Financial Reporting Council

Annual Report and Accounts 2011-2012

Our role

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

We believe that good corporate governance and reporting are essential to the effective operation of free capital markets. Good governance improves boards' ability to enhance performance effectively as well as providing accountability to shareholders. Good reporting meets the needs of investors for relevant and clearly-communicated information on companies' governance, business models, strategies and performance.

We promote high standards of corporate governance by setting the UK Corporate Governance and Stewardship Codes and monitoring their impact. We contribute to high-quality corporate reporting by setting UK standards for accounting, auditing and actuarial work, and by influencing international standards. We monitor the quality of accounts published by public companies and, where necessary, secure revisions in line with standards. We monitor and report publicly on the quality of the audit of listed and other major public interest entities and the policies and procedures supporting audit quality at the major audit firms in the UK. We also oversee the regulatory activities of the accountancy and actuarial professional bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

We hope this Annual Report will inform all of our stakeholders, including investors, companies, auditors, accountants and actuaries and other preparers and users of corporate reports.

Highlights of the year

Consulted on revisions to the UK Corporate Governance and Stewardship Codes, promoted closer engagement between companies and investors, and published an analysis of how the two Codes are being implemented

Took forward our proposals on Effective Company Stewardship, including those on better quality reporting of business models and risks and greater clarity in the responsibilities of audit committees and auditors

Launched the Financial Reporting Lab to bring companies and investors together to promote improvements to the value of reports and accounts to investors

Supported the Sharman Panel of Inquiry on Going Concern and Liquidity Risks: Lessons for Companies and Auditors

On the basis of our reviews of 300 sets of accounts reported on the quality of corporate reporting in the UK and identified areas for improvement

Monitored the quality of 108 audits and completed 8 firm-wide inspections at major audit firms and reported on the continuing challenges faced by auditors and audit committees

Oversaw the implementation of our remaining technical actuarial standards (TASs) for insurance, updated the actuarial methods and assumptions to be used in annual pensions benefit statements, and developed proposals to include actuarial work on pension incentive offers within the scope of the TASs

With Government, reformed our structure and powers to enhance our independence and effectiveness as a regulatory authority with new statutory powers which were approved by Parliament and commenced in July 2012

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Section 1 Business Review

Our Structure

In 2011/12 the Government and the FRC consulted stakeholders on a new structure and powers. The legislation required for change was approved by Parliament in June 2012 and we have been pleased to operate with a revised structure since 2 July 2012. For all the period of this report the former structure and powers were in place, and this section therefore represents the previous structure.

FRC Board

Provided strategic direction and oversight of the FRC's operating bodies and promoted high standards of corporate governance through the Corporate Governance Code and Stewardship Code through its Committee on Corporate Governance.

Accounting Standards Board (ASB)

The ASB was responsible for setting UK accounting standards and influencing the setting of international standards by the International Accounting Standards Board.

Auditing Practices Board (APB)

The APB was responsible for issuing standards and guidance for auditing, for the work of reporting accountants in connection with investor circulars and for auditors' integrity, objectivity and independence and for influencing the setting of international standards on auditing by the International Auditing and Assurance Standards Board.

Board for Actuarial Standards (BAS)

The BAS was responsible for setting technical actuarial standards.

Financial Reporting Review Panel (FRRP)

The Panel aimed to improve the quality of financial and corporate reporting. It reviewed the reports of publicly traded and private companies for compliance with the law and other reporting requirements and, where appropriate, sought corrective action.

Professional Oversight Board (POB)

The POB provided statutory oversight of the regulation of the auditing profession and independent oversight of the regulation of accountants and actuaries by their respective professional bodies.

Audit Inspection Unit (AIU) as part of POB

The AIU monitored the quality of the audits of economically significant entities.

Accountancy and Actuarial Discipline Board (AADB)

The AADB provided the UK's independent disciplinary body for accountants and actuaries. The AADB remains in being pending the formal implementation of the new arrangements with the accountancy and actuarial professions.

Our previous structure was complex and hampered the consideration of major issues by the FRC as a whole. Under the FRC's new structure and reformed powers, the FRC Board is responsible for the exercise of the statutory powers delegated by Government save for the power to apply to Court for an order requiring the directors of a company to amend its accounts for which the Conduct Committee is authorised by the Secretary of State.

