</li> </ul>	
5	There is no change in the quality of audit work by major audit firms, resulting in reduced company confidence and reputational damage to the FRC.	<ul style="list-style-type: none"> <li>– Maintained our programme of audit inspections to give a consistent measure of audit quality but focusing more on higher risk audits.</li> <li>– Intensified forward-looking supervision of major audit firms. This includes governance, systems of audit quality control, risk management and culture.</li> <li>– Sought agreement from the major audit firms that from 2021 they will separate their audit practices from the rest of the firm based on a set of FRC principles with the objectives that audit practices are focused first and foremost on audit quality and financial subsidies of audit are eliminated.</li> <li>– Supported the development and adoption of international auditing standards.</li> <li>– The Audit Firm Governance Code is in place.</li> <li>– Collaborated with auditors, audit committees, professional bodies and investors to highlight good practice and advocate continuous improvement in the effectiveness of audit standards.</li> <li>– Completed a thorough review of Audit Quality Indicators and will publish the results shortly which will aid audit firms and Audit Committees to understand the measurement of audit quality.</li> </ul>	

## RISK MANAGEMENT

#	PRINCIPAL RISK	MITIGATION	RISK TREND
6	Audit market is severely disrupted by the failure of a 'Big Four' audit firm or their withdrawal from all or part of the market.	<ul style="list-style-type: none"> <li>– Required major firms to have recovery plans setting out available finances, resources and contingency responses to a range of stress scenarios.</li> <li>– Created arrangements for firms to notify us of any major risks or incidents arising elsewhere.</li> <li>– Discussed with Government CMA's recommendations to mitigate the distress or failure of a Big 4 firm. This includes what measures might be taken to encourage growth in the market share of firms outside the Big 4, particularly in FTSE 350 companies.</li> <li>– Our preferred measure is 'managed shared audit', to require FTSE 250 groups to tender audits of major UK components to firms outside the Big 4 in order to build the capacity of those firms.</li> <li>– Engaged firms to discuss COVID-19.</li> </ul>	
7	Failure to maintain data privacy/confidentiality, due to un/intentional ex/internal release of data including through cyber-attack, results in loss of sensitive data (personal/corporate), breach of law/regulation, fines, censure and reputational damage to FRC.	<ul style="list-style-type: none"> <li>– Invested in our information technology architecture to enhance our technological and physical defences.</li> <li>– Continued to develop information security policies and procedures.</li> <li>– Reinforced a culture of awareness, providing regular training to all staff to minimise the security vulnerabilities caused by mistakes.</li> <li>– Implemented regular testing to assess the effectiveness of our network security and data handling procedures and take corrective action where necessary.</li> <li>– Commissioned an independent review of security more broadly and are implementing the recommendations for change.</li> </ul>	

## RISK MANAGEMENT

#	PRINCIPAL RISK	MITIGATION	RISK TREND
8	COVID-19: The impact of the virus - economic uncertainty, containment measures and UK/global "lockdown"- significantly reduces the FRC's ability to fulfil its purpose and transform into a new independent regulator.	<ul style="list-style-type: none"> <li>- Fully followed all Government advice for employers and instituted organisation-wide home working on 17 March 2020</li> <li>- Prior to that had promoted the importance of, and access to, hand hygiene facilities and social distancing and reviewed our business continuity plans</li> <li>- Updated HR, technology, telephony and information policies and systems where appropriate and communicated these to all staff</li> <li>- Made changes to our recruitment and on-boarding processes so that we can continue to recruit and induct new staff</li> <li>- Instituted revised team communications strategies to ensure that managers can adequately supervise and support employees working from home</li> <li>- Increased employee well-being support</li> <li>- Responded proportionately in our regulatory regime, working with other regulators, like the FCA and the PRA, to ease the situation on company reporting and audit timing, whilst not sacrificing quality - and communicated that to appropriate parties and the market</li> <li>- Worked closely with audit firms, companies and investors and published guidance to address the problems that they face.</li> </ul>	<b>NEW RISK</b>

## MANAGING COMPLAINTS TO THE FRC

As part of the FRC's role in ensuring confidence in the integrity of accountants, actuaries, auditing and corporate reporting, it receives and reviews complaints and referrals by the public. Most of the complaints we receive, that are within our remit, are reported matters about regulated activities. We also receive a small number of complaints about the FRC.

This year, following an internal review and the Kingman Review, we have centralised our complaints function. New processes have been drafted, agreed, implemented and published on the FRC website to ensure the prompt, consistent and appropriate triaging, handling,

response and resolution of complaints.

Complaints received are considered to determine whether they fall within our remit, and then triaged for consideration by our:

- **Corporate Reporting Review Team** – Responsible for reviewing accounts of listed, UK AIM quoted and large private companies, as well as limited liability partnerships to determine whether they have complied with relevant accounting and reporting requirements as set out in the Companies Act 2006;

- **Enforcement Division** – Responsible for conducting investigations and bringing enforcement actions, if appropriate, against auditors, accountants, audit firms and actuaries where there appears to be misconduct or a breach of the relevant professional standards; or
- **Professional Oversight Team** – Responsible for providing independent oversight of the professional accountancy and actuarial bodies and can consider the way a body has handled a complaint that was made to it.

356 complaints were received during 2019/20, summarised below:

### Complaints

	Number
Brought forward as at 1 April	12
Incoming complaints	356
Closed/Resolved complaints	(355)
Carried forward as at 31 March	13

The types of complaints received were:

Complaint Nature	Number
Conduct or performance of accountant (regulated)	46
Conduct or performance of accountant (unregulated)	41
Conduct or performance of accountant (unknown)	98
Conduct or performance of an auditor	41
Financial Reporting	36
Actuarial Work	—
Actions of Professional Body	43
Insolvency Issue	5
Other/Unknown	51
<b>Total</b>	<b>361</b>

Note: The total is more than the number of incoming complaints due to some complaints covering multiple categories.

Of the 356 complaints received, 92 were referred to the relevant department within the FRC for further review, with 264 complaints being outside our remit.

The actions taken in respect of the complaints considered by the FRC during 2019/20 were:

### CORPORATE REPORTING REVIEW TEAM

Corporate Reporting Review received 29 complaints related to corporate reporting matters during the year of which 19 related to financial statements reporting matters.

- These were in respect of a wide range of issues including revenue recognition, the accounting related to particular transactions, measurement and valuation issues, and disclosures. Improvements to future reporting have been made (or agreed to) in five cases and eight cases were



closed with no changes made to future reporting. Six cases are still in progress.

- The other ten complaints were not followed up as there was insufficient merit to pursue or they were otherwise outside our scope.
- During the year we did not receive any complaints relating to information provided in the Strategic Report.

The complaints came from a diverse range of parties (including private individuals, investors, fund managers, journalists and academics) and have involved companies that have ranged from private and small AIM companies to FTSE 100 groups.

### ENFORCEMENT

The Case Examination and Enquiries team opened 15 complaint cases this year (two of which were whistleblowing disclosures). There were also two referrals from a professional body arising from complaints received by that body.

20 complaint and referral cases were closed by the Case Examination and Enquiries team during the year, as follows:

- Three cases, arising from a whistleblowing disclosure and two professional body referrals, were referred by the Conduct Committee to the enforcement team to investigate or make further enquiries.
- 11 cases were in relation to matters not in the FRC's remit. Where possible, we referred the complaint or the complainant to the appropriate regulatory body, which included RSBs (in relation to audit matters which the FRC has delegated to the RSBs),

accountancy professional bodies and the Insolvency Service.

- Six cases, where the underlying complaint was potentially within the FRC's remit were closed with no further action taken, as our enquiries found that there was no basis or insufficient information to support the complaint.

### PROFESSIONAL OVERSIGHT

This year the Professional Oversight Team (POT) received 43 complaints about the professional accountancy and actuarial bodies we oversee, of which:

- Five complaints were within POT's complaint handling remit, with four matters still under review as at 31 March 2020. No recommendations were made to the professional accountancy and actuarial bodies in relation to their enforcement and complaints procedures in respect of any complaints reviewed this year, including two complaints that were ongoing at the start of the year; and
- 38 matters were outside our complaints handling remit and/or the complainant had not first exhausted the professional accountancy body's or actuarial body's complaints procedure.

This year the FRC has seen a reduction in the volume of complaints received about the way in which a professional body has dealt with a complaint about one of its members. We continue to receive a steady number of complaints from students of the bodies. Additional information on our oversight activities can be found at Appendix 1 of this report.

### WHISTLEBLOWING TO THE FRC AS A PRESCRIBED PERSON

#### Public Interest Disclosures

Whistleblowing is the term used when an employee passes on information concerning suspected or known wrongdoing by their employer (it is also known as "making a disclosure"). The Employments 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 employees 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 individuals working outside the FRC, but in the accounting, auditing or actuarial professions, may contact the FRC if they want to make a disclosure about their current or former employer in relation to matters which are within the scope of the FRC's regulatory remit.

During 2019/20 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 relevant professional accountancy body for consideration;
- Four were referred to another regulator or organisation for consideration;
- Three were of direct relevance to the FRC's responsibilities and were addressed by the relevant teams;
- Two did not respond to requests for further information.

## MANAGING COMPLAINTS TO THE FRC

The FRC's whistleblowing policy can be found here: [www.frc.org.uk/whistleblowing](http://www.frc.org.uk/whistleblowing)

### Complaints about the FRC

During 2019/20, five new complaints were received about the FRC and have been handled under the FRC Complaints Procedure.

Concerns were raised regarding:

- The reviews undertaken by the FRC in relation to complaints

about professional exams in chartered accountancy and actuarial bodies.

- The FRC advising that the concerns raised were outside its remit.

All of the complaints have been reviewed, investigated and responded to, with none being upheld. In two of the cases the Unreasonable & Repeated

Complaints & Communications policy has been invoked due to multiple contacts from the complainants repeatedly raising the same, already addressed, points. Two complainants have exercised their right to have their complaints escalated to the Independent Complaints Reviewer, who is currently undertaking a review of the concerns raised. The final complaint was closed with no further action taken.

## FINANCIAL REVIEW

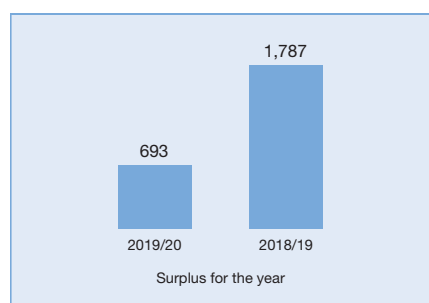
The 2019/20 financial year saw the beginning of a period of significant change for the FRC as we laid the foundations for the transition to the ARGA. The new authority will have stronger powers and the ability to respond more quickly and effectively to emerging problems. It will therefore require additional professional staff and more resource. The preparations for the UK's exit from the EU also involved the FRC in working with BEIS to create the new UK Endorsement Board to endorse IFRS and taking on an expanded role in recognising third country auditors.

For the 2019/20 financial year we set an operating budget of £37.8m based on maximum flexibility in deploying our resources to accommodate both existing and new responsibilities. However, we recognised the uncertainty around the timing of some aspects of the transition to the ARGA and of EU exit and we therefore alerted our funding groups to the possibility that we might need additional resources in-year.

In the event, we were successful in managing within our core budget and did not seek additional resources. During 2019/20, the FRC generated a £0.7m (2018/19: £1.8m) surplus.

### Financial Overview

	2019/20 £'000	2018/19 £'000
Surplus for the year	693	1,787



### Reserves

The FRC currently holds £16.5m of reserves which are held to meet:

- I. specific enforcement case costs,
- II. unforeseen costs arising from our regulatory activities and;
- III. the impact of any shortfall in our revenue, particularly from the voluntary elements of our funding.

As a public body, operating under a Remit Letter from BEIS, the FRC will work with BEIS to ensure that any use of the reserves is in line with HM Treasury and Cabinet Office requirements.

A further action as a public body has been to open a bank account with the Government Banking Service (GBS) as is required under *Managing Public Money*. All money previously held in deposit accounts has now been transferred to the secure facility provided by GBS.

### Expenditure

This year's activities saw an increase in our work on audit regulation, corporate reporting and governance, and enforcement. Overall expenditure for the year saw a significant increase on prior year to £38.9m (2018/19: £28.8m) of which £30.9m related to core operating costs. The remainder related to enforcement case costs.

The budget for enforcement case costs of £5.5m was based on an estimate of the expected cost of accountancy cases after considering any costs awards. Case costs are budgeted net of any costs awards issued and are dependent on a number of variable external factors which are difficult to accurately predict and as such they can vary from budget significantly. Case costs are recovered directly from

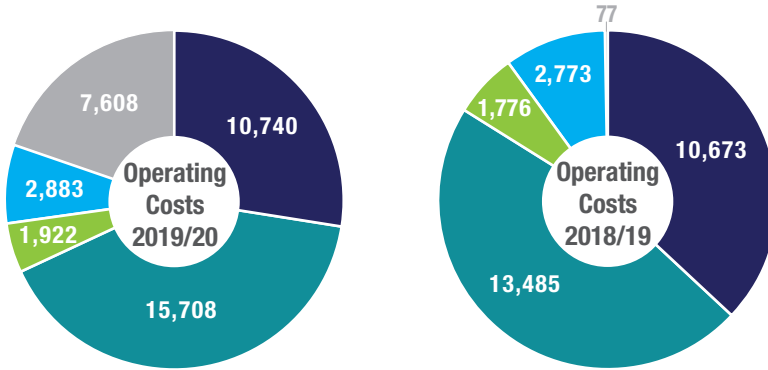
the appropriate RSB. Cases successfully pursued by our Enforcement Division saw financial sanctions to the value of £11.3m during 2019/20 (2018/19: £32.0m) as well as case costs increasing to £9.4m (2018/19: £6.2m). At the end of the financial year there were financial sanctions totalling £2.2m that had been finalised but that had not yet reached our bank account and therefore appear in our Balance Sheet as at 31 March 2020 as debtors.

Core operating costs increased in the year by £2.3 million compared to our budget as a result of:

1. Increase in headcount from 210 to 243 resulted in an increase in staff costs of £2.4 million. This was largely as a result of the increased activity in audit quality review and monitoring work as we transition to the ARGA.
2. The increase in headcount has resulted in increased pressure on our workspace and IT support. As a result, we undertook an extensive exercise to redesign our workspace both to meet increased demand but also to establish a more efficient use of our London Wall offices. Although this will represent an overall gain in our efficiency, some of our current furniture will have a significantly reduced useful life, resulting in a write-down of £0.2m.
3. There has also been continued effort to secure cost savings in other areas, including travel and professional fees.

## FINANCIAL REVIEW

Expenditure across our main areas of responsibility is shown below.



- |                                    |                                    |
|------------------------------------|------------------------------------|
| ■ Corporate Governance & Reporting | ■ Corporate Governance & Reporting |
| ■ Audit & Accountancy Regulation   | ■ Audit & Accountancy Regulation   |
| ■ Actuarial Standards & Regulation | ■ Actuarial Standards & Regulation |
| ■ Enforcement Core                 | ■ Enforcement Core                 |
| ■ Accounting Case Costs            | ■ Accounting Case Costs            |

### Funding

The FRC does not receive direct Government funding. We are mainly funded by the audit profession through statutory arrangements and by other groups – the accountancy and actuarial professions, accounts preparers, insurance companies and pension schemes – through non-statutory arrangements agreed with Government.

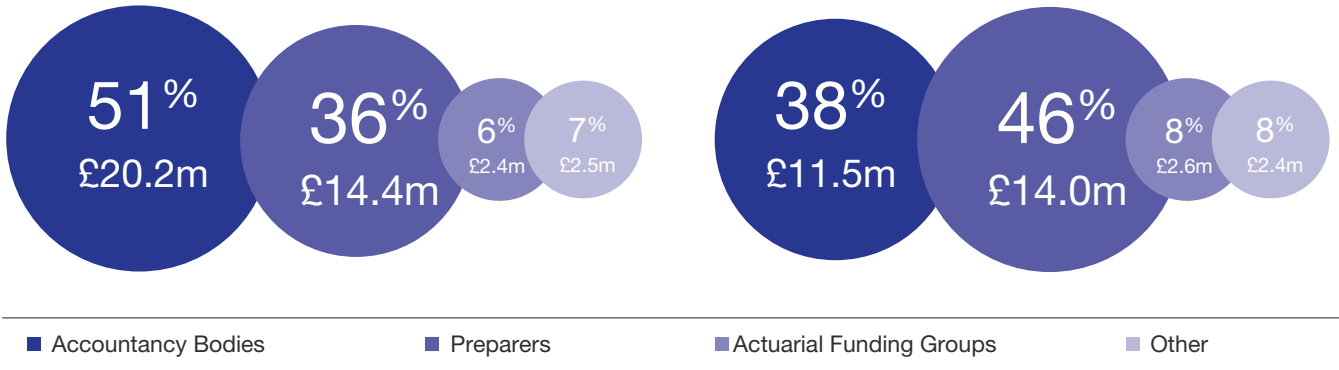
Other income includes income from publications and electronic rights, and registration fees from Third Country Auditors.

## FINANCIAL REVIEW

During the 2019/20 year, the FRC received total funding of £39.5m from the following categories:

**2019/2020 Total £39.5m**

**2018/2019 Total £30.5m**



The Directors consider that the Strategic Report set out in pages 1 to 31 is fair, balanced and understandable and that it contains the information necessary for the user to assess the position, performance, business model and strategy of the FRC. It was approved by the Board of Directors on 1 July 2020 and signed on its behalf by:

**SIR JONATHAN THOMPSON**  
**CHIEF EXECUTIVE OFFICER**  
**AND ACCOUNTING OFFICER**

## GOVERNANCE AND TRANSPARENCY

### GOVERNANCE STATEMENT

#### THE BOARD IS COMMITTED TO MAINTAINING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE IN LINE WITH THE UK CORPORATE GOVERNANCE CODE 2018.

The FRC is a public body. The Chief Executive, as the Accounting Officer, is personally responsible for safeguarding the public funds under his control, for ensuring propriety and value for money in the handling of those public funds, and for the day-to-day operation and management of the FRC. The Board is responsible for the FRC's strategy and monitoring the implementation of that strategy. The FRC reports to the Secretary of State for BEIS and Parliament on the discharge of its functions. The Secretary of State for BEIS appoints the Chairman and Non-Executive Directors to the FRC Board. As a company, the FRC conforms to the requirements of the Companies Act 2006.

As the body responsible for the UK Corporate Governance Code (the Code), the FRC seeks to apply the principles and comply with the provisions of the Code, as far as possible and appropriate for a public regulatory body, which is also a private company limited by guarantee. The result of this combination of circumstances means that the FRC applies the Code in a manner which addresses its particular situation. Throughout this report we demonstrate how the principles and provisions of the Code are followed.

#### Explanation of the departures in the application of the UK Corporate Governance Code

##### **BOARD LEADERSHIP AND COMPANY PURPOSE**

*Principle D:* Effective engagement with shareholders. As a private company limited by guarantee there are no shareholders. However, the FRC has a commitment to seeking views from its stakeholders and those it regulates to ensure its actions are proportionate and targeted. The FRC has set up various groups and panels. These include an Investor Advisory Group which provides a regular forum for the FRC to engage with representatives from across the investment chain on various issues and the Stakeholder Advisory Panel which provides insights and input into our work from a broad range of stakeholder representatives to ensure we focus on the needs of society in pursuit of our mission. Engagements include stakeholder roundtables, formal and informal consultations and general catch up sessions with both senior leaders and the workforce.

##### **DIVISION OF RESPONSIBILITIES**

*Principle F:* The Chairman leads the Board and is responsible for its overall effectiveness. Although not a departure during 2019/20, after the year end the Chairman resigned. Pending the appointment of a new Chairman by BEIS, during 2020/21 there will be a period when the FRC will be without a Chair.

*Principle G:* Combination of Executive and Non-Executive Directors. The FRC does not have a Senior Independent Director; historically, this role has been fulfilled by the Deputy Chairman. Since the departure of the Deputy Chairman in April 2019, the role is currently vacant and appointment of the new Deputy Chairman is a matter for the Secretary of State.

*Principle H:* Non-Executive Directors should have sufficient time for their role. The Secretary of State appoints NEDs to the Board, accordingly, it is for the Secretary of State to ensure NEDs are able to commit to the time required for the role before appointment. Post appointment this is monitored by the Nominations Committee which considers any proposed new external appointments of the FRC's NEDs prior to their acceptance.

##### **COMPOSITION, SUCCESSION AND EVALUATION**

*Principle J:* Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Since the appointments to the Board are a matter for Secretary of State, the appointment procedure is not under FRC's control.

*Principle K:* The board and its committees should have a combination of skills, experience and knowledge. The Nominations Committee has reviewed the skills and experiences reflected on the Board and through its Chairman, advised the Secretary of State in the gaps on Board membership. Further work of the Nominations Committee is set out on page 48.

*Principle L:* Annual evaluation of the Board. The organisation has gone through a restructuring process which is on-going. This has included significant changes to the Board. As in 2018/19 the Board agreed to defer the annual board effectiveness review in light of the significant expected changes to Board membership and the introduction of a new governance structure as part of the overall reform programme. The next review is expected to take place by the end of 2020/21. It will be facilitated by an external party in accordance with the requirements of the Code and will include individual evaluations.

**AUDIT, RISK AND INTERNAL CONTROL**

*Principle N:* Assessment of the company's position and prospects. The financial statements confirm that it is appropriate to adopt the going concern basis of accounting. However, as a public body under the sponsorship of BEIS both now and after the transformation into the ARGAs, the FRC has not provided an assessment of its prospects over the longer period. We will continue to work with BEIS support both during the period of change and afterwards.

*Provision 24:* Following the departure of Nick Land on 31 March 2020, the membership of the Audit Committee did not include a member with recent and relevant financial experience. The Board was satisfied that the membership was appropriate for a short period pending appointment of new Non-Executive Directors.

**REMUNERATION**

*Principles P, Q and R:* Remuneration of directors. As a public body the FRC must follow Public Sector Pay Guidelines and there is greater oversight from BEIS, HM Treasury and the Cabinet Office in relation to remuneration decisions. As a result, the Remuneration Committee's responsibility is largely to agree submissions in respect of staff pay awards and to advise the Secretary of State on the proposed fees for Non-Executive Directors. Further detail on the work of the Remuneration Committee is set out on page 50.

**SIR JONATHAN THOMPSON**  
**CHIEF EXECUTIVE OFFICER**  
**AND ACCOUNTING OFFICER**

## GOVERNANCE AND TRANSPARENCY

### HOW WE ARE GOVERNED

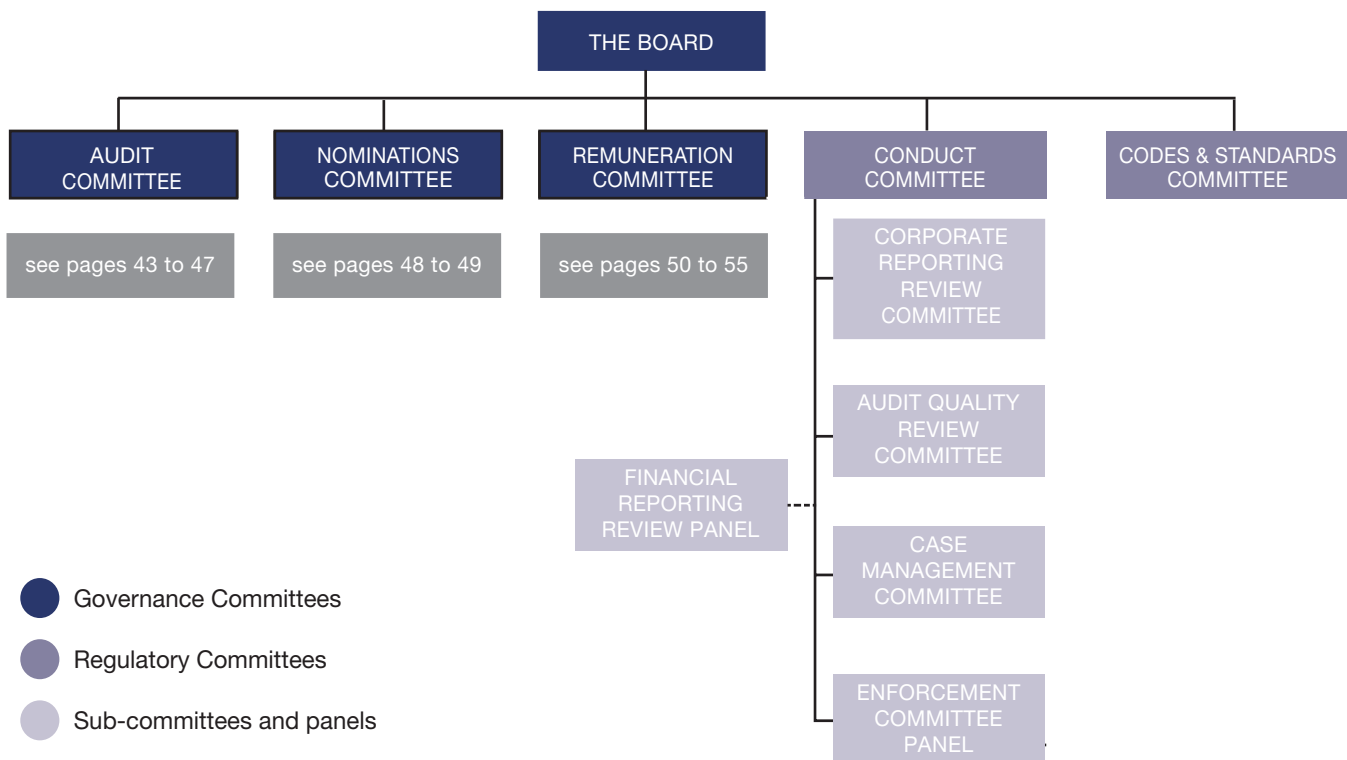
The FRC is headed by a Board which has responsibility for establishing values, culture and strategy and ensuring that necessary resources are in place for the business to meet its strategic objectives.

There is a clear separation of duties between the Chairman and Chief Executive and a clear division of responsibilities between the Board and Executive management. Since joining the FRC, the Chief Executive and Former Chairman developed clear sets of responsibilities for themselves, the Deputy Chair, NEDs and Committee Chairs. The responsibilities were developed during Q4 of the reporting year and agreed by the Board in April 2020. They have since been published on the FRC website.

The Board is responsible for setting accounting, auditing and actuarial standards. It is not responsible for making enforcement decisions but receives quarterly updates on the cases and investigations. The Executive Committee, led by the Chief Executive, is responsible for implementing the strategy agreed by the Board and reports to the Board on progress.

### GOVERNANCE DIAGRAM

The Board discharges some of its responsibilities directly and others through its three governance committees and two regulatory committees. Sub-committees, panels and advisory councils are in place to ensure appropriate expertise is available to support decision-making. The Company Secretary supports the Board, its Committees and the Executive team in ensuring all relevant procedures are followed. Terms of Reference for the Board and its Committees are available at [www.frc.org.uk/terms-of-reference](http://www.frc.org.uk/terms-of-reference).



Since taking up their appointments in October 2019, the Former Chairman and the Chief Executive worked closely with the Board and the Executive Directors to design a governance structure that better matches the FRC's ambition going forward. The revised structure is designed to enhance the effectiveness, speed and responsiveness of the organisation, while establishing clearer lines of accountability and empowering the Executive.

The revised governance structure is expected to take effect in early 2021 following appropriate consultations in the autumn of 2020.



## OUR BOARD MEMBERS



**Sir Jonathan Thompson**  
Chief Executive  
*Appointed 1 October 2019*

**Experience:**

Sir Jon brings experience of working with government bodies and has a lengthy finance career. Prior to joining the FRC, Jon was the CEO of HMRC, and previously Permanent Secretary of the Ministry of Defence. He has extensive experience of delivering change and programme management as well as deep experience of finance and corporate governance as a former Head of the Government Finance Function and the CFO of four organisations.



**David Childs (N) (CC)**  
Independent Non-Executive Director  
*Appointed 1 May 2014*

**Experience:**

As the former Global Managing Partner at Clifford Chance, David brings strong expertise in corporate law and regulation. In particular, David's experience has enabled him to exercise effective oversight of the FRC's enforcement and monitoring activities and lead an effective Conduct Committee.



**John Coomber (A) (R) (CSC) (AC)**  
Independent Non-Executive Director  
*Appointed 23 July 2015*

**Experience:**

John is a former CEO of a global reinsurer, Swiss Re and of a specialist UK insurer, Pension Insurance Corporation and has experience of international practices of corporate governance and reporting. During his executive career and subsequently, he has had a strong interest in the ways business can make a positive contribution to, and benefit from, the management of environmental risk. His wide-ranging skills and experience has helped in making a valuable contribution in particular to the FRC's project on the Future of Corporate Reporting.



**Keith Skeoch (CSC)**  
Independent Non-Executive Director  
*Appointed 1 March 2012*

**Experience:**

Keith is the CEO at Standard Life Aberdeen and brings fifteen years of experience of operating as a PLC director both in the UK and India. He also brings deep experience in economics and financial markets and best practice in stewardship. He has in depth knowledge of the asset management, life insurance and pension industries and his advice has been particularly important when working on the new Stewardship Code.



**Dame Julia Unwin CBE (A) (CSC)**  
Independent Non-Executive Director  
*Appointed 1 April 2018*

**Experience:**

Dame Julia brings experience of broader civil society, having been the Chief Executive of the Joseph Rowntree Foundation for ten years. Her expertise also includes the role of public regulatory bodies. She has wide experience of working within civil society and government. She offers an understanding of diverse perspectives on the work of the FRC, and this enabled her to contribute both to the development of the Stewardship Code and the work on the Future of Corporate Reporting. She has been appointed to chair the Codes and Standards Committee until December 2020.



**Jenny Watson CBE (R)**  
Independent Non-Executive Director  
*Appointed 1 April 2018*

**Experience:**

Jenny brings experience of public interest, social and consumer issues. Her career includes board and chair roles in the public and not for profit sectors. Her public interest focus had been brought to bear in discussions around the future of the FRC as it transitions to ARGA. During the year she became Chair of the Remuneration Committee and has held the NED role with responsibility for engagement with the workforce, meeting regularly with the FRC's People Forum and Diversity & Inclusion Committee to bring their perspective to the Board table.

## GOVERNANCE AND TRANSPARENCY

### MEMBERS WHOSE TERMS ENDED DURING THE 2019/20 YEAR AND PRIOR TO THE APPROVAL OF THIS REPORT

**Sir Winfried Bischoff (N) (R)**

Former Chairman

*Appointed 1 May 2014 – Retired 7 October 2019*

**Experience:**

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

**Simon Dingemans (N) (R)**

Former Chairman

*Appointed 7 October 2019 – Resigned 31 May 2020*

**Experience:**

Simon brought extensive operational, financial and capital markets experience developed through a series of senior leadership roles, including most recently as CFO of GlaxoSmithKline plc during a period of significant business transformation. Previously, he spent 25 years in Investment Banking including 10 years as a Partner at Goldman Sachs.

**Gay Huey Evans OBE (N) (CC)**

Former Deputy Chairman

*Appointed 1 April 2012 – Retired 30 April 2019*

**Experience:**

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

**Stephen Haddrill**

Former Chief Executive

*Appointed 16 November 2009 – Resigned 1 October 2019*

**Experience:**

Stephen brought experience in government and regulation. Prior to joining the FRC, he was Director General of the Association of British Insurers and before that Director General of the Department of Trade and Industry (DTI) fair markets group.

**Mark Armour (A)**

Former Independent Non-Executive Director

*Appointed 2 July 2012 – Retired 30 June 2019*

**Experience:**

Mark brought extensive experience of company and financial management, including corporate reporting, investor engagement and audit committee work, and of audit gained through a number of executive and non-executive roles.

**Sir Brian Bender (R) (N) (CC)**

Former Independent Non-Executive Director

*Appointed 1 March 2014 – Retired 29 February 2020*

**Experience:**

Sir Brian brought experience of UK government, European policy and regulation and regulatory policy. His former roles include Head of the European Secretariat and Permanent Secretary in the Business Department and the Department for Environment, Food and Rural Affairs.

**Olivia Dickson (CSC)**

Former Independent Non-Executive Director

*Appointed 2 July 2012 – Retired 30 June 2020*

**Experience:**

Olivia brought non-executive remuneration, risk and audit committee experience from a variety of roles in the private sector. She also had experience in regulation, both financial services and pensions, and particular expertise in sustainability reporting and impact investing.

**Nick Land (A) (CSC) (N) (R)**

Former Independent Non-Executive Director

*Appointed 1 April 2011 – Retired 30 March 2020*

**Experience:**

As a former Executive Chairman of Ernst & Young and an experienced Non-Executive Director of major public companies, Nick brought experience of audit, finance and governance, both in the UK and internationally.

**Mark Zinkula**

Former Independent Non-Executive Director

*Appointed 1 April 2017 – Retired 30 June 2019*

**Experience:**

Mark is the retired CEO of Legal & General Investment Management and a retired board member of the Legal & General Group Plc. Mark brought broader experience of asset management and operating at listed company board level.

*Key to Committees / Councils*

(A) Audit (N) Nominations (R) Remuneration (CC) Conduct (CSC) Codes & Standards (AC) Actuarial Council

Bold denotes Chair of the Committee/Council

Full biographical details of each Director, including current appointments, are available at [www.frc.org.uk/about-the-frc](http://www.frc.org.uk/about-the-frc)

## GOVERNANCE AND TRANSPARENCY

### BOARD COMPOSITION AND DIVERSITY

From April 2019 appointments to the FRC Board are made by the Secretary of State in accordance with the Governance Code for public appointments and the cross-government diversity ambition. The appointments will be made in accordance with the Public Appointments Diversity Action Plan. It is intended that future appointments to the FRC Board will reflect more effectively the diversity of wider society and that candidates will be drawn from a strong and diverse field.

At the end of 2019 three out of ten Board members were female and as at 1 July 2020 two out of six Board members were female. As at 1 July 2020 there were no BAME Board Members.

### SUCCESSION AND INDUCTION

During 2019/20, BEIS undertook a recruitment search for a successor to Sir Winfried Bischoff (former Chairman), Gay Huey Evans (former Deputy Chairman and Senior Independent Director) and Stephen Haddrill (former Chief Executive). In October 2019, Simon Dingemans and Sir Jonathan Thompson were appointed as Chairman and Chief Executive respectively. Simon Dingemans and Sir Jonathan Thompson joined the FRC at a pivotal stage as the transition to a new regulator ARGA progresses, following Sir John Kingman's independent review. After the year end, Simon Dingemans resigned as Chairman with effect from 31 May 2020. BEIS will announce a new Chairman in due course.

During 2020, a recruitment exercise will be conducted to fill vacancies created by the retirement of a number of Board members whose terms have ended. As mentioned previously, appointments to the FRC Board are a matter for the Secretary of State. The Nominations

Committee regularly reviews the skills and experiences reflected on the Board and assesses whether those skills and experiences remain appropriate to meet the needs of the organisation. The Committee also considers succession planning and skills and experiences that are likely to be needed in the future, particularly as the FRC transforms to the ARGA. The Nominations Committee, through the Chairman, advises the Secretary of State on skills and experiences that are needed on the FRC Board and is involved in the recruitment process.

All Non-Executive directors go through an extensive induction programme to introduce them to the FRC. This includes meeting the Executive team and individuals across the teams and familiarisation with the codes and standard setting and enforcement frameworks.

### THE ACTIVITIES OF THE BOARD

The Board held seven scheduled meetings during the year. The details of directors' attendance at Board and Committee meetings are set out on page 56. The agendas were carefully tailored in advance by the Chairman, Chief Executive and Executive Team to ensure an appropriate balance between strategic, operational and standard setting as well as enforcement business. The Board agenda usually includes a report from the Chief Executive on key matters, progress on implementation of the recommendations of the Kingman and other reviews and an operations and activities report on delivery of the strategy. The Chairs of the governance and regulatory committees update the Board on the proceedings of their meetings, including key discussion points and any particular areas of concern. During the year a number of matters were considered by written resolution via email outside formal scheduled meetings. Board sub-groups were convened from time to time as necessary to fulfil its

responsibilities.