The FRC's new structure from July 2012 is shown in the diagram below:

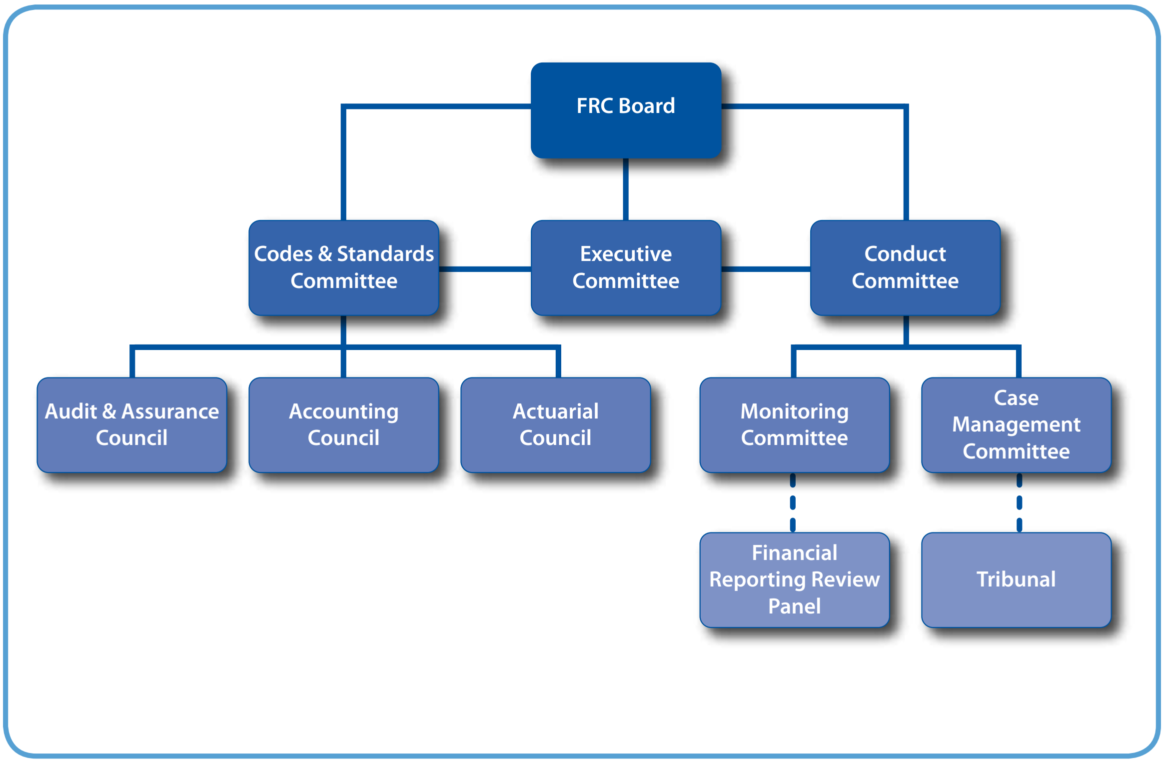
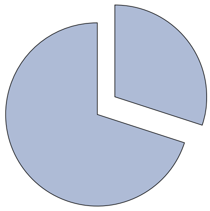
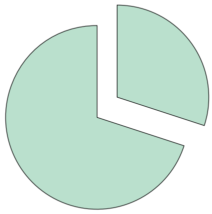
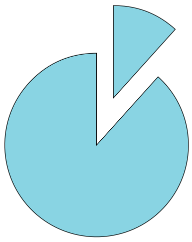
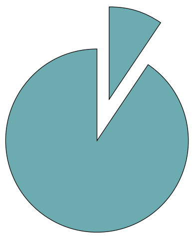
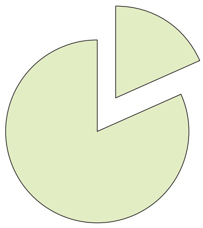


Chart showing breakdown of FRC expenditure and staff

	2011-12 Core operating cost £m	2011-12 Core operating cost %	2011-12 Staff No.
Corporate Governance, Accounting and Auditing	£6.3m	 29.7%	38
Corporate Management, Administration and Support	£6.7m	 31.6%	27
Audit Inspection	£2.4m	 11.3%	21
Actuarial Standards and Regulation	£2.1m	 9.9%	7
Accountancy Disciplinary Case Costs	£3.7m	 17.5%	9
Total	£21.2m	100%	102

Chairman's Report

The FRC's mission is to promote high quality corporate governance and reporting to foster investment. High standards in the way companies are run and information about their performance is prepared and audited contribute to the effective operation of the UK capital markets. Our job is to help define and promote those standards, with the help of the investor community, the corporate sector and the professions.

The UK benefits from a corporate environment which values integrity and clarity. It has strong accountancy, audit and actuarial professions who play an important role in ensuring that their members meet the necessary high standards.