The Board's responsibilities include, but are not limited to:

- setting FRC strategy and monitoring progress against the agreed strategy (detail can be found in the Strategic Report on pages 13 to 14)
- overseeing the implementation of a robust controls framework to allow effective management of risk. Most of this work is supported by the Audit Committee and input from the Government Internal Audit Agency (GIAA) (see page 43). The Board has reviewed the effectiveness of the risk management and internal control systems during the year. Public Sector Internal Audit Standards require the Head of Internal Audit (HIA) to give the Accounting Officer an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the Governance Statement. The HIA recognised that the FRC is on a journey since its change in status as an Arm's Length Body of BEIS, and in the transformation that is required for it to become the Audit, Reporting and Governance Authority. He has noted the effort and achievements made to ensure key policies, processes and system controls align with managing public money principles. The HIA also noted the prioritisation that the FRC is placing on developing an IT strategy and risk management framework to suit the future transformed organisation. This aligns with the FRC's *Strategy 2020/21*, which identifies a revised business model that includes running the FRC effectively as a public body. The associated outputs expected for the year

include monitoring risks to achieving the objectives and putting controls in place to mitigate where possible

- issuing and maintenance of codes and/or standards for corporate governance, stewardship, corporate reporting, accounting, auditing, assurance services and actuarial work
- providing advice on the composition of the Board and composition and succession arrangements for the Board Committees
- remuneration setting and review (within Public Sector Pay Guidelines)
- ensuring workplace policies and practices are in place that align with the FRC's culture and values and operate in support of its strategy
- the exercise of the functions of the Secretary of State under Part 42 of the Companies Act 2006 and as Competent Authority under the Statutory

Audit and Third Country Audit Regulations 2016.

The Board discharged some of its responsibilities through its governance and regulatory committees.

The FRC maintains a rigorous conflicts of interest policy. Board members are required to complete an annual declaration of interests to confirm that their interests do not conflict with their positions as directors and declarations of interest are taken as standing agenda item at each Board meeting. The Register of Interest for the Board and its Committees is available on [www.frc.org.uk/register-of-interests](http://www.frc.org.uk/register-of-interests).

The Non-Executive Directors assess, challenge and decide on the Executive Directors' proposals and matters for decision to ensure they are aligned with the FRC's strategy and purpose. The Board routinely receives reports on the operation of the company and where considered appropriate identifies actions for the Chief Executive to enact.

Jenny Watson is the designated Non-Executive Director for engagement with the workforce. In this role she attends meetings of the People's Forum and Diversity & Inclusion Committee (staff consultative bodies) on a regular basis. Jenny reports to the Board following attendance at those meetings and actions arising from her attendance are recorded and actioned appropriately. More detail on how the FRC engages with its key staff and other stakeholders is set out on pages 15 to 20.

Anne McArthur stepped down as General Counsel & Company Secretary in March 2020 and the Board appointed Francesca Carter as the Company Secretary. The Board has access to the advice of the Company Secretary on all governance matters.

More details of the Board's activities during the year can be found in the minutes of Board meetings on [www.frc.org.uk/board-minutes](http://www.frc.org.uk/board-minutes).

How the Board discharged its responsibilities.

AREA OF FOCUS	ACTION TAKEN	WITH INPUT OR ADVICE/OR ON THE RECOMMENDATION OF:
Audit, accounting and actuarial standard setting	Approved:	
	- The Actuarial Statement of Recommended Practice 1 and Feedback Statement	AC
	- Final revised Ethical and Auditing Standards.	AAC
	- Revisions to the Client Asset Assurance Standards.	AAC
	- Amendments to the Standards on Investment Reporting 1000-5000 (revised) and the issue of the new Standard on Investment reporting, SIR 6000.	AAC
	- Revisions to ISA (UK) 570 Going Concern.	AAC
	- The issue of a consultation document proposing adoption of ISAE (UK) 3000.	AAC
	- Amendments to FRS 101 – 2018/19 cycle.	CRC
	- The issue of FRED 73 Draft amendments to FRS 101 – 2019/20 cycle.	CRC
	- Amendments to FRS 102 – Interest rate benchmark reform.	CRC
	- The FRC statement on the Charity SORP.	CRC
Corporate governance and reporting	Approved publication of the UK Stewardship Code 2020.	CSC
	Considered and approved the FRC's approach to climate change related matters.	

## GOVERNANCE AND TRANSPARENCY

AREA OF FOCUS	ACTION TAKEN	WITH INPUT OR ADVICE/OR ON THE RECOMMENDATION OF:
Supervision	Approved the FRC's publication policy for Audit Firm Monitoring and Supervision (AFMAS) findings and publication of the Developments in Audit Report.	CC
	Approved the publication of Annual Review of Corporate Reporting 2018/19.	CC
Enforcement	Considered quarterly reports on the activities of the Enforcement Division and the status of investigations.	CC
	Approved publication of the Annual Enforcement Review 2019.	CC, CMC
Strategy and culture	<p>Considered and agreed the FRC's revised mission and purpose.</p> <p>Approved the consultation on the FRC's Strategy Plan &amp; Budget 2020/21 and approved the final version for issue.</p> <p>Received reports from the non-executive member responsible for workforce engagement.</p>	
Kingman, CMA and Brydon Reviews	<p>Received routine reports on progress in implementing the recommendations of the various reviews and the status of the joint BEIS / FRC consultation document.</p> <p>Considered a range of policy position papers on subjects including:</p> <ul style="list-style-type: none"> <li>- A possible competition duty</li> <li>- Minimum standards for Audit Committees</li> <li>- Auditor appointments and resignations</li> <li>- Control frameworks</li> <li>- Operational Separation</li> <li>- Corporate Failure</li> </ul> <p>Approved changes to the FRC governance structure designed to respond to the recommendations of the Kingman review.</p> <p>Considered a number of matters relating to establishment of ARGA and the UK Endorsement Board.</p> <p>Agreed changes to the governance policies (included within the Governance Handbook) necessary to effect a large number of recommendations of the Kingman Review, including amendments to the Conflicts of Interest Policy, the Remuneration and Nominations Committee Terms of Reference and the schedule of matters reserved to the Board.</p>	R, A
Other FRC matters	Considered a number of reports relevant to fulfilment of its regulatory responsibilities, including approval of the FRC's Annual Report to the Crown Dependencies and approval of the 2018/19 FRC Annual Report and Financial Statements.	A, CC, N, R
	Undertook a robust assessment of principal risks.	A
	Approved a number of Committee appointments and reappointments.	N, CC, CSC
	Approved proposed 2019/20 pay awards for eligible members of the Executive Committee.	R
	Considered and where necessary agreed a number of actions relevant to EU exit, including approving amendments to Third Country Auditor registration rules necessary in preparation for EU Exit.	CC
	Approved the reappointment of the GIAA	
	As Directors of the FRC, approved the appointment of the NAO as the FRC's auditors and approved the audit fee.	A
	Agreed early adoption of the Freedom of Information Act 2000.	A
	Agreed to publish FRC Board and Executive Committee member expenses on a quarterly basis.	R

### Key to Committees / Councils

(A) Audit (N) Nominations (R) Remuneration (CC) Conduct (CSC) Codes & Standards (AAC) Audit & Assurance Council (CRC) Corporate Reporting Council (AC) Actuarial Council (AQRC) Audit Quality Review Committee (EC) Enforcement Committee

## BOARD EFFECTIVENESS

In accordance with the UK Corporate Governance Code, Board effectiveness is usually reviewed annually, with an externally led review every three years. The last externally facilitated review was in 2015/16. The Independent Review of the Financial Reporting Council (the Kingman Review) which was issued in December 2018 recommended changes in the composition of the Board and significant simplification in the governance architecture. A number of changes have been agreed during the year to enhance the effectiveness, speed and responsiveness of the organisation, while establishing clearer lines of accountability and empowering the Executive. The revised governance structure is expected to take effect on 1 January 2021 following appropriate consultations in the autumn of 2020.

No formal effectiveness review has been conducted this year given the significant changes underway in the composition of the Board. However, the Board's way of working has evolved substantially with the introduction of the new Leadership. The Board has developed good relationships with the Executives and has a strong culture of openness. The Board is working well and operating effectively with ad-hoc meetings and sub-groups convened to address emerging issues. A formal external review is expected to take place by the end of 2020/21.

## REGULATORY COMMITTEE REPORTS

To ensure independence, no member of the Conduct Committee is also a member of the Codes & Standards Committee. However, to facilitate effective, informed and evidenced decision-making, the two Committees consider and respond to requests from one

another, taking advice from sub-committees as appropriate.

## CONDUCT COMMITTEE

The Conduct Committee exercises specified delegated functions of the Secretary of State under Companies Act legislation. The Committee also oversees the delivery of the FRC's supervisory, monitoring and enforcement work through the receipt of regular reports from Executive teams responsible for Supervision and Enforcement Divisions.

In addition to the matters reported to the Board on page 40, during 2019/20 the Committee:

- took decisions required under the FRC's disciplinary schemes and Audit Enforcement Procedure (AEP). This included opening 14 investigations, amending the scope of 2 investigations, commencing 3 preliminary enquiries, referring 1 case for constructive engagement and referring 1 case to the relevant RSB for investigation;
- took decisions regarding the publication of discretionary announcements relating to enforcement investigations;
- oversaw the Executive's monitoring of compliance with the conditions of the delegation arrangements with each RSB;
- approved the publication of findings from thematic reviews carried out by CRR and AQR;
- approved budgets for investigations, preliminary enquiries and Tribunal proceedings;
- approved amendments to the Tribunal Panel's fees and expenses policy;

- approved amendments to the publications policies relating to the disciplinary schemes and the AEP;
- approved a proposed process for reclaiming a delegated task from a Recognised Supervisory Body;
- reviewed relevant work carried out in preparation for exit from the European Union;
- reviewed other FRC publications including the *Annual Enforcement Review 2019 and the Key Facts and Trends in the Accountancy Profession* report 2019;
- established a working group to review the Audit Enforcement Procedure; and
- approved a number of appointments and reappointments to its sub-committees.

## CODES & STANDARDS COMMITTEE

Since 1 July 2018, the role of the Codes & Standards Committee (CSC) was narrowed to advising the Board on corporate governance matters, including proposed changes to the UK Corporate Governance Code and the UK Stewardship Code. This also included identifying the current, emerging and potential risks to the quality of corporate governance and stewardship in the UK and approving the adequacy of actions to mitigate those risks. The CSC also approved the issue and maintenance of FRC taxonomies, including for consultation. Due to the reduced remit, the CSC met only three times during the year and considered a number of matters by email outside formal meetings.

## GOVERNANCE AND TRANSPARENCY

During 2019/20, the CSC:

- considered the views of a wide number of stakeholders and advised the Board on changes to the UK Stewardship Code consultation;
- discussed the initial findings of the early adoption of the UK Corporate Governance Code 2018;
- discussed the public reporting expectations arising from the Wates Principles for large private companies;
- discussed the FRC guidance on risk management, internal controls and related business and financial risk reporting;
- received an update on the FRC's project on the Future of Corporate Reporting;
- approved the Irish extension to the FRC 2019 Taxonomies suite;
- agreed to support the continuation of task force / sub-groups created by advisory councils; and approved a number of appointments and reappointments to the advisory councils.



## AUDIT COMMITTEE REPORT



**JOHN COOMBER**  
COMMITTEE CHAIRMAN

The Audit Committee operates in a manner consistent with the UK Corporate Governance Code. The Board was satisfied that the combined knowledge and financial experience of the Audit Committee members as at 31 March 2020 ensured that it could fulfil its responsibilities effectively.

The Audit Committee:

- reviews and monitors the integrity of the FRC's financial statements including its annual report, formal announcements relating to the FRC's financial performance, and management accounts on behalf of the Accounting Officer and the Board;
- advises the Accounting Officer and the Board on whether the annual report and financial statements are fair, balanced and understandable;
- advises the Accounting Officer and the Board on the appointment, re-appointment and removal of the FRC's internal and external auditors, as well as their effectiveness

- monitors the integrity, adequacy and effectiveness of the FRC's system of risk management and internal controls, including the internal audit function; and
- reviews progress, on behalf of the Accounting Officer and the Board, in managing the FRC's resources within the published budget and funding requirement.

During the year, haysmacintyre advised that they did not wish to be reappointed as the FRC's auditor. Given the FRC's status as a public body this prompted the FRC to revisit whether the statutory audit of the FRC should be undertaken by the NAO on behalf of the Comptroller and Auditor General (C&AG).

The Committee reviewed the potential conflicts associated with the appointment of the NAO (and any audit firm) and, following an appointment exercise, agreed to recommend to the Board the appointment of NAO as the FRC's Statutory Auditor. The appointment was agreed by the FRC members by written resolution.

### COMMITTEE OPERATION AND PERFORMANCE

During the year Mark Armour retired from the FRC, reducing the membership of the Committee to three members. Nick Land, who chaired the Committee retired on 31 March 2020. The Board appointed John Coomber, who has corporate plc and financial services experience, as Chairman of the Committee with effect from 1 April 2020. Olivia Dickson, who has similar experience, was appointed as a member of the Committee from April 2020 to 30 June 2020. All members of the Committee are independent Non-Executive Directors.

## AUDIT COMMITTEE REPORT

The Committee met five times during the year and members' attendance can be found on page 56. In addition to the members, the Chairman, the external auditor (NAO) and the internal auditor (GIAA) are invited to each meeting together with the Chief Executive, Finance Director, Executive Director

of Strategy and Resources and the General Counsel and Company Secretary. The Committee meets the external auditor in private at least once a year and the Chairman meets the external auditor outside the formal committee process during the year. To protect the objectivity and independence of

the external auditor, it is the FRC's policy that they are not contracted to carry out any non-audit services. The effectiveness of the external auditor was assessed by the Committee based on its own interaction with the auditor and input from the FRC Executive.

How the Committee discharged its responsibilities:

AREA OF FOCUS	CONSIDERATION	ACTION TAKEN / PROGRESS UPDATE
<b>Financial and narrative reporting</b>	<p>In relation to the Annual Report and Financial Statements for the year ended 31 March 2019:</p> <ul style="list-style-type: none"> <li>monitored and reviewed the integrity of the financial statements including the quality and acceptability of accounting policies and practices</li> <li>monitored material areas in which significant judgements had been applied</li> <li>assessed whether the Annual Report as a whole, is fair, balanced and understandable and advised the Board accordingly</li> </ul> <p>Considered the approach to be taken to the Annual Report and Financial Statements for the year ended 31 March 2020, the draft risk statement and agreed the approach to viability reporting.</p>	<p>Additional narrative about the FRC's new status as a public body and the requirement to follow <i>Managing Public Money</i> guidelines and public sector body requirements, and reference to the Accounting Officer were made.</p> <p>Principal risks include consideration of several external factors that could affect the FRC's risk environment, such as the outcome of the CMA review of the audit market, Brexit and the timeframe for the FRC's transition to the ARGA.</p> <p>The Committee concluded that, as with previous years, a viability report should not be included but that the financial statements should continue to be prepared on the going concern basis of accounting and reference should be made to BEIS' sponsorship of the FRC.</p>
	<p>Reviewed and approved for recommendation to the Board the Plan and Budget for 2019/20, following the consultation process.</p>	<p>The FRC Board approved the Plan and Budget for 2019/20 at its meeting in May 2019.</p>
	<p>Approved the FRC accounting policies to the Financial Statements for the year ending 31 March 2020.</p>	<p>Policies were updated in accordance with the decisions of the Committee.</p>

How the Committee discharged its responsibilities:

AREA OF FOCUS	CONSIDERATION	ACTION TAKEN / PROGRESS UPDATE
<b>External audit</b>	<p>The Committee noted:</p> <p>(a) haysmcintyre's report to the members of the Financial Reporting Council Limited (to be included in the Annual Report and Financial Statements for the year ended 31 March 2019 and</p> <p>(b) the Letter of Representation from the Company (The Financial Reporting Council Limited) to the auditors.</p>	<p>This was later approved by the Board. The Committee and the Board received confirmation from the NAO Director that no PIE audits would be undertaken whilst performing the function of external auditor of the FRC.</p>
	<p>Approved for recommendation to the Board the NAO's Audit Engagement Letter and fees for the year ended 31 March 2020.</p>	
	<p>Discussed and approved the FRC Audit Planning Report for the year ended 31 March 2020.</p>	<p>The Report was shared with the FRC Board at its meeting in March 2020.</p>
<b>Internal audit</b>	<p>Considered reports on internal audit inspections undertaken during the 2018/19 year and the 2018/19 internal audit opinion.</p>	<p>The Committee noted the final report and management actions taken in response to outstanding recommendations, including matters to be carried forward for the 2019/20 plan.</p>
	<p>Considered reports on progress of internal audits undertaken in accordance with the 2019/20 internal audit plan, including follow up audit on Enforcement from the previous year. The internal audit areas included IT core controls, HR &amp; Payroll, Budget Management and compliance with <i>Managing Public Money</i>, response to the Kingman Review and Travel &amp; Expenses. The Committee also reviewed progress on the recommendations made in relation to the audits undertaken and the level of assurance given at the end of the audit.</p>	<p>Written reports were received in relation to Budget Management and Managing Public Money and the follow up report on the implementation of recommendations for the Enforcement review. Significant work in respect of XCD HR and Payroll system was carried out by management to ensure that an effective and efficient process was in place e.g. training, security of data by segregation of duties and prompt removal of leavers from the system. In addition, the IT team reviewed the information security arrangements for the XCD HR and Payroll System.</p>
	<p>Considered and approved the 2020/21 Internal Audit Plan having regard to findings and progress of the 2019/20 internal audit inspections.</p>	<p>The Committee agreed the Internal Audit Plan for the 2020/21 year.</p>

## AUDIT COMMITTEE REPORT

How the Committee discharged its responsibilities:

AREA OF FOCUS	CONSIDERATION	ACTION TAKEN / PROGRESS UPDATE
	Assessed the effectiveness of internal audit and recommended to the Board the reappointment of GIAA for the next reporting period.	The Board approved the reappointment of GIAA at its January 2020 meeting.
<b>Risk management and internal control</b>	Discussed the effectiveness of the FRC's risk management systems which included consideration of resources dedicated to risk management, the FRC's Risk Management Policy, Risk Appetite Statement, Risk Assurance Map and internal and external stakeholder engagement.	Steps were taken to revise the risk assessment scale to provide more granularity to the Risk Register.
	Reviewing the status of the FRC's Risk Register and discussing progress in developing the risk plan and the FRC's divisional risk profiles.	A risk action plan was created in Q4 of 2019 which set out a programme of work designed to enhance the FRC's risk management processes. Work on divisional risk profiles progressed during Q4 which included risk identification and risk assessment.
	Reviewed the FRC's Risk Management Plan for 2019/20 and gave consideration to the FRC's risk management activities and the risk appetite, risk assessment criteria, and tolerance for the FRC during its transformation to the ARGA.	The Committee approved the plan that supported the risk approach and the risk architecture noting it would mirror the BEIS departmental risk matrix.
	Reviewed a risk appetite statement.	The risk appetite statement continues to be developed.
	Reviewed the Principal Risks that form part of the Risk Management section in the Annual Report and Accounts 2019/20.	The risks in the register and the draft Risk Management section for the Annual Report and Accounts 2019/20, were submitted to BEIS to inform their assessment of the risks posed by their sponsored bodies.
<b>Other matters</b>	Considered the Annual Compliance Report.	The Committee agreed that the next year's report would include GIAA's role, the FRC compliance with the <i>Managing Public Money</i> principles and compliance with the Public Sector Equality Duty.
	Received an annual update paper reporting on legal information risk areas and strategy in 2019.	The Information Security Policies were updated and circulated to the staff and directors.