During 2011/12 the FRC addressed three fundamental questions from an investor perspective:

- How can institutional investors and the boards of the companies in which they invest engage more effectively?
- How can corporate reporting become more meaningful and audit contribute more effectively to investor needs?
- How can we most effectively influence EU and international debate on the future regulation of corporate governance, reporting and auditing?

This Annual Report explains how we have approached each of these areas in pursuing the objectives we set out in our Plan for 2011/12.

During the year, we published our first assessment of the implementation of the UK Corporate Governance Code and Stewardship Code, proposed improvements in the way companies report on the key strategic risks facing their businesses, and supported Lord Sharman's Panel of Inquiry to consider going concern and liquidity risks.

Within Europe, we have continued to engage in the debates on corporate governance and auditing. The UK system of governance and reporting is underpinned by a principles-based regulatory regime. We need to make sure that the key features and advantages of that regime are well-understood by our European partners. This is not just a UK interest since our capital markets, the second largest in the world, are of critical value to the European Union as a whole.

We also took steps to make sure that we ourselves are fully fit for purpose.

We had seven operating bodies to fulfil our core mission, and there were overlaps and under-laps between them. This is no criticism of the excellent people involved: some of the issues were statutory, others derived from the way in which the FRC had evolved over time. We needed to share knowledge more easily across the organisation in order to operate more effectively, both in our conduct role in the UK and in the international debate on codes and standards. Our international task had become much more complex, requiring us to mobilise all our different areas of expertise for maximum effect. We also needed to clarify the dividing lines between ourselves and the professions, so that we can truly claim to be an independent regulator.

In October 2011, we published jointly with Government proposals to streamline our over-complicated structure, enhance our independence from those we regulate and equip us with a proportionate range of sanctions and procedures in our role as the UK's lead audit regulator. The response to the consultation was lively and challenging and we are grateful to all those who contributed. There was broad support for our objectives, and a lot of interest in the detail of the proposed new structure and regulatory procedures. In response we made a number of changes to these.

The Government announced in March 2012 that it wished to proceed with reforms, and the recent passage of legislation gives us the opportunity to make the whole of the FRC greater than the sum of its parts. The Board is now empowered to set both our strategic direction and standards. We have created two Board Committees, on Codes & Standards and Conduct, to co-ordinate the work of the different parts of the organisation, drive forward our international work and take a number of supervisory decisions. We have also created three expert Councils to advise on accounting, audit & assurance and actuarial issues. These Councils will have a crucial role in ensuring that the FRC remains an accountable and transparent standard-setter.

The reforms are not an end in themselves. We believe that they mark the beginning of a deeper and wider relationship between the FRC and its stakeholders. Our key challenge will be to work with investors, business, the professions and other regulators and other interests to identify and help address the challenges facing those responsible for corporate governance and reporting in the UK. The FRC's Business Plan for 2012/13, published in May, sets out the work that our new organisation will be doing this year. As well as the implementation of reform, including the identification of cost savings, we will focus on the improvement of our codes and standards; our international influence; and the strengthening of our conduct work, including the enhancement and overhaul of the disciplinary scheme.

My thanks throughout this go to the Board, the members of our newly established Codes & Standards and Conduct Committees, the members of our former Operating Bodies and our newly-established Councils, as well as the executive team. The FRC covers a broad field with a small cohort of expert staff, and therefore depends greatly on the contribution of those who advise us, both formally and informally, in the investor community, the corporate sector and the professions. Five members of our Board stood down during the year: Bill Knight, who served as an outstanding Chairman of the Financial Reporting Review Panel, Sir Michael Rake, Sir John Sunderland, Lindsay Tomlinson and Eric Anstee. I would like to thank them for their strong contribution to our work: offering insights from their own extensive experience and helping the FRC meet and learn from the challenges of the financial crisis. We also remember Dame Barbara Mills, who died in May 2011 after serving as the greatly respected Chairman of the Professional Oversight Board (POB).

Reform results in more changes, and during 2012/13 the Board is therefore saying goodbye to a number of members of our former Operating Bodies who contributed greatly to the FRC. I am delighted that John Kellas, the member of the Board who served as Interim Chairman of the Professional Oversight Board, has agreed to remain on the Conduct Committee. Our thanks also go to Timothy Walker, a member of the Board and Chairman of the Accountancy and Actuarial Discipline Board.