How the Committee discharged its responsibilities:

AREA OF FOCUS	CONSIDERATION	ACTION TAKEN / PROGRESS UPDATE
	Approved the updated internal whistleblowing policy.	Following approval, it was circulated to the staff and directors.
	Received regular updates on IT procurement, IT security and the ongoing improvements of IT facilities at the FRC.	Steps were taken to strengthen physical access to the office, regular checks on physical security and training staff to keep the FRC's network secure.

## NOMINATIONS COMMITTEE REPORT



**SIMON DINGEMANS**  
FORMER COMMITTEE CHAIRMAN

### The Nominations Committee:

- regularly reviews the size, structure and composition of the governance structure and provides advice to the Board in respect of appointments to the Board's regulatory Committees and to the Board and Secretary of State in respect of Board appointments
- oversees appointments to the regulatory Committees. This includes appointment of search consultants and the independent assessor. The Committee also presents the nomination of independent assessor to the Board
- monitors succession planning for the Board, its Committees and for senior executives
- ensures that a Register of the Interests is maintained as set out in the provisions of the Code of Conduct; and
- receives notifications of other proposed external appointments being considered by Board members and members of the Conduct

and Codes & Standards Committees and considers on whether acceptance would give rise to a conflict of interest and/or risk of reputational damage to the FRC

From 1 April 2019 appointments and reappointments to the Board are made by the Secretary of State and the role of the Committee is to provide advice to the Board and Chair and then on to the Secretary of State on the composition of the Board and skills, expertise and diversity that is needed.

In 2019/20 the Committee's main focus was on succession for both non-executive and senior executive members. In making its recommendations, the Committee took into account the recommendations of the Kingman Review relating to Board size and composition, the skills and experience needed on the Board, particularly as it transitions to the ARGA, changes to FRC Governance and the need to maintain the FRC's 'business as usual' responsibilities.

A second area of focus was the FRC's approach to recording Non-Executive Directors and staff declarations of interests. At every meeting the Committee reviewed the totality of declarations recorded on the FRC's register of interest and, at the January 2020 meeting, the Committee agreed a new format for the published register.

### COMMITTEE PERFORMANCE AND OPERATION

All Members of the Committee are independent Non-Executive Directors'. The Committee met thrice during the year, and members' attendance at meetings can be found on page 56. In addition to the members, the meetings are attended by the Chief Executive and the Company Secretary.

## NOMINATIONS COMMITTEE REPORT

How the Committee discharged its responsibilities.

AREA OF FOCUS	ACTION TAKEN	PROGRESS UPDATE
<b>Board size and composition</b>	The Committee reviewed the structure, size and composition of the Board throughout the year having regard to the recommendations of the Kingman review and the need to maintain business as usual. Careful consideration was given to the skills and diversity that would be needed on the Board as it transitions to the ARGA and the timing of new appointments.	During 2020 BEIS will conduct a recruitment exercise to fill vacancies created by the retirement of a number of Board members whose terms have ended.
<b>Non-Executive committee, council and panel member appointments and reappointments</b>	The Committee ensured that business as usual is not compromised and that the Committees and Councils are able to make quorate decisions. The Committee made clear to those being appointed or reappointed that there is some uncertainty and that terms could come to an end sooner than originally anticipated.	The revised governance structure is due to be implemented early in 2021 and a number of reappointments were made during the year to maintain business as usual in the interim period.
<b>Register of Interests</b>	In line with the recommendations of the Kingman review, the Committee reviewed the Conflicts of Interest policy to better mitigate the risk of Board, Committee, Council and staff members being involved in any regulatory matters where there could be a conflict arising from former employment or other interests.	Code of Conduct and supporting guidance was approved by the Board and updated register published on the website.
<b>Gifts and hospitality</b>	The Committee recommended to the Board minor amendments to the Gifts & Hospitality Policy designed to clarify disclosure requirements.	Policy approved by the Board

In 2020/21 the Nominations Committee and the Remuneration Committee will be merged into a People Committee with responsibilities for Talent Management, Remuneration Policy (to the extent possible) and significant people policy. During the year the Committee's focus will be on changes to processes arising from the FRC's transition to ARGA and a review of the remit of the Committee as it transitions to the People Committee.

## REMUNERATION COMMITTEE REPORT



**JENNY WATSON**  
COMMITTEE CHAIRMAN

As reported previously, the terms of reference of the Committee were amended during the year to reflect the FRC's status as a public body and the requirement to comply with *Public Sector Pay Guidelines and Rules*. The responsibilities of the Committee, and the People Committee, which is being established with the introduction of the new governance structure, will be reviewed once the FRC's exact classification is finalised.

The Remuneration Committee:

- supports and advise the Chief Executive, as Accounting Officer, and the Board by providing oversight of and a strategic steer on the development and maintenance of the FRC's remuneration policy for all staff;
- makes recommendations to the Board on the individual remuneration packages of members of the Executive Committee (not including the Chief Executive);

- determines the fees of members of the FRC's Committees and Councils; and
- ensures that the FRC adheres to all applicable public sector pay controls.

As in 2018/19, the most significant remuneration issue during the year was the 2019/20 pay award. The Committee agreed with the Executive's view that the model developed by Beamans Management Consultants (who are independent of the FRC) in 2017 continued to be the fairest way of providing a progression pay framework for staff as they develop in competence and that the strategy of prioritising increases for staff below the Market Reference Points should continue.

There were considerable delays in receiving necessary approvals and the FRC is in discussions with BEIS, the Cabinet Office and HM Treasury regarding the FRC's long-term pay strategy and the extent to which greater flexibility over pay arrangements (as recommended by Sir John Kingman) may be granted.

### COMMITTEE PERFORMANCE AND OPERATION

All members of the Committee are independent Non-Executive Directors. The Committee met twice during the year and considered a number of matters by email outside formal meetings.

Meetings are attended by the Chief Executive, the Executive Director, Strategy and Resources, the Company Secretary and the Head of Human Resources, except where agenda items would present a conflict of interest.

How the Committee discharged its responsibilities.



## REMUNERATION COMMITTEE REPORT

AREA OF FOCUS	ACTION TAKEN	PROGRESS UPDATE
<b>Pay and performance review</b>	The Committee considered and agreed the 2019 pay award strategy that had been developed in line with the Civil Service Pay guidelines.	The 2019 pay award was submitted in November 2019 and approved in January 2020.
	The Committee recommended the 2019 pay awards for eligible members of the Executive Committee to the Board.	The Board approved the recommendation at the March 2020 meeting.
<b>Expenses</b>	The Committee receives quarterly reports on expenses claimed by the NEDs and members of the Executive Committee. The Committee recommended to the Board that the information should be published going forward.	The Board agreed the recommendation and information on expenses claimed by NEDs and Executive Committee members was published in May 2020.
<b>Staff matters</b>	The Committee received a presentation from the Chair of the People Committee at the March meeting and received updates from the designated employee representative on the Board on her attendance at People Forum meetings and areas identified for consideration by HR and the executive.	The discussion was fed back to the Executive and a number of steps were taken in response, including increased communications to all staff.
<b>Staff turnover and recruitment information</b>	The Committee considered an annual report on employee attrition.	Suggestions were made as to how to improve the usefulness of the data going forward which have been addressed
<b>NED, Committee and Council member remuneration</b>	The Committee considered whether fees to be paid to Committee and Council members remained appropriate having regard to fees paid at comparator bodies, time commitments and workloads.	Fees for the Advisory Councils and the AQRC were reduced to reflect a reduced time commitment.
	The Committee considered recommendations to be submitted to BEIS regarding fees to be paid to the Deputy Chair, NEDs and, from 1 January 2021, fees to be paid to Senior Advisors and Advisory Panel Members.	Fees for NEDs and the Deputy Chairman are to be agreed. Submissions regarding fees for Senior Advisors and Advisory Panel Members are (status to be updated at time of sign off).

In 2020/21 the Committees' focus will be working with BEIS, the Cabinet Office and HM Treasury to agree the FRC's long-term pay strategy and pay flexibilities. The Committee will also review the Values in Practice award scheme.

## REMUNERATION COMMITTEE REPORT

### REMUNERATION FRAMEWORK

The Chief Executive is the only Executive member of the Board. The performance of the Chief Executive and other Executive Committee members is assessed against both collective objectives set in line with the FRC business plan and individual objectives, including employee survey results for the areas under their control and a citizenship rating relating to living the FRC Values. An overview of the remuneration framework that applied to all staff during 2019/20 is set out below. The main components of the Chief Executive and other Executive Committee members' remuneration are consistent with this framework unless indicated otherwise:

ELEMENT AND PURPOSE	OPERATION	OPPORTUNITY/OUTPUT
<p><b>BASE SALARY</b></p> <p><i>To provide core remuneration for the role recognising the responsibility for setting and delivering the annual FRC Plan &amp; Budget</i></p>	<p>Salaries are reviewed annually by the Committee who consider the Chief Executive and other Executive Committee members' responsibilities, performance and experience alongside market trends and relevant comparator organisations, where available.</p> <p>Salaries for new Chief Executive and other Executive Committee member appointments are now subject to HM Treasury approval in line with Senior Civil Service Pay Guidance.</p>	<p>Any annual increase awarded reflects movement in market rates and increasing competency within role. Work to benchmark some Executive Director roles was undertaken by the independent consulting group Korn Ferry.</p> <p>The Chief Executive and Executive Committee members are required to achieve higher ratings for performance than other members of staff in order to qualify for a potential salary increase.</p> <p>Individual adjustments in excess of general market movements may be made in appropriate circumstances (e.g. where the role scope has changed or as a reflection of a significant development in the role).</p>
<p><b>BENEFITS</b></p> <p><i>To provide a competitive and cost-effective benefits package in line with public sector norms</i></p>	<p>All staff who were offered employment prior to 1 June 2018 are eligible to receive benefits which may include:</p> <ul style="list-style-type: none"> <li>• dental insurance;</li> <li>• private health insurance;</li> <li>• income protection insurance; and</li> <li>• life insurance.</li> </ul> <p>In aligning the FRC's remuneration policy more closely with the public sector, new joiners who started from 1 June 2018 are no longer eligible for dental or private health insurance.</p>	

## REMUNERATION COMMITTEE REPORT

ELEMENT AND PURPOSE	OPERATION	OPPORTUNITY/OUTPUT
<p><b>PENSION BENEFITS</b></p> <p><i>To provide competitive retirement benefits in line with relevant market comparators</i></p>	<p>All staff are eligible to participate in the group personal pension scheme which is a defined contribution scheme.</p> <p>Staff offered employment prior to 1 June 2018 were able to elect to take pay in lieu of pension contributions less an amount equivalent to Employer's National Insurance contributions but this has been discontinued for staff offered employment after 1 June 2018.</p>	<p>A maximum of 10 percent of base salary.</p>
<p><b>VALUES IN PRACTICE RECOGNITION SCHEME</b></p>	<p>It has been agreed that the Chief Executive and other Executive Committee members are not eligible to receive a VIP award which is a modest in-year award scheme for specific examples of strong performance in relation to the FRC's values and behaviours.</p>	
<p><b>Pay multiples (Subject to audit)</b> Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.</p>	<p>calculated on the basis of his annual equivalent remuneration. Therefore there is a difference between the total remuneration of the highest paid director for the purposes of this disclosure and the banded remuneration set out in the directors' remuneration table (page 55).</p>	<p>Public Sector National Leadership Advisory Board; both appointments are unpaid.</p>
<p>The banded remuneration of the highest paid Director, the Chief Executive Officer, in office at 31 March 2020 was £330,000-£335,000* (2018/19: £385,000-£390,000). This was 3.82 times (2018/19: 4.54) the median remuneration of the workforce, which was £87,042 (2018/19 £85,949).</p>	<p><b>DIRECTORS' REMUNERATION</b> <b>Chief Executive</b> Employment contracts and policy on payment for loss of office.</p>	<p>The former Chief Executive, Stephen Haddrill is a Non-Executive Director of the Royal Institute of Chartered Surveyors (RICS) for which he receives an annual fee of £26,000 (2018/19: £26,000), of which the relevant pro rata proportion was received during the period to 7 October 2019.</p>
<p>Total remuneration includes salary and benefits in kind. It does not include severance payments, or any employers pension allowance or payments in lieu of pension payments. In 2019/20 no employee received remuneration in excess of the annual equivalent remuneration of the highest paid director.</p>	<p><i>Notice period</i> The Chief Executive has a notice period of six months.</p> <p><i>Payments for loss of office</i> No payments or compensation for loss of office have been made in the current year.</p> <p><i>Non-Executive Appointments</i> The FRC Remuneration Committee agreed that where the Chief Executive serves as a Non-Executive Director elsewhere, he may retain those earnings.</p>	<p><i>Non-Executive Directors</i> The remuneration of Non-Executive Directors, including the Chairman and Deputy Chairman, is determined by the Board on the recommendation of the Remuneration Committee and is now subject to Senior Civil Service Pay Guidance and rules. The Board, with the Committee, determines the remuneration of current 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 in the public sector. Future appointments</p>
<p>*To give a meaningful disclosure given that the Chief Executive Officer joined the FRC on 1 October 2019, this has been</p>	<p>Sir Jonathan Thompson is Chair of Crown Hosting Data Centres Limited and a member of the</p>	

## REMUNERATION COMMITTEE REPORT

to the Board will be made by the Secretary of State, who will also determine the appropriate remuneration.

A Non-Executive Director who is the chair of any Committee is not involved in any decision relating to their remuneration. The total remuneration and benefits received are shown in the Directors' remuneration table (page 55) and have been subject to audit (see also note 5 to the Financial Statements).

### Non-Executive Directors

Remuneration levels are based on the time commitment required, which may include preparation, scheduled meetings and any additional meetings required during the course of the year.

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

### Board membership

Eight scheduled meetings a year and one strategy day <sup>1</sup>	
Chairman (Simon Dingemans)	£150,000
Chairman (Sir Winfried Bischoff)	£120,000
Membership	£25,000

### Audit Committee

Four scheduled meetings a year	
Chairman	£5,000
Membership	No additional

### Remuneration Committee

Three scheduled meetings a year	
Chairman	£5,000
Membership	No additional

### Nominations Committee

Three scheduled meetings a year	
Chairman	No additional
Membership	No additional

### Codes & Standards Committee

Seven scheduled meetings a year and one strategy day (only three meetings took place during the year and considered a number of matters by email outside formal meetings)	
Chairman	£45,000
Membership	£10,000

### Conduct Committee

11 scheduled meetings per year	
Chairman	£65,000
Membership	£10,000

Non-Executive Director fees were reviewed by the Committee in 2019 for recommendation to the Secretary of State. Fees for newly appointed Non-Executive Directors will be £20,000 per annum.

<sup>1</sup> In addition to these meetings, several ad hoc meetings were convened during 2018/19 to discuss the Independent Review and CMA's Statutory Audit Market Study

## REMUNERATION COMMITTEE REPORT

### DIRECTORS REMUNERATION (SUBJECT TO AUDIT)

	2019/20 Fees/ salary	2019/20 GHI <sup>(1)</sup>	2019/20 Pension <sup>(2)</sup>	2019/20 Total £	2018/19 Total £
<b>Non-Executive Directors</b>					
Simon Dingemans (from 7 October 2019)	73,462	–	–	73,462	–
Mark Armour (until 30 June 2019)	6,250	–	–	6,250	25,000
Sir Brian Bender (until 29 February 2020)	36,667	–	–	36,667	40,000
Sir Winfried Bischoff (until 7 October 2019)	62,308	–	–	62,308	120,000
David Childs	90,000	–	–	90,000	90,000
John Coomber	48,125	–	–	48,125	46,250
Olivia Dickson	35,000	–	–	35,000	38,750
Paul Druckman (until 29 March 2019)	–	–	–	–	50,000
Gay Huey Evans (until 30 April 2019)	3,750	–	–	3,750	45,000
Nick Land (until 31 March 2020)	75,000	–	–	75,000	75,000
Roger Marshall (until 31 October 2018)	–	–	–	–	37,917
Keith Skeoch <sup>(3)</sup>	35,000	–	–	35,000	35,000
Dame Julia Unwin	36,532	–	–	36,532	30,833
Jenny Watson	25,000	–	–	25,000	25,000
Mark Zinkula (until 30 June 2019)	6,250	–	–	6,250	25,000
<b>Sub-total</b>	<b>533,342</b>	<b>–</b>	<b>–</b>	<b>533,342</b>	<b>683,750</b>
<b>Executive Directors</b>					
Sir Jonathan Thompson <sup>(4)(5)</sup> (from 1 October 2019)	165,000	–	16,500	181,500	–
Stephen Haddrill <sup>(4)(5)</sup> (until 7 October 2019)	224,435	4,319	–	228,754	431,062
Sub-total	389,435	4,319	16,500	410,254	431,062
<b>Grand total</b>	<b>922,777</b>	<b>4,319</b>	<b>16,500</b>	<b>943,596</b>	<b>1,114,812</b>

#### Notes:

When Directors have served for part of a year, the amounts shown are for the relevant proportion of the year.

(1) This is Life Assurance and Group Income Protection Insurance.

(2) This is a payment to a defined contribution scheme.

(3) From 1 April 2012 Keith Skeoch waived his fees in favour of charity.

(4) Executive Directors are entitled to receive some other benefits in accordance with the Remuneration Framework, the benefits vary depending on when their employment with the FRC started. The figures shown are the cash equivalent of their full pay and benefits.

(5) Total Directors' remuneration in 2019/20 amounted to 4.3% (2018/19: 5.8%) of total company remuneration.

## ATTENDANCE AT SCHEDULED MEETINGS HELD DURING THE YEAR

	FRC Board	Remuneration Committee	Nominations Committee	Audit Committee	Codes & Standards Committee	Conduct Committee
Simon Dingemans <sup>(1)</sup>	4/4	1/1	2/2			
Sir Jonathan Thompson <sup>(2)</sup>	4/4					
Mark Armour <sup>(3)</sup>	1/1			2/3		
Sir Brian Bender <sup>(4)</sup>	6/6	2/2	2/2			7/11
Sir Winfried Bischoff <sup>(5)</sup>	3/3	1/1	1/1			
David Childs	7/7		3/3			12/12
John Coomber	7/7	2/2		5/5	3/3	
Olivia Dickson	6/7				3/3	
Gay Huey Evans <sup>(6)</sup>	0/0					1/1
Stephen Hadrill <sup>(7)</sup>	2/3					
Nick Land	6/7	2/2	2/3	5/5	3/3	
Keith Skeoch	6/7				2/3	
Dame Julia Unwin	7/7			3/5	1/3	
Jenny Watson	6/7	1/2				
Mark Zinkula <sup>(8)</sup>	0/1					
Sue Harris					2/3	
Liz Murrall					1/3	
David Cannon <sup>(9)</sup>						4/4
Sean Collins						11/12
Geoffrey Green						10/12
Philippa Hardwick						11/12
John Hitchins						9/12
Andrew Johnston <sup>(10)</sup>						4/5
Helen Jones						9/12
Emmy Labovitch						10/12
Martin Slack <sup>(11)</sup>						2/3
Anne Whitaker <sup>(12)</sup>						6/7

## Notes:

- (1) Simon Dingemans was appointed to the Board, Remuneration and Nominations Committees on 7 October 2019.
- (2) Sir Jonathan Thompson was appointed to the Board on 1 October 2019.
- (3) Mark Armour stood down from the Board and Audit Committee on 30 June 2019.
- (4) Sir Brian Bender stood down from the Board, Remuneration and Nominations Committees on 29 February 2020.
- (5) Sir Winfried Bischoff stood down from the Board, Remuneration and Nominations Committees on 7 October 2019.
- (6) Gay Huey Evans stood down from the Board and Nominations Committee on 30 April 2019.
- (7) Stephen Hadrill stood down from the Board on 7 October 2019.
- (8) Mark Zinkula stood down from the Board on 30 June 2019.
- (9) David Cannon stood down from the Conduct Committee on 31 August 2019.
- (10) Andrew Johnston was appointed to the Conduct Committee with effect from 1 November 2019.
- (11) Martin Slack stepped down from the Conduct Committee on 30 June 2019.
- (12) Anne Whitaker was appointed to the Conduct Committee with effect from 1 September 2019.

## DIRECTORS' REPORT

The Directors of the FRC (Registered number: 02486368) present their report for the year ended 31 March 2020.

We have included information on the names of the individuals, who, at any time during the financial year, were Directors of the FRC on pages 35-37. The attendance of the Directors at the meetings held during the year is also on page 56.

### DIRECTORS AND DIRECTORS' INSURANCE AND INDEMNITIES

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

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

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

#### Directors' Responsibilities Statement

The Directors (including the Chief Executive as Accounting Officer) are responsible for preparing the Annual Report and Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, the

Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ensure a system of internal controls are in place to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the FRC will continue in business.

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

### The Strategic Report

The Directors use the Strategic Report to explain how they have performed their duty to promote the success of the FRC. The Strategic Report, which can be found at pages 1 to 31, contains information on the following matters:

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

### DISCLOSURE TO THE AUDITOR

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

### AUDITORS

The NAO on behalf of the Comptroller & Auditor General has expressed its willingness to remain in office and the Audit Committee has recommended its reappointment to the Board. A resolution to reappoint the auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting of the Company.

Approved by the Board of directors on 1 July 2020 and signed on its behalf by:

**Francesca Carter**  
Company Secretary

## INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE FINANCIAL REPORTING COUNCIL LIMITED

### Opinion on financial statements

I have audited the financial statements of the Financial Reporting Council Limited ('FRC') for the year ended 31 March 2020 which comprise the profit and loss account, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom General Accepted Accounting Practice) including FRS102, the Financial Reporting Standard applicable in the United Kingdom (UK) and Ireland and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Committee Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the 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 Companies Act 2006.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing FRC, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the FRC's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern is materially inconsistent with my knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that FRC will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my team to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Reporting Council Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My team and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.



The regularity framework described in the table below has been applied:

## REGULARITY FRAMEWORK

<b>Authorising legislation</b>	Companies Act 2006
	Statutory Audit and Third Country Auditor Regulations 2013, 2016 and 2017
	Local Audit (Delegation of Functions) and Statutory Audit (Delegation of functions) Order 2014
	Local Audit and Accountability Act 2014
<b>HM Treasury and related authorities</b>	Managing Public Money
	Cabinet Office Controls

### Overview of my audit approach

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around non-enforcement expenditure as an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 43-47.

## FRAUD IN REVENUE RECOGNITION

It is a rebuttable presumption that there is a significant risk of error in revenue recognition. Having reviewed the prior year financial statements and discussed the sources of revenue with management, I noted that the FRC receives income from a variety of sources for the services it provides, and consequently, in our first year, I determined not to rebut the presumption.

### How the scope of my audit responded to the risk

My team reviewed the design and implementation of controls in place over levy collection. We tested a sample of transactions to confirm our understanding of the system as designed.

We reviewed all material revenue streams to confirm that revenue is recognised appropriately in line with the FRC's stated accounting policies, and FRS102. Revenue in respect of voluntary contributions (levy revenue) is recognised on a cash basis therefore we were able to agree a sample of levy revenue back to bank.

We reviewed the recognition and recoverability of trade receivables, accrued and deferred income at year end to assess the appropriateness of recognition and carrying values. We did not identify evidence of management bias.

### Key observations

My testing results were satisfactory.

## INDEPENDENT AUDITOR'S REPORT

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### RISK OF MANAGEMENT OVERRIDE OF CONTROLS

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ISAs include a non-rebuttable risk that management could perpetrate fraud or manipulate accounting records. Accordingly, I am required to perform procedures in response to this risk. Whilst our other significant risks are also designed to respond to the risk of management override of controls, due to the unpredictable nature of this risk we also perform more general procedures to gain assurance. Account areas that are particularly susceptible to management override of control are those areas where there has been a change to an established system/process, and account areas where there are high levels of estimation and judgement.

#### How the scope of my audit responded to the risk

My team reviewed key financial processes and controls and carried out transaction testing on a sample basis.

My team used data analytics to review the manual journals posted looking for key risk factors identified through our discussion of potential fraud and management override risks, and tested any such journals. We considered accounting estimates and judgements for evidence of bias, including a retrospective review of judgements and assumptions.

My team reviewed the ledger and bank statements, and committee papers to support our discussions with management in seeking to identify significant transactions that appeared to be outside the normal course of business.

#### Key observations

My testing results were satisfactory.

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### ACCOUNTING AND RECOGNITION OF ENFORCEMENT TRANSACTIONS AND BALANCES

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I identified a significant risk of misstatement in respect of the accounting and recognition of enforcement transactions and balances. The enforcement activities of the FRC together with its costs and fines regime are high profile and subject to public interest. These transactions can be found in Note 2. Revenue, Note 3. Operating Expenses ('case costs'), Note 9. Debtors and Note 11. Creditors

#### How the scope of my audit responded to the risk

My team reviewed the controls and processes that operate over the recording and monitoring of enforcement costs. We tested samples of enforcement transactions (receipts, payments, accrued income and expenditure) and we undertook a high-level review of fines and cost awards in the financial year.

#### Key observations

My testing results were satisfactory

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### GOING CONCERN

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ISA 570 requires me to consider management's assessment of the FRC's ability to continue as a going concern. This includes consideration of whether events or conditions exist that may cast significant doubt on the FRC's going concern. Given that a significant proportion of the FRC's revenue is from voluntary contributions and there is economic uncertainty currently I considered that this could cast doubt on the FRC's ability to continue as a going concern.

#### How the scope of my audit responded to the risk

My team reviewed management's assessment of its going concern, including its reserves position and cash flow forecast. Management obtained a Letter of Comfort from BEIS, which provided agreement that BEIS would help the FRC meet its financial obligations, should this be necessary.

#### Key observations

I am comfortable that there is not a material uncertainty related to the FRC's ability to continue as a going concern as the letter from BEIS is sufficient evidence of continued support from a suitable third party that would allow the FRC to continue its operations.

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### Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £195,000, which is approximately 0.5% of gross expenditure. I chose this benchmark as it is our first year as auditors, the company is a regulator and is funded to deliver specific activities.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the audited parts of the Remuneration Committee Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £4,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee have decreased net assets by £19,000.

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities in respect of the Annual Report & Financial Statements, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

## INDEPENDENT AUDITOR'S REPORT

sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Reporting Council Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Audit scope**

The scope of my audit was determined by obtaining an understanding of the Financial Reporting Council Limited and its environment, including controls, and assessing the risks of material misstatement.

My team and I met with senior members of the company's finance team and members of the Executive and Audit Committee as part of the audit planning process. This resulted in the identification of three significant risks within the audit plan, which are shown in key audit matters above. This dialogue continued throughout the audit process, as we reassessed and re-evaluated audit risks where necessary, and amended our approach accordingly. This included consideration, for example, of the impact of COVID-19 on the company's going concern assessment.

Following planning work, the majority of our audit procedures were undertaken remotely, following the outbreak of the COVID-19 pandemic, which resulted in both FRC and my audit team working remotely. We carried out a 'site visit' to the FRC's levy collection partner using video conferencing technology which enabled us to walkthrough processes and view systems as though we were present on-site. We developed alternative audit procedures to enable my audit team to complete testing of fixed assets where we would normally require presence in the FRC offices.

I have provided a regularity opinion within this report. My team discussed the framework of authorities with management and reviewed the results of transaction testing to determine whether any evidence of material irregularity was noted.

### Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Remuneration Committee Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the company Audit Committee does not appropriately address matters communicated by me to the Audit and Risk Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

### Directors' remuneration

In my opinion the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

### The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

### The corporate governance statement

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

- the information given in the governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

### Matters on which I report by exception

#### Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

## INDEPENDENT AUDITOR'S REPORT

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Greg Wilson  
Senior Statutory Auditor  
13 July 2020

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

National Audit Office  
157-197 Buckingham Palace Road  
London, SW1W 9SP

## FINANCIAL STATEMENTS

### THE FINANCIAL REPORTING COUNCIL LIMITED

Profit and Loss account for the year ended 31 March 2020

	2019/20	2018/19
	£'000	£'000
<b>Revenue</b>		
Operating expenses	2 <b>39,523</b>	30,505
	3 <b>(38,861)</b>	(28,784)
<b>Operating profit</b>	<b>662</b>	1,721
Interest receivable	<b>38</b>	81
<b>Profit on ordinary activities before taxation</b>	<b>700</b>	1,802
Tax on ordinary activities	4 <b>(7)</b>	(15)
<b>Profit for the financial year</b>	<b>693</b>	1,787

## FINANCIAL STATEMENTS

### THE FINANCIAL REPORTING COUNCIL LIMITED

Registered number: 2486368

Balance Sheet at 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
<b>Fixed assets</b>		
Intangible assets	7 <b>34</b>	87
Tangible assets	8 <b>2,172</b>	1,923
	<b>2,206</b>	2,010
<b>Current assets</b>		
Debtors	9 <b>6,644</b>	5,842
Current asset investments	10 <b>0</b>	5,530
Cash at bank and in hand	10 <b>16,037</b>	17,822
	<b>22,681</b>	29,194
Creditors – amounts falling due within one year	11 <b>(6,819)</b>	(13,514)
Net current assets	<b>15,862</b>	15,680
<b>Total assets less current liabilities</b>	<b>18,068</b>	17,690
Creditors – amounts falling due after more than one year	12 <b>(1,357)</b>	(1,704)
Provisions for liabilities	14 <b>(263)</b>	(231)
<b>Net Assets</b>	<b>16,448</b>	15,755
<b>Capital and reserves</b>		
<b>Accounting, auditing and corporate governance:</b>		
– General reserve	<b>7,080</b>	6,928
– Corporate reporting review legal costs fund	<b>2,000</b>	2,000
<b>Actuarial standards and regulation:</b>		
– General reserve	<b>5,368</b>	4,827
– Actuarial case costs fund	<b>2,000</b>	2,000
	<b>16,448</b>	15,755

The financial statements and notes on pages 65 to 77 were approved by the Board of Directors on 1 July 2020 and signed on its behalf by:

**Sir Jonathan Thompson**  
Chief Executive Officer and Accounting Officer

**John Coomber**  
Audit Committee Chairman



**THE FINANCIAL REPORTING COUNCIL LIMITED**

Statement of Changes in Equity for the year ended 31 March 2020

	Accounting, auditing and corporate governance		Actuarial standards and regulation		Total
	General reserve	Corporate reporting review legal cost fund	General reserve	Actuarial Case cost fund	
	£'000	£'000	£'000	£'000	£'000
At 31 March 2018	6,016	2,000	3,952	2,000	13,968
Profit for the year	912	—	875	—	1,787
At 31 March 2019	6,928	2,000	4,827	2,000	15,755
Profit for the year	152	—	541	—	693
<b>At 31 March 2020</b>	<b>7,080</b>	<b>2,000</b>	<b>5,368</b>	<b>2,000</b>	<b>16,448</b>

As the FRC is a public body the use of cash represented by General Reserves is subject to approval by the Government.

## FINANCIAL STATEMENTS

### THE FINANCIAL REPORTING COUNCIL LIMITED

Cash Flow Statement for the year ended 31 March 2020

	Note	2019/20 £'000	2018/19 £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Profit		662	1,721
Adjustments for:			
– Depreciation and amortisation		641	464
– Increase in dilapidation provision		32	31
– (Increase)/Decrease in trade and other debtors	9	(802)	(2,605)
– Increase/(Decrease) in trade and other creditors	11	(7,042)	8,055
Net cash (outflow)/inflow from operations		(6,509)	7,666
Corporation tax paid		(15)	(10)
<b>Total cash (outflow)/inflow from operating activities</b>		<b>(6,524)</b>	7,656
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of tangible & intangible assets		(837)	(171)
Current asset investments sold		5,530	1,442
Received		49	64
<b>Total cash inflow from investing activities</b>		<b>4,742</b>	1,335
Foreign exchange translation adjustment		(3)	5
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,785)</b>	8,996
Cash and cash equivalents at 1 April	10	17,822	8,826
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	10	<b>16,037</b>	17,822

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

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

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

These financial statements are prepared on the going concern basis of accounting. The Directors took into account:

- The publication of the Independent Review of the Financial Reporting Council in December 2018, the Government's response to, and initial consultation on the recommendations of, that review which was issued in March 2019, and subsequent discussions with the Government over the transformation programme. In time, the Directors expect the FRC to be transformed into a new statutory regulator, the ARGA; the transformation programme is ongoing. This transformation could involve the winding up of the FRC and the creation of a new legal entity, the ARGA. In any event, the ARGA will assume the existing functions of the FRC but will have a wider range of powers and functions, but the transformation programme is dependent on legislation

and will take time to fully deliver.

- The potential impact of the COVID 19 pandemic on the economy and therefore the ability of entities to make voluntary contributions to the FRC. The Directors note that should insufficient voluntary contributions be received, the BEIS Secretary of State has provided the FRC with a letter of comfort that they would help the FRC meet its financial obligations and, if necessary, make regulations to put the FRC's levies on a statutory basis. The Companies (Audit, Investigations and Community Enterprise) Act 2004 includes provisions to enable this.

In assessing what might happen to the company in the next twelve months, the Directors consider that it will not cease operating and will continue to meet its debts as they fall due.

#### a) Basis of Preparation

These financial statements for the year ended 31 March 2020 are prepared in compliance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

These financial statements are prepared on the historical cost basis.

The preparation of financial statements requires the use of estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates and associated assumptions are based on historical experience and management's best knowledge

of current events and actions, the actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis.

#### Provisions for dilapidations

Provisions for dilapidations is the area involving estimates and judgements where there is the greatest potential risk of a material adjustment in future years. The provision is expected to be utilised at the end of the lease.

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

Accounting judgement – In making the estimate management has exercised judgement about the likely future outcomes, including factors such as building and material costs. However various factors and changes in circumstances could affect any amount payable in the future.

#### Presentation of Financial Statements

The presentational and functional currency is the British Pound Sterling.