Richard Fleck, who chaired the Auditing Practices Board from 7 October 2008 to 31 March 2012, agreed to take on the Chairmanship of the Conduct Committee, and within that the Financial Reporting Review Panel, while Jim Sutcliffe, who chaired the Board for Actuarial Standards from 15 June 2009 to 2 July 2012, has become Chairman of the Codes and Standards Committee. Nick Land, who joined the Board on 1 April 2011, has become Chairman of the new Audit and Assurance Council, and Roger Marshall, formerly Chairman of the Accounting Standards Board, is now chairing the Accounting Council. My thanks go to all of them for taking on these new roles.

In March 2012, we welcomed Keith Skeoch to the Board. Since then Gay Huey Evans, Mark Armour and Olivia Dickson, the new Chairman of the Actuarial Council, have joined the Board as non-executive directors, and Melanie McLaren and Paul George have joined as executive directors. Their experience will further strengthen the Board as we go forward.

Baroness Hogg
Chairman

14 September 2012

Chief Executive's Report

Implementing our 2011/12 Plan

In 2011/12, we pursued three broad themes in our work

- **Stronger and better-informed engagement between institutional investors and company boards**
- **Corporate reporting and auditing that deliver greater value to investors and better serve the public interest**
- **A strong UK voice in the EU and international debate on the future regulation of corporate governance, reporting and auditing**

Stronger and better-informed engagement between institutional investors and company boards

Consulted on revisions to the UK Corporate Governance and Stewardship Codes

The UK has a long tradition of pioneering developments in corporate governance and a strong track record of driving up standards. The UK Corporate Governance Code celebrates its twentieth anniversary this year while the Stewardship Code for institutional investors, introduced in 2010, was the first of its kind in the world.

We were pleased by the findings of our analysis as to how the two Codes are being implemented. For example, 80 per cent of FTSE 350 boards put their directors up for annual re-election in the first year after this recommendation was added to the UK Corporate Governance Code and over 230 asset managers, asset owners and service providers have signed up to the Stewardship Code, including most of the major investors in UK equities. We believe this is a solid platform on which further progress should be made in the year ahead.

However, it is important to ensure the two Codes continue to encourage improvements in behaviour and governance practice and strengthen the dialogue between companies and investors to underpin confidence in the UK's capital markets. We want to build on the proven track record of the Corporate Governance Code and the promising initial response to the Stewardship Code by reinforcing, rather than fundamentally changing, the Codes and the "comply or explain" approach.

That is why we launched a consultation in April 2012 on proposed limited revisions to the two Codes. The proposed changes to the UK Corporate Governance Code included: requesting FTSE 350 companies to put the external audit contract out to tender at least every ten years and asking boards to explain why they consider their annual reporting is fair and balanced. The proposed changes to the Stewardship Code include clarifying the respective roles of asset owners and asset managers and asking investors to disclose their policy on stock lending. Subject to the outcome of the consultations, the proposed changes will apply to financial years beginning on or after 1 October 2012.

Boardroom Diversity

Board diversity and effectiveness are closely linked. We believe diversity widens the perspectives brought to bear on decision-making, avoids too great a similarity of attitude and helps companies understand their customers and workforces. There have been some promising signs in recent months that companies have begun to recognise and address this issue, but there is still a long way to go. Following consultation over the past year, from October 2012, when the updated UK Corporate Governance Code is published, boards will start to report on their board diversity policies, including any targets, and their progress towards those policies.

"Comply or Explain"

The "comply or explain" approach to corporate governance has given us flexibility and enabled us to raise the standards of UK corporate governance over the years in ways that regulation cannot always achieve. Earlier in the year, we responded to the European Commission's green paper on corporate governance, warning that replacing principles with a series of prescriptive regulations could stifle enterprise at a time when European economies are seeking to promote growth. We continue to believe that codes underpinned by law, as in the UK, and including a "comply or explain" approach, are the most effective means of driving up standards. We are encouraged by the debate the green paper has generated and hope it will lead to a consensus across Europe about the appropriate balance of rules, rights and codes needed to stimulate good governance and economic growth.

We took steps to promote a better understanding of explanations under the UK Corporate Governance Code's "comply or explain". We issued a report on discussions between companies and investors, and found a high level of compliance with the Code. A large majority of companies who do not comply with one or more provisions of the Code provide a full explanation of their reasons. We did, however, find that a minority did not. The report clearly sets out what practitioners expect and is intended to help those companies who do not provide full explanations, as well as helping to enhance explanations more generally.

Corporate reporting and auditing that deliver greater value to investors and better serve the public interest

Increasing Transparency in Corporate Reporting

We believe that companies should improve the way they report to investors on the key strategic risks facing their businesses, which is why we proposed that the 'Turnbull Guidance' on internal control should be updated. Our proposals on risk reporting form part of a wide-ranging set of measures aimed at improving the quality of company reporting, and increasing the information provided by audit committees and auditors about the work that they have done and the judgements or decisions they have made. This represents another step forward in applying the lessons we have learnt from the financial crisis to improve overall transparency of the reporting process and the accountability of all those involved in the financial reporting chain. As a result of our detailed consultations with companies, investors, auditors and other interested parties, we proposed that company narrative reports should focus primarily on the strategic and major operational risks faced by that company.

Launched the Financial Reporting Lab to bringing companies and investors together to promote improvements to the value of reports and accounts to investors

For some time now, investors and regulators have raised concerns about the increasing complexity and length of company reports. During the year, we launched the Financial Reporting Lab, which aims to bring together companies and investors to identify practical solutions to today's reporting needs. We hope that the Lab will take a large part of the cost and risk out of the process of innovation in financial reporting and reduce the need for regulatory interventions.

True and Fair View in UK GAAP and IFRS

The concept of true and fair has underpinned UK financial reporting for many years. Concerns have been raised about the relationship of true and fair to IFRS in some quarters, not least in evidence to the recent House of Lords Economic Affairs Committee inquiry into audit market concentration. In our paper we published for preparers and auditors we explained that true and fair remains fundamental to both UK financial reporting and IFRS. That paper explained the continuing primacy of the true and fair requirements and its relevance to preparers, those charged with governance and auditors.

Future of Financial Reporting Standards (FRS) in the UK and Republic of Ireland

We published financial reporting exposure drafts setting out revised proposals for the future of financial reporting in the UK and Republic of Ireland. Our objective in developing these revised proposals is to enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. Our proposals recommended replacing all current accounting standards with a single FRS; introducing a reduced disclosure framework; and retaining the financial reporting standard for smaller entities. We proposed that revised proposals will take effect from 1 January 2015.

On the basis of our reviews of 300 sets of accounts, reported on the quality of corporate reporting in the UK and identified areas for improvement

We published a report based on the findings of the Financial Reporting Review Panel's review of 300 reports and accounts in the year to 31 March 2011, and found the general quality of corporate reporting to be good. We continued to have concerns, however, about the quality of reports and accounts of some smaller listed and AIM quoted companies, where there is still room for improvement. We paid particular attention to narrative reporting. Although some poor practice was still seen, we were pleased to note widespread improvement in the description of principal risks and uncertainties in the business review included within directors' reports. The focus of our review activity in 2012/13 will be on commercial property, retail and support services.

Supported the Sharman Panel of Inquiry which was established to consider Going Concern and Liquidity Risks: Lessons for Companies and Auditors

By our invitation, the Sharman Panel of Inquiry was established to consider going concern and liquidity risks. During the year, the Panel made a number of recommendations, which aim to capture key lessons from the recent past and improve the management and disclosure of risks. This inquiry has revealed the vital role directors and auditors must play in bringing short term liquidity risks and longer term solvency risks to the attention of investors and stakeholders. We are now considering how best to implement Lord Sharman's final report.

Audit Committees

Investors' demand for transparency and corporate accountability in the capital markets has placed the function of the audit committee squarely in the spotlight. Open debate and mature questioning are fundamental to the effectiveness of audit committees. We have committed to achieving a better understanding of the views of, and provide more help to, audit committee chairs. Audit committees are a lynchpin of UK corporate governance, representing the best interests of investors in the heart of their companies. We are establishing a new informal group with a number of experienced audit committee chairs. We are also consulting on proposals to extend the remit of, and reporting by, the audit committee.

Professional scepticism in audit

The critical importance of professional scepticism to audit quality is widely recognised, but, as we have previously found, there is a lack of consensus as to its nature and its role in audit. We have published a briefing paper: Professional Scepticism, which builds on the discussion paper we published in 2010. This latest paper is designed to provoke new thinking and broaden the understanding of the need for, and meaning of, scepticism in the context of auditing. We are also taking steps to promote the conclusions drawn in this paper by: encouraging the auditing profession and audit firms to consider implications for their business models and culture; encouraging audit committee members and management to recognise and act on the important contribution that they can make to support the appropriate exercise of professional scepticism in considering key judgements involved in preparing financial statements and in responding to the challenges raised in the audit; and identifying ways in which the International Standards on Auditing (ISAs) might be further developed.