#### b) Consolidation

The FRC has one subsidiary, UK Accounting Standards Endorsement Board Limited. The subsidiary has not traded during the year and, as it is not material to the financial performance and position of the FRC, consolidated financial statements have not been prepared.

#### c) Revenue Recognition

Revenue is measured at the fair value of the consideration

## NOTES TO THE FINANCIAL STATEMENTS

received or receivable. The FRC has predominantly the following sources of revenue:

- Revenue in respect of voluntary contributions is recognised on a cash basis.
- The following revenue is received from participants to fund specific activities:
  - Revenue receivable from RSBs for the FRC's activities as the competent authority for Audit in the UK is recognised on an accruals basis. Specifically, revenue receivable from RSBs in respect of Audit Quality Review and Audit Supervision costs is recognised as the costs to be recovered are incurred in each financial year.
  - Revenue receivable from various professional accounting bodies in respect of Accountancy disciplinary case costs and from RSB's in respect of Enforcement case costs is recognised as the costs to be reimbursed are incurred in each financial year.

In addition there are some other smaller sources of revenue as listed below;

- Revenue in respect of publications of books, guidance 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 Major Local Audits (in accordance with requirements set out in the Local Audit and Accountability Act 2014) 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.

### d) Tangible and Intangible assets

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

#### *Tangible assets*

Office equipment	3 Years
Fixtures, fittings & furniture	Shorter of the useful life and the lease term
Leasehold improvements	Lease term

#### *Intangible assets*

Capitalised software 3 Years

Although the expected useful lives of some of these assets extend beyond the possible life of the FRC, as it will be replaced by the ARGAs, the timing of this is currently uncertain. BEIS has indicated that the existing assets (and liabilities) of the FRC will transfer to the ARGAs as part of the transition. Therefore, in reviewing the estimates of the useful lives and residual values of the tangible and intangible assets the Directors do not expect a significant change in the consumption of the assets and the useful lives and residual values have not been revised.

### e) 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.

**f) Case Costs and Financial Sanctions****Case costs**

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

**Financial Sanctions and Cost Awards Receivable**

Case costs awards receivable in respect of accountancy disciplinary cases, which are due to the relevant participant body under both the Accountancy Scheme and AEP, are included in the income statement of the FRC, as a reduction to case costs incurred and associated revenue receivable. Financial sanctions received are not included in the profit and loss account as the FRC acts only as a mechanism whereby the financial sanctions are transferred from one party to another. When a financial sanction is agreed and case costs are awarded, we recognise the amount due to the FRC as a debtor, and simultaneously recognise the amount payable to the relevant professional body as a creditor. Financial sanctions and

costs awards are not paid over to the relevant professional body until they have been received by the FRC.

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

**g) Components of Equity**

As set out in the Statement of Changes in Equity, equity comprises the General Reserves of the FRC and two Costs Funds. As the FRC is a public body the use of cash represented by General Reserves is subject to approval by the Government.

**Costs Funds**

The costs funds are the Corporate Reporting Review Legal Costs Fund and the Actuarial Case Costs Fund.

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

and Industrial Strategy (BEIS) for the purposes of section 456 of the Companies Act 2006.

The Legal Costs Fund is currently maintained at £2m. Where use is made of these funds in the year, the funds are replenished the following year. BEIS has confirmed that if the legal costs fund falls below £1m in any one year, it will make a 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 enforcement action.

**i) Deferred lease Incentive**

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

**j) Provision for dilapidations**

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

**k) Taxation**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2. REVENUE

	<b>2019/20</b>	2018/19
	<b>£'000</b>	£'000
For Core Operating Costs		
Preparers Levy	<b>14,364</b>	13,955
Insurance and pension levies	<b>1,881</b>	2,338
Accountancy professional bodies	<b>4,594</b>	4,820
Actuarial profession	<b>247</b>	247
Government	<b>0</b>	0
Publications	<b>793</b>	722
Other	<b>172</b>	158
Sub Total	<b>22,051</b>	22,240
For Audit Quality Review		
Accountancy professional bodies	<b>8,014</b>	6,597
Other Income	<b>1,276</b>	1,263
Sub Total	<b>9,290</b>	7,860
For Accountancy Disciplinary Case Costs		
Accountancy professional bodies	<b>9,062</b>	6,163
less cost awards recovered	<b>(1,454)</b>	(6,086)
Sub Total	<b>7,608</b>	77
For Actuarial Disciplinary Case Costs		
Insurance and pension levies	<b>332</b>	57
Sub Total	<b>332</b>	57
For XBRL Development		
Companies House	<b>242</b>	271
Sub Total	<b>242</b>	271
Total	<b>39,523</b>	30,505

### 3. OPERATING EXPENSES

	2019/20	2018/19
	£'000	£'000
Core Staff and related people costs (note 5)	23,840	21,697
IT and facility costs	2,648	2,459
Lease expense	818	855
Depreciation and amortisation costs	641	464
Auditor's remuneration:		
— audit	64	52
— non - audit services	0	0
XBRL taxonomy development costs	242	271
Accountancy and actuarial case costs - gross	9,394	6,220
— Less cost awards recovered	(1,454)	(6,086)
Accountancy and actuarial case costs - net	7,940	134
Other operating expenses		
— Travel and conferences	390	485
— Legal and professional fees	568	986
— Contribution to EFRAG	310	309
— All other costs	1,400	1,072
Total operating expenses	38,861	28,784

### 4. TAXATION

Corporation Tax at an effective rate of 19% (2018/19: 19%) on interest income of £38,000 (2018/19: £81,000).

### 5. STAFF AND RELATED PEOPLE COSTS (INCLUDING DIRECTORS)

	2019/20	2018/19
	£'000	£'000
<b>Permanent staff:</b>		
Salaries	19,673	17,339
Social security costs	2,367	2,157
Pension costs	1,755	1,504
<b>Total permanent staff costs</b>	<b>23,795</b>	<b>21,000</b>
<b>Other people related costs:</b>		
Seconded staff and contractors	341	391
Fees paid to Board, Committee and Council members	1,193	1,433
Other costs	533	544
Total staff and related people costs	25,862	23,368
Staff Costs transferred to Cases	(2,022)	(1,671)
<b>Total Core Staff and related people costs</b>	<b>23,840</b>	<b>21,697</b>
	2019/20	2018/19
Average no of permanent staff employed	227	198

## NOTES TO THE FINANCIAL STATEMENTS

### Directors' emoluments

	2019/20 £'000	2018/19 £'000
Fees (included in staff costs)	928	1,115
Other pension costs	17	0
Total directors' emoluments (see page 55)	<b>945</b>	1,115
Social security costs	<b>111</b>	134
	<b>1,056</b>	1,249

### 6. 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 in hand, current investments, loans, debtors and creditors that arise directly from its operations. A Government bank account has been opened for the FRC and from May 2019 money from the commercial bank account and matured deposits have been transferred to FRC Bank accounts set up with the Government Banking Service (GBS).

The financial instruments include surplus funds which, subject to BEIS approval, 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 when 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. At 31 March all FRC cash was held within the GBS where funds are held overnight by Her Majesty's Treasury (HMT).

#### Interest rate risk

Prior to opening up Government bank accounts, the FRC invested the majority of its surplus funds in highly liquid short-term deposits. The average interest rate on short term deposits for 2019/20 was 0.6% (2018/19: 0.7%) All these deposits had matured by 31 March 2020. The GBS bank accounts do not accrue receivable interest or incur bank charges.

#### 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.

### 7. INTANGIBLE ASSETS

	Software £'000
Cost at 1 April 2019	486
Additions	—
Disposals	(390)
Cost at 31 March 2020	<b>96</b>
Amortisation at 1 April 2019	399
Disposals	(390)
Charge for year	53
Amortisation at 31 March 2020	<b>62</b>
<b>Net book value at 31 March 2020</b>	<b>34</b>
Net book value at 31 March 2019	87



## 8. TANGIBLE ASSETS

	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings and furniture £'000	Total £'000
Cost at 1 April 2019	2,515	689	396	3,600
Additions	—	35	802	837
Disposals	(48)	(307)	(225)	(580)
Cost at 31 March 2020	2,467	417	973	3,857
Depreciation at 1 April 2019	1,109	384	184	1,677
Charge for year	257	160	171	588
Disposals	(48)	(307)	(225)	(580)
Depreciation at 31 March 2020	1,318	237	130	1,685
<b>Net book value at 31 March 2020</b>	<b>1,149</b>	<b>180</b>	<b>843</b>	<b>2,172</b>
Net book value at 31 March 2019	1,406	305	212	1,923

## 9. DEBTORS

	2019/20 £'000	2018/19 £'000
Debtors	1,045	415
Prepayments	964	991
Accrued income	2,349	1,919
Enforcement Financial Sanctions and Cost Awards	2,218	2,439
Other debtors	68	78
	<b>6,644</b>	<b>5,842</b>

## 10. CASH AND INVESTMENTS HELD

	Cash 2020 £'000	Deposits 2020 £'000	Total 2020 £'000	Cash 2019 £'000	Deposits 2019 £'000	Total 2019 £'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	16,037	(4,000)	12,037	17,822	1,530	19,352
Totals at 31st March 2020	<b>16,037</b>	<b>0</b>	<b>16,037</b>	<b>17,822</b>	<b>5,530</b>	<b>23,352</b>

\*All cash is now held within the Government Bank Account Service and as such has been moved from commercial deposit accounts

## 11. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019/20 £'000	2018/19 £'000
Trade creditors	411	1,286
Other taxation and social security	760	751
Accruals	1,783	2,061
Deferred income	940	939
Deferred lease incentive	345	345
Enforcement Financial Sanctions and Cost Awards	2,219	8,083
Corporation Tax	7	15
Other payables	354	34
	<b>6,819</b>	<b>13,514</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<b>2019/20</b>	2018/19
	<b>£'000</b>	£'000
Deferred lease incentive	<b>1,357</b>	1,704
	<b>1,357</b>	1,704

### 13. SIGNIFICANT TRANSACTIONS WITH OTHER STANDARD SETTERS

With the agreement of HM Treasury, BEIS and the FCA, the FRC has, since 2008, taken the responsibility for collecting the UK contribution to the International Accounting Standards Board (IASB) alongside its preparer's levy. The FRC makes a small charge for providing this service. The amount of monies collected during the year was £866,000 (2018/19: £849,000), of which £54,000 (2018/19: £27,000) remained to be paid over by the FRC to the IASB as at 31 March 2020.

### 14. PROVISIONS FOR LIABILITIES

	<b>2019/20</b>	2018/19
	<b>£'000</b>	£'000
<b>Leasehold improvements and dilapidations</b>		
Balance at 01 April 2019	<b>231</b>	200
Amount charged to/(released from) Profit and Loss account	<b>32</b>	31
Balance at 31 March 2020	<b>263</b>	231

### 15. COMMITMENTS

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

	<b>2019/20</b>	2018/19
	<b>Total</b>	Total
	<b>£'000</b>	£'000
Payments due within one year	<b>815</b>	824
Payments due within two to five years	<b>3,282</b>	3,294
Payments due after more than five years	<b>—</b>	846
	<b>4,097</b>	4,964

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

	<b>2019/20</b>	2018/19
	<b>£'000</b>	£'000
Payments due within one year	<b>3</b>	9
Payments due within two to five years	<b>—</b>	5
Payments due after more than five years	<b>—</b>	—
	<b>3</b>	14

## 16. RELATED PARTY TRANSACTIONS

The FRC is a public body operating under a remit letter from BEIS.

### Transactions with related parties

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

### Total key management personnel compensation

	2019/20	2018/19
	£'000	£'000
<b>Key Management Personnel</b>		
Fees & Staff Costs	2,149	2,321
Other pension costs	60	73
	<b>2,209</b>	2,394
Social security costs	251	290
	<b>2,460</b>	2,684

This includes all Board members and Executive Committee members costs.

## 17. SUBSIDIARY UNDERTAKING

The FRC has one subsidiary undertaking, UK Accounting Standards Endorsement Board Limited. It changed its name from UK Endorsement Board Limited during the year. It is a company limited by guarantee of which the FRC is the sole member. Its registered office is 8th Floor 125 London Wall, London, United Kingdom, EC2Y 5AS. It did not trade during the reporting period.

## 18. 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.

## 19. EVENTS AFTER THE END OF THE REPORTING PERIOD

The Financial Statements were authorised for issue by the Accounting Officer on the date they were certified for and on behalf of the Comptroller and Auditor General.

## APPENDIX 1

### FRC'S OVERSIGHT RESPONSIBILITIES 2019/20 - AUDIT, ACTUARIAL AND ACCOUNTANCY PROFESSIONS

#### 1. Executive Summary

This is our report to the Secretary of State for Business, Energy, and Industrial Strategy (BEIS) on how FRC has discharged its statutory and non-statutory oversight responsibilities in 2019/20<sup>7</sup>. This section describes the key matters to note. Sections 2-7 provide more detail on each area of regulatory oversight - as set out below:

- Section 2: Oversight of statutory audit: as the Competent Authority for statutory audit in the UK; and oversight of the regulatory tasks delegated to the recognised supervisory bodies (RSBs); and statutory oversight of recognised qualifying bodies (RQBs);
- Section 3: Oversight of local audit;
- Section 4: Regulation of Third Country Auditors (TCAs);
- Section 5: Oversight of the actuarial profession;
- Section 6: Governance review of the RSBs, RQBs and the Institute and Faculty of Actuaries (IFoA); and
- Section 7: Oversight of the accountancy profession.

The oversight activities covered in this report were carried out in the period before the COVID-19 pandemic. We discussed the operational and economic impact of the crisis with the professional bodies in March 2020 and agreed an extended timetable, where needed, for implementing the improvements identified by our 2019 monitoring work. We also worked closely with the RQBs as they sought pragmatic approaches to delivering education and running examinations during the COVID-19 lockdown and maintaining standards for awarding the Audit Qualification.

#### Conclusions

Based on our oversight reviews in 2019/20, our principal conclusions are:

- The RSBs are complying with the terms and conditions of the Delegation Agreement;
- The RSBs and RQBs continue to meet the requirements of the recognition criteria of Schedules 10 and 11 of the Companies Act 2006 (the Act);
- We are satisfied that the RQBs meet the requirements of the Act in approving and monitoring Training Offices;
- The RSBs and RQBs take their regulatory responsibilities seriously and continue to monitor staffing levels and other resources to ensure they are sufficient to meet them; and
- There are some areas for improvement as set out below.

#### Oversight of statutory audit

The principal findings arising from our oversight of audit quality monitoring activities are:

- Previously ICAEW<sup>8</sup> was required to provide better evidence of how it plans its reviews and assesses the risks associated with firms which have complex audits. While ICAEW has made progress on improving its audit file selection, we require it to implement a top-down risk-based approach for audit quality monitoring file selections at the seven largest firms.
- To ensure maximum transparency of audit quality issues as well as a consistent approach across all RSBs, we require ICAS<sup>9</sup> and ICAI<sup>10</sup> to include audit quality review grades in their reports to firms. The reports currently describe the key audit quality issues identified but providing file grades helps communicate the significance of the issues. Both RSBs have agreed to communicate audit quality grades to firms retrospectively for inspection visits from 1 January 2019.

8 Institute of Chartered Accountants in England and WalesW

9 Institute of Chartered Accountants of Scotland

10 Institute of Chartered Accountants in Ireland

Our work on audit registration in prior years identified a lack of communication between ICAEW, ICAS and ACCA<sup>11</sup> which could potentially lead to audit reports being signed by individuals who were not eligible to be statutory auditors. In 2020, the RSBs concluded a Memorandum of Understanding (MoU) for sharing information between RSBs and communicating with members to mitigate this risk.

Following our review of the RSBs' enforcement processes, we require ICAS to improve its process for independent selection of its Adjudication Committee and Investigating Panel members, and ICAI to demonstrate robust procedures to identify and avoid conflicts of interest. We also require ICAEW to ensure that certain aspects of the system it relies on to handle complaints and deliver enforcement actions against its members are sufficiently resilient.

### ***Oversight of local audit***

ICAEW was the only RSB with firms registered for local audit. Due to the phasing-in of the Local Audit and Accountability Act 2014 (LAAA), there were no completed audits to review under the new regime during 2019/20. We commenced audit quality shadowing on two local audit monitoring visits during the year, but as this work is ongoing, we will report the findings next year.

### ***Regulation of Third Country Auditors (TCAs)***

In line with the European Union (EU) (Withdrawal) Act 2018, there will be an amendment to the definition of TCAs at the end of the Transition Period. A TCA will refer to an auditor in any country outside the UK, which means that the preferential treatment of Economic European Area (EEA) auditors will cease. We are ready to register EEA audit firms when required. During the Transition Period, EEA auditors continue to be eligible to sign audit opinions of companies listed on the UK regulated markets, without registering with the FRC as a TCA. A further development is that the EU decision designating certain third countries (outside the EEA) as transitional for audit equivalence purposes lapsed in 2019. We are re-registering the affected TCA firms under the full registration requirements.

### ***Oversight of Institute and Faculty of Actuaries (IFoA)***

The focus of our work was to ensure the timely delivery of the actuarial monitoring scheme (AMS), to provide independent evidence of the quality of actuaries' work in the UK. The AMS was launched by IFoA in September 2019 and two thematic reviews in areas of public interest are in progress. In addition, we reviewed and provided feedback on proposed changes to life insurance practising certificate requirements and the IFoA's CPD scheme.

### ***Oversight of governance of RSBs, RQBs and IFoA***

We built on our previous desk-based review of the RSBs' and IFoA's governance arrangements by interviewing chairs and key members of boards with educational and regulatory responsibilities to assess the effectiveness and independence of governance procedures in practice. We also observed selected boards and committees at each of the RSBs and RQBs as well as IFoA. The governance arrangements below Council for education and qualification are quite separate from the governance of other regulatory responsibilities for all RSBs apart from ACCA, which has a unified oversight structure covering all its public interest oversight functions. We recommend each body considers how it ensures that relevant information is shared within its governance arrangements to maximise the effectiveness of regulatory decisions.

### ***Oversight of accountancy professional bodies***

Until the recommendations made by Sir John Kingman on accountancy oversight have been implemented, our work remains focussed on complaints handling. This year we conducted four reviews of complaints handled by the professional accountancy bodies following receipt of complaints from members of the public and a further complaint review remains ongoing.

## APPENDIX 1

### 2. Oversight of statutory audit

We report annually:

- *As the Competent Authority for statutory audit in the UK* on our activities under the EU Audit Regulation (Audit Regulation) and under the Statutory Auditor and Third Country Auditor Regulations 2016 (SATCAR 2016). Since 2016, audit regulation tasks under this legislation are carried out by the FRC in its capacity as Competent Authority and by RSBs as delegates of the FRC, under terms set out in Delegation Agreements. The FRC reports in its annual report and accounts on the activities undertaken by it as the Competent Authority and in this appendix on the oversight of the tasks delegated to the RSBs; and
- *As the Secretary of State's delegate* under Part 42 of the Act we report on the accountancy bodies that are responsible for:
  - i) supervising the work of statutory auditors as set out in Schedule 10 to the Act;
  - ii) offering an audit qualification as set out in Schedule 11 to the Act, and
  - iii) the enforcement of statutory requirements under Part 42 of the Act.

Section 1252(10), and paragraph 10(3) of Schedule 13 to the Act, require the FRC to report annually to the Secretary of State on the discharge of these delegated powers and responsibilities.

#### **Delegation by FRC to the RSBs**

Under regulation 3(12), the Secretary of State may give Directions to the FRC in connection with the delegation of tasks to the RSBs. In the Direction issued pursuant to this provision, the then Parliamentary Under-Secretary of State, Baroness Neville Rolfe, stated that: "The Government intends that the FRC should be the UK Competent Authority for the regulation of auditors, but that legislation will require it to delegate regulatory tasks so far as is possible to RSBs that meet criteria set out in the legislation".

As the Competent Authority with the ultimate responsibility for audit regulation in accordance with SATCAR 2016, the FRC delegates to the RSBs certain of the regulatory tasks (audit registration, audit monitoring, enforcement and continuing professional development (CPD)) where it is satisfied that these bodies meet the recognition criteria.

#### **Recognised bodies and recognition criteria**

To be an RSB, the body must satisfy the recognition criteria as set out in Schedule 10 of the Act; similarly, to be an RQB, the body must satisfy the recognition criteria as set out in Schedule 11 of the Act.

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

The following are both RSBs and RQBs:

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

In addition:

- Association of International Accountants (AIA) is an RQB; and
- There is a separate regime for local audit. Local audit RSBs and RQBs are discussed in section 3 below.

### ***Our enforcement powers against the recognised bodies***

As the Competent Authority, and under the terms agreed with the RSBs in the Delegation Agreements, where the FRC finds issue with an RSB's performance of a Delegated Task, the FRC may:

- Direct the RSB to do or refrain from doing a particular action;
- Reclaim a case or Delegated Task;
- Terminate the Delegation Agreement with that RSB; or
- Take such other measure(s) as the FRC deems reasonable and appropriate.

As Secretary of State's delegate, the FRC also has the following range of statutory enforcement powers in relation to the recognised bodies' compliance with the required statutory criteria for their continued recognition under the Act as RSBs and RQBs:

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

### ***FRC's oversight and monitoring procedures***

The FRC follows a risk-based approach to determine the regulatory issues that we should focus on each year in the context of the monitoring activities of the different bodies. To help us plan and carry out our oversight role, each RSB and RQB provides an annual regulatory return, which includes information on their regulatory activities during the previous year. The bodies also provide us with their regulatory plans, which are broad, forward-looking documents covering all significant work in progress. Each body is expected to immediately inform the FRC of any significant issues relevant to its role as an RSB/RQB to ensure that the FRC's views are considered before decisions are made.

To discharge the FRC's responsibilities as the Competent Authority and the Secretary of State's delegate, the FRC undertakes oversight activities throughout the year as follows:

- Understanding and documenting how each body meets all the statutory requirements for continued recognition, including information on how it complies with relevant legislation;
- Annual compliance testing of the way in which each body's regulatory systems operate in practice during monitoring visits and evaluating the effectiveness of specific aspects of the regulatory system;
- Reviewing and discussing the information in returns and regulatory plans submitted by the bodies;
- Keeping in regular contact with each body to discuss current issues, trends and future developments;
- Ensuring that the RSBs are compliant with the Delegation Agreement;
- Requiring specific actions or making recommendations arising from the activities above; and
- Ensuring our requirements and recommendations made in prior years have been implemented and have effectively addressed the issues raised.

### ***FRC's oversight and monitoring of RSBs and RQBs***

We assessed each RSB's performance of its Delegated Tasks in relation to (i) audit registration, (ii) audit monitoring, (iii) enforcement and (iv) CPD, as well as its compliance with conditions in the Delegation Agreements for the delegation of tasks and with the general criteria for continued recognition as an RSB. We changed the emphasis of our enforcement monitoring inspections from an in-depth inspection every three years, to frequent visits to seek recent evidence that effective policies and procedures are implemented at each RSB. In addition to this work, we continued our annual on-site shadowing of the RSBs' audit quality monitoring visits to the firms.

## APPENDIX 1

Having implemented many of the recommendations from the FRC's review of Key Performance Indicators<sup>12</sup> (KPIs) in 2017/18, the RSBs also agreed an audit quality KPI<sup>13</sup> with the FRC, as required by the Delegation Agreement, during 2019. We will continue monitoring the RSBs against these measures to ensure audit quality is maintained or improved wherever necessary. See "Results from oversight and monitoring of RSBs" for further details.

The FRC also carried out oversight monitoring of the RQBs. We assessed whether the RQBs' qualifications continued to meet the requirements of the Act, which implements the requirements of Articles 6-10 of the EU Audit Directive 2006/43/EC as amended. We considered the governance arrangements relating to the RQB responsibilities at each of the RQBs. We also followed up on recommendations made in previous reports. We found no significant issues with the policies and procedures of the RQBs and the monitoring visits were performed to a satisfactory standard. See "Results from oversight and monitoring of RQBs" for further details.

### **Key findings from oversight and monitoring of RSBs**

The findings in relation to delegated regulatory tasks are summarised below.

#### **Audit registration**

As noted in our last report, each RSB used a different audit experience template when assessing an application to become a statutory auditor. The RSBs were therefore applying inconsistent approaches to assessing statutory auditor applications. To apply a consistent assessment of eligibility criteria at registration, the RSBs created a template to include a minimum amount of recent audit experience to be submitted before the application for statutory auditor status is considered. The template was approved in May 2020 and the RSBs agreed to implement it with immediate effect.

During 2018/19 we also found that there was insufficient communication between RSBs where there were changes in registration of their members which affected their continued status as statutory auditors with another RSB. To address this finding, the RSBs produced a draft MoU for the sharing of information. The MoU is designed to ensure that there are clear lines of communication between the bodies to reduce the risk of misunderstandings or gaps arising in the regulation or oversight of statutory auditors. The draft MoU was sent to us in April 2020. Once we are satisfied with the final version, the RSBs will implement it with immediate effect.

We continue to work with the RSBs to improve transparency of the data available on the register of statutory auditors (the Register). ICAS currently hosts the Register and has commissioned an external provider to produce a report setting out the usage and capabilities of the Register. While we continue to wait for that report, all the RSBs are gathering data which will enable us to assess the number of statutory audit firms and statutory auditors that remain on the Register despite not carrying out any statutory audit work for several years.

We are in discussions with the RSBs to find a different form of licencing for firms that do not want to carry out statutory audits but wish to carry out non-audit roles where registration as a statutory auditor is currently required.

We are working with BEIS to develop proposals for implementing the recommendations made by Sir John Kingman that the audit regulator should address quality issues through the audit registration process more directly and effectively in future.

#### **Audit quality monitoring**

We continued to shadow the audit monitoring visits carried out by the RSBs to assess how they discharge their quality monitoring function. We carried out an in-depth review of the RSBs' audit quality monitoring processes including planning, fieldwork, reporting and finalisation to assess how each RSB applies its audit quality monitoring policies and procedures in practice. We attended key meetings to observe interactions between the RSBs and the audit engagement teams, thereby allowing the RSBs' staff to demonstrate to us how they respond to concerns on a real-time basis.

Our audit quality monitoring inspection did not identify any systemic issues that raise concerns about the compliance of the RSBs with the conditions of Appendix 3 of the Delegation Agreement and with the requirements of the Act.



A summary of our findings and key areas for improvement in relation to audit quality monitoring at each RSB are summarised below. We have agreed action plans to ensure that our requirements and recommendations are implemented on a timely basis.

### **ACCA**

We require ACCA to put a policy in place for the handling of its data by its Audit Monitoring Committee (AMC) members. The policy should prohibit the use of personal laptops to download such data. We require ACCA's AMC to decide which audit monitoring visits should be tabled at each AMC meeting from a list of visits concluded in the preceding period.

### **ICAEW**

While audit file selection procedures have improved, we require ICAEW to adopt a top-down, risk-based approach to its file selection process for the large seven largest. Each time a large firm is visited, the file selection should be made from the firm's entire audit portfolio list. Office coverage should also be considered, but not as a primary driver in the file selection process and only when there are relevant risk-based factors. In addition, Responsible Individual (RI) coverage should not be a primary reason for selecting or not selecting an audit file for review.

We require ICAEW to update its sample size guide in the Audit Visit Manual to prescribe specific targeted procedures and increased sample size selection where a large firm selected is under scrutiny for reasons including:

- special measures are in place to address FRC concerns;
- recent negative news has circulated about an audit firm or an entity; and
- the firm has a poor audit quality history.

### **ICAS and ICAI**

Previously ICAS and ICAI did not share the audit quality grades awarded on each audit inspected in their reports to audit firms. While the report narrative describes the key audit quality issues identified, the extent of those issues is not clear without accompanying file grades. We require ICAS and ICAI to communicate the audit quality grades to the firms retrospectively for inspection visits on and after 1 January 2019. This will help the bodies to build a base-line comparator to assess how the firms are performing during subsequent inspection visits. This will also help the firms and the RIs to understand the difference between good and poor audit quality and measure the improvement or deterioration of audit quality over time.

### **ICAI**

We also require ICAI to collaborate with our Audit Quality Review (AQR) team on a timely basis on any inspections of firms based in the UK (firms in Northern Ireland) which audit Public Interest Entities (PIEs). To this end, ICAI's audit monitoring manual should be updated to reflect the protocol to be followed for such inspections. This requirement continues to remain open until we have reviewed ICAI's updated audit monitoring manual.

### **Enforcement monitoring**

During 2019, we refreshed our approach to seek recent evidence that effective policies and procedures for investigation of complaints and discipline of members are implemented at each RSB. We replaced approximately three-yearly 'deep dive' visits with shorter visits two or three times a year. We assessed the RSBs' processes and procedures across all stages of their enforcement process, from complaints reporting through to sanctions, based on selected samples of current and closed cases. This approach enabled us to make recommendations for improvements on a timelier basis.

Our enforcement monitoring inspections did not identify any systemic issues that raise concerns about the compliance of the RSBs with the conditions of Appendix 4 of the Delegation Agreement and with the requirements of the Act.

## APPENDIX 1

A summary of our findings and key areas for improvement in relation to enforcement at each RSB are summarised below. We have agreed action plans to ensure that our requirements and recommendations are implemented on a timely basis.

### ICAEW

ICAEW has confirmed that a small number of electronic documents from its Visual Files (VF) case investigation system ceased to be accessible following a VF backup data error in September 2019, and ICAEW was unable to locate these files following an investigation into the event. These files had been closed for at least six months and there was no loss of documents on any open cases. Accordingly, we require ICAEW to review its VF case investigation system to ensure that it is robust, and that data is properly stored and accessible to ICAEW's case investigators.

### ICAI

We recommend that ICAI ensures that cases are progressed with greater consistency, particularly in relation to timely updates and methods of communication with complaint parties and deadlines for receipt of information from its members during investigations.

In addition to a review of ICAI's enforcement policies and procedures and its desk-based investigations, we also reviewed the governance of its enforcement work. We require changes to ensure robust and timely identification of conflicts of interest at committee level.

### ICAS

We require ICAS to make some changes to its investigative process to ensure the maximum level of independence in its decision making, both at an executive and committee level. ICAS must ensure that its Adjudication Committee meetings are led by the appointed Chair, rather than ICAS executive staff, and that decisions regarding the appointment of sub-committee members by the Chair are demonstrably independent.

### Continuing Professional Development (CPD)

This year our work was limited to a review of any changes to RSBs' policies and procedures for CPD that relate to the task-specific Conditions of Delegation. There were no substantive changes to RSBs' policies and procedures for CPD. There were no findings in respect of CPD arising from our audit quality monitoring oversight, but we are planning an in-depth review in 2020/21.

### *Key findings from oversight and monitoring of RQBs*

Our oversight and monitoring of RQBs did not identify any systemic issues that raise concerns about the compliance of the RQBs with the requirements of Schedule 11 of the Act.

A summary of our findings and key areas for improvement at each RQB are summarised below. We have agreed action plans to ensure that our recommendations are implemented on a timely basis.

### AIA

We recommend that AIA strengthens the oversight of its RQB responsibilities in the public interest, improving transparency to governance procedures and introducing regular effectiveness reviews of boards and committees.

We also reviewed the updated syllabus of the AIA examinations. We are satisfied that the updated syllabus meets the requirements of paragraph 8 of Schedule 11 of the Act. We will review AIA's further changes to the qualification in 2020/21.

### ICAEW

We recommend that ICAEW ensures its governance arrangements have appropriate mechanisms to oversee its overall responsibilities for the regulation of auditors, including potential interdependencies between the regulation of qualifications as an RQB, and other regulatory responsibilities, including continuing professional development, as an RSB.

## ICAI

We recommend that ICAI should consider whether its Council is the most appropriate governance body to provide overarching oversight to identify and address cross-cutting risks and issues across ICAI's RQB and RSB responsibilities. We also recommend that ICAI has sufficient and timely procedures to ensure members of its boards and committees identify and mitigate potential conflicts of interest.

ICAI has addressed three out of seven prior-year open recommendations. Four open recommendations mainly relate to the ICAI's system to record and monitor the practical training of students. While ICAI has made progress, some of the actions are only achievable over a longer timescale. We will continue to follow up in 2020/21 until we gain assurance that the systems ICAI are implementing fully satisfy the recommendations.

### 3. Oversight of Local Audit

Following the winding up of the Audit Commission, a new regulatory regime for the audit of local government and National Health Service (NHS) bodies (local audit) was established by government through the LAAA. The Ministry of Housing, Communities and Local Government (MHCLG) set up a Delivery Board responsible for identifying the risks and overseeing the implementation of the new regime. The FRC together with the local audit RSBs and other bodies involved in the oversight and regulation of local audit are members of this Board. Its objective is to ensure that the effectiveness of the new regime is maximised, and risks are identified and managed, through engaging with the large number of interested bodies.

The Secretary of State delegated to the FRC responsibility for overseeing the RSBs and RQBs for local audit. Because of the phased transition to full implementation, some of the functions of the RSBs for local audit are not yet in operation. The FRC is required to enforce the requirements for recognition of local audit RSBs and the award of the local audit qualification by local audit RQBs under sections 1252 and 1253 of the Act. Section 1252(10) and paragraph 10(3) of Schedule 13 of the Act, as they apply to local audit by virtue of Schedule 5 to the LAAA, require the FRC to report to the Secretary of State once in each calendar year on the discharge of its powers and responsibilities.

Individuals and audit firms that wish to be appointed as a local auditor in the UK must be registered with a local audit RSB and key audit partners (KAPs) at registered firms must hold an appropriate audit qualification for local audit.

ICAEW and ICAS were recognised as RSBs for local audit in November 2015. In addition to the four statutory RQBs, the Chartered Institute of Public Finance and Accountancy (CIPFA) was recognised as an RQB, for local audit only, in October 2014. ICAEW is the only RSB, at the current time, with firms registered for local audit.

MHCLG decided that the transition from the old local audit regime to the new regime under the LAAA should be carried out in two phases: Phase I comprised the NHS bodies which transitioned on 1 April 2017; and phase II comprised all other local public bodies which transitioned on 1 April 2018. Audit monitoring and enforcement of the major<sup>14</sup> local audits are undertaken by the FRC. All other local audits are monitored by the RSBs. The first full financial year for the phase I bodies ended on 31 March 2018 and the audits of these financial statements were reviewed by the AQR team and ICAEW on a sample basis during 2019/20. In 2020, we shadowed ICAEW on audit quality monitoring visits to two local audit firms; these visits were not concluded at the date of this report.

After the implementation of the LAAA, the audit regulatory regime for statutory audits (companies) was changed by the Audit Regulation and Directive (ARD). There are now significant differences between the company and local audit regimes, even though the intention of LAAA was to align them. In particular, the FRC is not the Competent Authority for local audit. There is a public interest risk that users of the accounts of local authorities and bodies believe that corporate and local audit regimes are the same. There are differences in audit quality monitoring procedures as well as the determination of sanctions following failures identified through monitoring.

In 2019, MHCLG invited Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by LAAA. A final report on the recommendations of this review is expected during 2020.

## APPENDIX 1

### ***Key findings from local audit oversight and monitoring***

Our oversight of the local audit RSBs focused on their implementation of our recommendations on registering firms for local audit, as well as key audit partners, and their monitoring of CPD. We also assessed whether the RQB qualifications continued to meet the requirements for local audit as set out in the LAAA.

We are satisfied that both ICAEW and ICAS have adequate procedures in place to register firms and individuals to undertake local audit in line with their regulations. Both RSBs devote sufficient resources to meeting their obligations as RSBs.

CIPFA is an RQB for local audit only. We assessed the effectiveness of the governance arrangements relating to the RQB responsibilities of CIPFA. We performed a desktop review of governance structures and policies as well as observing governance processes and meeting members of governance boards and committees. We recommended that CIPFA should update the Terms of Reference of its Governance boards and improve its assessment of their effectiveness.