Report to the Secretary of State for Business, Innovation and Skills

We published the Professional Oversight Board's report to the Secretary of State for Business, Innovation and Skills for 2011/12. This was the Board's last report, as responsibility for the statutory oversight of audit regulation transferred to the FRC as of 2 July 2012, as part of the structural reforms. The Oversight Board continued to find much regulatory practice by the professional bodies of a high standard but with room to improve further their effectiveness in improving audit quality. For example, much audit monitoring work was effective in identifying weaknesses in audit firms but there was scope at some bodies for more effective follow up in response to persistent poor quality audit work.

Monitored the quality of 108 audits and completed 8 firm-wide inspections at major audit firms and reported on the continuing challenges faced by auditors and audit committees

We recently published our annual report on the 108 audit quality inspections undertaken in 2011/12 (our annual report for 2010/11 was published in July 2011). There was a further improvement in overall inspection results in 2011/12, with the proportion of audits assessed as requiring significant improvement now being less than 10% of the audits we reviewed. However, we also identified a number of areas for improvement. These included establishing central safeguards to ensure that efficiency initiatives in response to current pressures on audit fees and costs do not have an adverse effect on audit quality. In 2012/13 we will continue to give particular consideration to the exercise of appropriate professional scepticism by audit partners and staff in key areas of audit judgment. In particular, we will assess the extent to which initiatives taken by firms to improve performance are proving effective in changing behaviour in practice. We will also continue to place emphasis on the quality of auditing in the financial sector, in particular banks and building societies, liaising as appropriate with the Financial Services Authority.

Targeted questions for users of actuarial information

We published a series of questions which users of actuarial information may wish to address. The questions are targeted at particular user groups, such as pension scheme trustees, non-executive directors of life insurers and non-executive directors of general insurance. Initial feedback suggests that these questions have helped stimulate discussion and improve understanding of relevant issues for users, which we hope will promote the quality of actuarial work.

Actuarial standards for pension incentive exercises

We have continued to monitor the impact of our new technical actuarial standards (TASs) to ensure that they benefit both direct and indirect users of actuarial work. Having overseen the implementation of our Insurance TAS in October 2011 and updated the actuarial methods and assumptions to be used in annual pension statements, we developed proposals in early 2012 for bringing actuarial work on pension incentive offers within the scope of the TASs. This initiative, on which we consulted in June 2012, is one of a number of measures being coordinated with the Department for Work and Pensions including the development of an industry code of practice, which respond to concerns that members of defined benefit pension schemes may be overly influenced by financial incentives being offered, without appreciating the value of the benefits they are giving up.

A strong UK voice in the EU and international debate on the future regulation of corporate governance, reporting and auditing

The regulatory framework for corporate governance, corporate reporting and auditing in the UK is crucially influenced by decisions taken at EU and international level. We therefore put a considerable effort into influencing policy-makers and standard-setters in the EU and globally, and enhanced this aspect of our work during the year, particularly in partnership with other institutions. The FRC has, together with BIS, formed a consultative European Issues Steering Group to co-ordinate influencing activities and approaches across the range of UK stakeholders.We have also established a forum including fellow regulators, the profession and Industry bodies to coordinate UK activities on International actuarial standards.

The EU is engaged in a major debate about the appropriate response to the lessons of the financial crisis. The European Commission published proposals on the future of audit. Many of these proposals would serve investor and wider public interests, but some threatened the quality of audit and we have made our views on these very clear. We are particularly concerned about the unintended consequences of audit regulation being used to promote competition in the audit market. We were therefore pleased that the UK Competition Commission has decided to review the market in the UK. We have continued to play an active and on-going role in this debate, including with the European Parliament and other Member States.

During 2011/12, we derived great benefit from the European Issues Steering Group established with BIS to understand better the issues of our stakeholders on proposals for reform in Brussels. This ensured, for example, that the Board was well prepared when it visited Brussels in April 2012 to discuss the Commission's proposals with members of the European Parliament.

The FRC chairs the European Corporate Governance Codes Network, which brings together the bodies responsible for national corporate governance codes in EU Member States. We have encouraged this network to see the substantial benefits of our "comply or explain" system.

On the accounting side, the International Accounting Standards Board (IASB) and the European Financial Reporting Advisory Group (EFRAG) have continued to pursue their objective of globally-accepted accounting standards. We support the objective, provided quality is maintained and standards are principle-based. We have continued to influence the development of International Financial Reporting Standards (IFRS) and their adoption by the EU. We have also encouraged moves to enhance the governance and openness of the IASB, its Trustees and Monitoring Board. We have worked closely with other national accounting standard-setters.

We have also worked closely with the International Auditing and Assurance Standards Board in contributing to the development of international standards on auditing. The continued emergence of independent audit regulators in many countries around the world, together with the continuing dominance of the major global audit networks in the audit of public interest entities, has led to an increased focus on international co-operation amongst audit regulators. The UK has continued to take a lead in developing international co-operation amongst independent audit regulators through the International Forum of Independent Audit Regulators (IFIAR) and has been at the forefront of developing co-operation within the EU under the Statutory Audit Directive. The FRC has also continued to work directly with other independent audit regulators and through joint inspections, for example, with the US Public Company Accounting Oversight Board (PCAOB).

The FRC has similarly worked closely with the European Securities Market Authority (ESMA), the new European authority for securities regulations, including as an active member of the European Enforcement Co-ordination Sessions which operate under the auspices of ESMA.

The FRC has also sought to influence the development of EU proposals in relation to international actuarial standards, including those for Solvency II, developed by the European Insurance and Occupational Pensions Authority (EIOPA), both directly and through coordination with other UK regulators.

Monitoring the work of audit firms from outside the European Union

We believe it is important that investors understand the degree of assurance offered by any audit inspection regime and that they do not place more weight on it than is justified. It is challenging to find a proportionate way of monitoring the quality of audit work at firms widely scattered across the world that only have one or two relevant clients and operate in countries that present obstacles to effective inspection. Overall, we are doubtful that the regulatory work and costs required to apply the same inspection approach internationally, as that applied in the UK, would be justified by the benefits for investors, having regard to the value of shares traded in London of the companies being audited. We, therefore, proposed a range of inspection approaches, currently out for consultation, designed to meet the requirements of the Statutory Audit Directive for the monitoring of auditors of companies from outside the EU that have issued securities on the London Stock Exchange.

Consulted on New powers and a new structure for the FRC that reflect the Government's Agenda for Growth and command widespread support from those who rely on the quality of corporate governance and reporting in the UK

As the Chairman has explained in her Report, we have taken a number of steps to enhance our effectiveness and efficiency as a regulatory authority.

Engaging with our stakeholders

The FRC is a relatively small organisation. To be effective we need to work in active dialogue and partnership with decision-makers in companies and in the capital markets. That strengthens our understanding of the issues we address and enables us both to promote best practice and as far as possible identify and address risks to the quality of corporate governance, corporate reporting, auditing and actuarial practice.

The extensive consultation we undertook on our reform proposals gave us the opportunity to engage with a wide range of stakeholders. In addition to the discussions on reform, we held a number of events with leading investors. We also hosted workshops with our wider stakeholder community to understand what matters to them so that we are responsive to their needs.

We have used economic evidence to support our policy conclusions in response to proposals from Europe on Corporate Governance and will seek to continue to do this in future. Our reform proposals were based on a robust impact assessment of the costs and benefits of our proposals which was subject to independent scrutiny by the Cabinet Office Regulatory Policy Committee. In our standard-setting role, the FRC benefits from the generic issues identified through our monitoring and supervisory work.

Developing our People

We have as part of the reforms taken steps to recruit new members of the FRC's senior team to provide the FRC Board and its Committees with high quality support as part of our new structure,

We have continued to invest heavily in the development of our people. We have run staff workshops to engage our people in our new vision and our culture and values going forward. As a result various cross-FRC groups are now meeting regularly to enable staff to continue sharing knowledge and generating ideas to make us more effective. In response to feedback from the 2011 staff survey we have now implemented a new pay structure and performance management process. The new process is more transparent and makes a clearer link between performance and subsequent reward and reinforces our new culture and values.

Our finances

We have managed our resources carefully during 2011/12 and ensured that we fulfilled our regulatory role effectively within the budget on which we consulted last year, while avoiding any increase in the average levy charged to listed companies. We have taken action during the year to ensure that we communicate the importance of our work to those who provide our funding and to address, in particular, the risks associated with our disciplinary schemes.

Conclusion

A key objective for us in implementing the reforms to our structure and powers is to maintain the quality of our Board and its supporting Committees and Councils and the calibre of our staff, and to continue to be accountable for the way in which we operate. I should particularly like to thank the Board for their leadership of our reform programme during the year. This added significantly to the demands on Board members. I should also like to express my gratitude to and appreciation of the efforts staff made in a time of change: both in terms of ensuring our normal business was delivered effectively and in contributing individually to the design and testing of the proposals for reform.

Stephen Haddrill
Chief Executive Officer

14 September 2012

Financial Review

This financial review is based on the figures contained in our internal management accounting framework which is used by the senior management team to monitor and manage our resources effectively. A reconciliation between the figures used in this financial review and those included in the statutory accounts is provided in this section.