### **4. Regulation of TCAs**

The Act, the Statutory Auditors and Third Country Auditors Regulations 2013 (SATCAR 2013) and SATCAR 2016 set specific requirements for the regulation of the auditors of UK traded non-EEA companies. In the UK, the FRC is responsible for applying these requirements to TCAs.

All TCAs are required to be registered with the FRC before they sign any UK audit reports for UK traded non-EEA entities. Where a TCA is not subject in its home country to a system of oversight, quality assurance review and discipline which is recognised by the European Commission as being equivalent, the FRC is required to subject the registered TCA to its own systems of oversight and quality assurance review. 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.

During the year, the EU decision which designated certain countries as transitional lapsed. We are currently re-registering the affected TCA firms under the full registration requirements.

The FRC also has the power to remove a TCA from the UK register of TCAs in certain circumstances as set out in the Act and SATCAR 2013. The procedures followed by the FRC in such instances are set out in the Third Country Auditor Register Procedures, available on the FRC website.

### ***Key findings from audit quality monitoring of TCAs***

The FRC is required to review on a cyclical basis the audit quality of TCAs from jurisdictions which have not been assessed by the European Commission as equivalent or transitional. We apply a system which is proportionate to the risk profile of the issuer and the jurisdiction. Our audit quality monitoring of TCAs focuses on those UK market-traded companies considered to be of significance to UK investors.

In the year to 31 March 2020, our seventh year of inspections, we completed inspections of selected aspects of five audits at five TCA firms located in Argentina, Israel, Kazakhstan and Nigeria. The audits were classified as 'good' or as 'limited improvements required'.

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

### ***EU Exit update***

During the year, we continued to work with BEIS on preparations for the UK's exit from the EU. Our objective is to ensure that the UK's audit regulation framework remains fit for purpose when the Transition Period (TP) ends. This is important so that audit firms are still eligible to carry out audit work and their audit reports have legal

effect. Given the continuing uncertainties, it is important that the RSBs and audit firms understand the changes to be able to plan for them. We have therefore provided a central point of contact for discussions about EU Exit and held several round-table meetings with the RSBs and with large- and medium-sized audit firms.

In the earlier part of the year, our focus was on the legislative changes required to implement EU Exit. The European Union (Withdrawal) Act 2018 converts the existing body of directly applicable EU law into UK domestic law at the end of the TP. Further, to ensure that this law is operable in a UK-only context at the end of the TP, amendments have been made by Statutory Instrument to certain aspects of the legislation to reflect the UK's new position outside the EU. For example, there are amendments to remove the preferential treatment for EEA auditors and to adjust the definition of a third country auditor to mean a country outside the UK. An assessment framework for the equivalence of third country audit regulatory frameworks and adequacy of arrangements for sharing of audit working papers has been developed.

These and other amendments also need to be reflected in the audit rules of the RSBs and in the FRC's own procedures. We have reviewed the rule changes proposed by the RSBs and updated the FRC's own Eligibility Criteria which set the registration requirements for statutory auditors. We have also upgraded our own systems for registration of third country auditors to manage the anticipated increase in applications for registration from third country audit firms.

More recently, we have worked closely with BEIS to prepare for the UK-EU negotiations on audit adequacy and equivalence. This has included preparing a compendium of the UK's and FRC's audit regulatory requirements for use in the negotiations and assisting with the preparation of questionnaires and responses.

## 5. Oversight of the actuarial profession

In 2006, the FRC assumed responsibility for the non-statutory oversight of the regulation of the actuarial profession by the IFoA. This followed the recommendation of the Morris Review of the Actuarial Profession, published in 2005.

This oversight arrangement is established through a MoU with the IFoA. Under the MoU, the FRC oversees the way in which the IFoA regulates its members when acting in their professional capacity.

The FRC undertakes an annual programme of work to discharge its oversight responsibilities, established in consultation with the IFoA. This programme of monitoring visits, oversight of relevant activities and recommendations to the IFoA is based on risk and focuses on issues that could have an adverse effect on the public interest and on public confidence in actuaries. Matters arising from the FRC's 2019/20 work programme are summarised below.

### *The IFoA's proposals for monitoring the quality of actuarial work*

Neither the quality of actuarial work nor compliance with actuarial standards is directly monitored. As a result, a lack of independent evidence of the quality of actuarial work and of compliance with actuarial standards in the public interest remains.

To bridge this gap, in September 2019, the IFoA launched its actuarial monitoring scheme (AMS) to monitor its members' work. The FRC staff held monthly engagement meetings with the IFoA to ensure timely and effective delivery of the AMS. The IFoA is running two thematic reviews in 2020, in areas of actuarial work of significant public interest, to include some direct review of actuaries' work. The first of these reviews (pension factors) is underway and the second will commence in the latter half of 2020. The IFoA has placed on hold its proposals for regular monitoring of the work of practising certificate holders until the implementation of the Kingman recommendations for actuarial regulation is clarified.

### *The IFoA's review of its practising certificate framework & CPD Scheme*

In May 2019, the IFoA placed its consultation, on practising certificate requirements in Life Insurance, on hold to consider the feedback received from the FRC. Without new information from the IFoA, we do not think that any of the existing requirements should be withdrawn.

## APPENDIX 1

The IFoA is considering whether there are areas of actuarial activity where it would benefit the public interest to introduce new practising certificates.

The IFoA issued a 12-week consultation on proposed changes to its CPD scheme in January 2020. We responded to this consultation and continue to engage with the IFoA to help ensure that its new scheme will be an effective driver of actuarial quality in the public interest.

### ***Implementation of actuarial standards***

The FRC continues to oversee the IFoA's initiatives to raise its members' awareness of regulation and standards of professionalism and to ensure that the IFoA keeps current regulation on its members' agenda once it has become 'business as usual'. The IFoA published further professional skills training materials for its members in 2019/20 which were embedded through significant member engagement.

The IFoA continues to promote the FRC's technical actuarial standards (TASs) to its members, through regulatory updates, CPD events and free-of-charge training. We recommend that the IFoA continues to publicise the TASs, as it does its own non-technical standards, at the many events it convenes, which cover a broader range of actuarial topics and attract a wider audience.

Further to the IFoA's post-implementation review (PIR) of Actuarial Profession Standard (APS) X2: Review of Actuarial Work in 2018/19, the IFoA published a range of new materials in November 2019 to improve members' understanding of APS X2 requirements. We recommend that the IFoA includes APS X2 compliance within the assessment of quality it carries out in its first two thematic reviews in 2020.

### ***Quality Assurance Scheme (QAS) for employers of actuaries***

We monitor the operation and development of the IFoA's voluntary QAS through quarterly reports. This includes IFoA's initiative to monitor the progress made by accredited members in applying best practice to their quality control procedures. The QAS is now in its fourth year of operation. On 31 December 2019, IFoA had 33 UK actuarial employers accredited to QAS, employing 22% of IFoA's UK membership. No UK insurers have applied for QAS accreditation. 7 non-UK employers had joined the QAS as at 31 December 2019, including two insurance companies.

### ***Key findings from actuarial oversight and monitoring***

We completed a desktop review of progress made in implementing the recommendations following our 2017 and 2018 visits to the IFoA's Oxford and Edinburgh offices.

We are content with the progress IFoA has made on our prior visit recommendations. Seven prior year recommendations were closed in 2019/20.

In relation to Complaints and Discipline, the four prior year recommendations which remain open relate to the Disciplinary Scheme Rules and are being considered through the IFoA's current review of its Disciplinary Scheme. There is one open recommendation relating to the process for handling non-standard practising certificate applications. The IFoA has addressed this finding in a different way from the one recommended, so we will review examples in 2020/21 to establish whether the recommendation can now be closed.

In Education, the two open recommendations concern training and performance management in the examiner teams. The IFoA has begun to implement new systems to monitor and address the performance of exam-markers. We will follow up in 2020/21 on the link between monitoring and timely training and on the development of a performance review process for examiners.

## **6. Governance review of the RSBs, RQBs and the IFoA**

Having appropriate governance arrangements in place is a prerequisite to the promotion of transparency and integrity, not only in business but also for those who regulate the professionals supporting those businesses. Ensuring that regulatory bodies have established appropriate governance arrangements ultimately contributes to the long-term and sustained promotion of transparency and integrity in business.

Last year, the FRC completed a desktop review of the RSBs' and IFoA's governance arrangements with interim findings. This year, we broadened our review of governance to include all RQBs. The term body (bodies) refers to the RSBs, RQBs and the IFoA in this section only.

The objective of our Governance reviews is to assess the governance arrangements of the bodies and to identify where they could be improved in the public interest.

We based our review on the following core principles:

- Independence – how the bodies' governance arrangements promote and safeguard the principle of independence in the bodies' regulatory activities;
- Effectiveness – how the bodies demonstrate that their governance arrangements are effective and that they promote effective regulation of their members and students;
- Fairness – how the bodies' governance arrangements promote fairness in the bodies' regulated activities; and
- Transparency – how transparent are governance arrangements and how do they promote transparency of the bodies' regulatory activities.

Building on our desktop-based review of the bodies' governance documentation, we carried out an in-depth review of how governance is implemented in practice at the bodies. We held governance discussions with board and committee members and observed meetings of boards and committees with educational or regulatory responsibilities. Through these discussions and observations, we sought and found examples of the effectiveness of the bodies' governance over their regulatory activities and evidence of how this operates in practice.

In this year's review we focused particularly on how each body's governance arrangements ensure due consideration of the public interest and whether the composition of boards and committees with regulatory responsibilities enabled appropriate discussion and challenge on technical and public interest matters.

We did not focus on the transparency of the professional bodies' governance arrangements in 2019/20 as it was a key focus of our work in 2018. We plan to assess transparency again in 2020/21.

#### **Key findings from governance review**

Overall, we found that the bodies have the necessary governance structures and arrangements in place to manage and oversee their regulatory activities. However, we identified that some aspects of governance arrangements could be improved.

All the bodies we reviewed have identified separately the governance entities with primary responsibility for regulatory matters from those considering matters relevant to members' interests. The extent to which the regulatory boards and committees are distinct and operate independently from individual bodies' other governance arrangements varies. In some of the bodies, although the regulatory governance entities report to Council or to another governance entity, the decisions of the regulatory governance entities cannot be vetoed. In some instances, the decisions can be voted against but changes to the decisions can only be made by the regulatory governance entity. This enables the membership to challenge the regulatory perspective but not to overwrite the decisions of the regulatory governance entities without their agreement.

The bodies generally seek to ensure the public interest is balanced against their members' own interest by including lay persons on key boards and committees with regulatory responsibilities. Some of the bodies require a minimum of 50% lay representatives for some boards and committees, but often lay members are in a minority. For some of the bodies, lay members are in a minority on all the governance entities or not present. In some cases, we observed that lay members did not effectively influence the discussions, particularly where they were in a minority through all the entities that form the framework of a body's governance arrangements.

Based on our findings we recommended that the bodies do more to raise the profile of the lay roles and promote how the bodies' governance arrangements consider the public interest perspective in all regulatory matters.

## APPENDIX 1

### ACCA

ACCA has a majority of lay members in its governance entities with responsibilities for regulatory matters, which is unique among all bodies reviewed. The Regulatory Board oversees ACCA's regulatory framework, which comprises the following three sub-boards: Appointments Board; Qualifications Board; and Standards Board. The Regulatory Board has a lay majority. The Appointments Board is wholly lay and the other two Boards have at least a parity of lay members. Each of the three sub-Boards is constituted as a self-standing board, reporting regularly to the Regulatory Board through their chairs.

Whilst ACCA has strong lay representation on its regulatory boards and committees, the Council, whose members are all non-lay, can reject or make changes to resolutions on regulatory matters, although we found no recent evidence of this. We note that the Regulatory Board has a degree of independence from Council, although appointments to the Regulatory Board are made by Council alone.

We recommended ACCA should consider other inputs to decisions about Regulatory Board appointments and should raise the profile of lay members to ensure the public interest is given appropriate weight in all deliberations and decisions on regulatory matters.

### ICAI

ICAI's Council has delegated to the Chartered Accountants Regulatory Board (CARB) the responsibility for overseeing the fairness, impartiality, rigour, independence, and integrity of its regulatory activities. In addition to CARB, there are two other key boards: the Regulatory Policy Board and the Education, Training and Lifelong Learning Board. CARB and its sub-committees and panels have several lay members to promote the public interest perspective in discussions and decisions. The Regulatory Policy Board has two lay members and the Education, Training and Lifelong Learning Board has three lay members.

We welcome ICAI's own governance review, which started during 2019, with a view to aligning its governance with the changes in the profession as well as to respond to recommendations from regulators.

We found that CARB had not undergone an effectiveness review although it had periodic informal discussions about its assessment.

FRC considers that assessment of boards' and committees' performance is an important element of good governance. We recommended ICAI should implement a process for evaluation of CARB's performance which will enable the Board to identify and assess potential weaknesses or confirm its effectiveness.

### ICAEW

ICAEW's governance is designed to oversee its responsibilities to its members and provide independent oversight of its regulatory activities in the public interest. The Regulatory Board is responsible for setting ICAEW's regulatory strategy and plans with the assistance of relevant committees and staff. It is established to operate independently and with a primary consideration for the public interest. To ensure independence from decisions on investigations and discipline, the Regulatory Board and its members are not permitted to participate in adjudication of cases or to be members of Professional Standards Committees. The Regulatory Board and most of the Professional Standards Committees require at least half the members to be lay persons to represent the public interest.

During our review we found that ICAEW does not publish a register of interests for the senior members of the Executive Team who are on the Board or for any members of the ICAEW Regulatory Board or the Regulatory Appointments Panel. Following our recommendation, ICAEW has updated its website to include declaration of interests for its Regulatory Board members.

### ICAS

The Regulation Board, Qualifications Board and Discipline Board all have public interest members or other lay members. We will continue to collect evidence on how the public interest members and other lay members provide effective influence in the respective Boards' deliberations.



## IFoA

The Council, which is comprised solely of IFoA members, can be the ultimate decision maker on matters affecting strategy, including matters on regulation that may be in the public interest. Regulatory decisions are delegated to the Regulation Board.

Oversight responsibility for regulatory matters is split across three boards:

- Disciplinary Board - enforcement;
- Lifelong Learning Board - education and qualification; and
- Regulation Board - other regulatory matters.

Although all three Boards currently have lay chairs, none has a lay majority. However, our observation visits to a Disciplinary Board and a Lifelong Learning Board meeting demonstrated to us how public interest matters were raised by board members and discussed in those meetings. During 2020/21 we will observe a further sample of meetings of the Regulation Board, Disciplinary Board and Lifelong Learning Board to see how the public interest is considered in their meetings.

## 7. Oversight of the accountancy profession

In 2003, the FRC entered a non-statutory, independent oversight arrangement with five professional bodies under an exchange of letters with the Consultative Committee of Accountancy Bodies ('CCAB'). Under this informal agreement, the FRC oversees the professional bodies' regulation of the accountancy profession on a voluntary basis.

### **Complaints handling**

Most of the FRC's accountancy specific oversight at the current time relates to handling complaints made by members of the public who are dissatisfied with the way in which their original complaint has been handled by one of the CCAB professional bodies and the Chartered Institute of Management Accountants (CIMA). When such complaints are referred to the FRC, any ensuing reviews focus on whether the body followed its own rules and procedures in its consideration of the complaint. Where the FRC finds that a body has not followed its own procedures, it makes a recommendation to the body to address any failings.

This year we conducted four reviews of complaints handled by the professional accountancy bodies, following receipt of complaints from members of the public. In each case we found that the bodies had followed their processes and procedures when handling the complaints, and that these procedures were efficient. A further complaint review remains ongoing. We have seen a reduction in the volume of complaints received regarding the way in which a professional body has dealt with a complaint about one of its members; but we continue to receive a steady number of complaints from student members of the bodies.

In relation to the recommendations by Sir John Kingman, we have played a role in designing and implementing the FRC's new complaints handling procedures. We have also begun to request information from the RSBs to help us monitor trends in complaints received by them, in line with the Kingman recommendations.

### **Implementation of Sir John Kingman recommendations**

We are working with BEIS to implement the recommendation that the audit regulator should continue to operate its oversight role of the accountancy profession, but with a work programme sufficiently wide and expert to identify any emerging concerns of public interest. The focus is on enhancing the audit regulator's ability to secure action from the accountancy bodies in addressing areas of regulation that require improvement. The recommendations are to develop MoUs with the accountancy bodies and introduce backstop statutory powers to underpin effective and value-added oversight work plans.

## APPENDIX 2

### Abbreviations

Acronym	Name in full
ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
AIM	Alternative Investment Market
APS	Actuarial Profession Standards
ARAC	BEIS Partner Bodies Audit and Risk Assurance Committee
ARGA	Audit, Governance and Regulation Authority
BAME	Black, Asian and Minority Ethnic
BEIS	Department for Business, Energy and Industrial Strategy
C&AG	Comptroller and Auditor General
CAI	Institute of Chartered Accountants in Ireland
CCAB	Consultative Committee of Accountancy Bodies
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
EEA	European Economic Area
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FCA	Financial Conduct Authority
FRS	Financial Reporting Standard
GDPR	General Data Protection Regulation
GIAA	Government Internal Audit Agency
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
IFIAR	International Forum of Independent Audit Regulators
IFoA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISAs (UK)	International Standards on Auditing (UK)
JFAR	Joint Forum on Actuarial Regulation

LAAA	Local Audit and Accountability Act 2014
MoU	Memorandum of Understanding
NAO	National Audit Office
NHS	National Health Service
PIEs	Public Interest Entities
PRA	Prudential Regulation Authority
PSAA	Public Sector Audit Appointments
QAS	Quality Assurance Scheme
RQBs	Recognised Qualifying Body
RSB	Registered Supervisory Body
SATCAR	Statutory Auditor and Third Country Auditor Regulations
SORP	Statement of Recommended Practice
SoS	Secretary of State
TAS	Technical Actuarial Standard
TCA	Third Country Auditor
TEG	Technical Experts Group
UK GAAP	United Kingdom Generally Accepted Accounting Practice
XBRL	eXtensible Business Reporting Language





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