Our total expenditure is managed under main three headings:

- Core operating costs
- Audit Inspection costs
- Disciplinary case costs

Core operating costs represent the cost of our key regulatory functions plus corporate costs and central overheads. These are funded through the levy system plus contributions from the accountancy and actuarial professions and from Government.

Audit inspection costs are funded directly by the accountancy professional bodies. Disciplinary case costs are funded by the accountancy professional bodies for accountancy cases and by the FRC for actuarial cases.

For the year to 31st March 2012 total expenditure was £21.2m with the following breakdown:

Total Expenditure £m	**Actual 2011/12**	**Budget 2011/12**	**Actual 2010/11**
Core operating costs	15.0	14.7	14.6
Audit Inspection costs	2.4	2.8	2.4
Accountancy and actuarial disciplinary case costs	3.8	4.8	2.8
Total	**21.2**	**22.3**	**19.8**

Total expenditure in 2011/12 was £1.1m lower than budget with savings made on audit inspection and disciplinary case costs. In the case of audit inspection, the reduced expenditure related to staffing but we also generated higher than expected recoveries from third party work.

Core operating costs were £0.3m higher than budget, including an overspend of £0.2m on the cost of FRC reform. This was driven by higher than expected expenditure on recruitment of both board members and staff and on legal fees. Most other cost lines were on or close to budget for the year.

Against the prior year, total expenditure increased by £1.4m (7%) with the majority of this (£1m) being related to accountancy disciplinary case costs. Core operating costs were £0.4m higher despite a reduction in staff costs. The main areas of growth were in recruitment and website costs, whilst reform-related expenditure was new in the 2011/12 financial year.

The table below analyses total expenditure by cost line

Total Expenditure £m	Actual 2011/12	Budget 2011/12	Actual 2010/11
Fees of directors and committee members	1.3	1.6	1.3
Staff costs	9.6	9.5	10.1
Recruitment	0.4	0.2	0.1
Accommodation	1.1	1.1	1.1
IT & website	0.8	0.8	0.6
Legal and professional fees	0.3	0.4	0.4
FRC reform	0.7	0.5	-
All other costs	1.6	1.3	1.6
Audit Inspection costs	2.4	2.8	2.4
Accountancy and actuarial disciplinary case costs	3.8	4.8	2.8
Less sundry income	-0.8	-0.7	-0.6
Total	**21.2**	**22.3**	**19.8**

The internal management control system includes individual cost centres for each operating unit. Budgets are set for each unit and monthly reports produced setting out actual expenditure against budget.

The analysis of core operating costs relating to the former FRC structure is set out in the table below. All central overheads such as rent and rates, IT and reform costs are allocated to the corporate cost centre and are not recharged to other units.

£m	Actual 2011/12	Budget 2011/12	Actual 2010/11
Accounting Standards Board	1.8	1.8	2.0
Auditing Practices Board	0.8	0.8	0.8
Board for Actuarial Standards	2.1	2.2	2.5
Corporate Governance	0.4	0.4	0.4
Financial Reporting Review Panel	1.7	1.8	1.8
Professional Oversight Board	0.9	0.9	0.9
Accountancy and Actuarial Discipline Board	1.3	1.4	1.2
Corporate	6.0	5.4	5.0
Total	**15.0**	**14.7**	**14.6**

The reconciliation of net expenditure in the statutory accounts to our management accounts is set out below:

£m	Actual 2011/12	Actual 2010/11
Net operating expenditure per statutory accounts	22.6	20.8
Add purchase of property, plant, equipment and software	0.2	0.4
Less depreciation	-0.3	-0.3
Less expenditure recovered from sale of publications and other income streams	-1.3	-1.1
Total expenditure per financial review	**21.2**	**19.8**

Funding

The funding requirements for each of the FRCs activities are set out each year in the Draft Plan & Budget and levy payers are invited to comment on the rates at which levies will be collected in order to fund our operating costs. The amounts to be collected from Government and the professional bodies are agreed at the start of the year whilst the amounts to be collected for audit inspection and accountancy disciplinary cases are set to match the level of actual expenditure incurred.

Adhoc income streams from publications and professional services are treated as cost recovery in this financial review and are not shown as income. A reconciliation between the figures used in this financial review and those included in the statutory accounts is provided at the end of this section.

During the year 2011/12 the FRC received total funding of £21.6m which was broadly in line with estimated receipts. The breakdown is set out in the table below:

£m	Actual 2011/12	Budget 2011/12	Actual 2010/11
Core Operating Costs			
Publicly traded companies	4.8	4.4	4.9
Large private entities	2.1	1.6	2.1
Public sector organisations	0.5	0.4	0.5
Insurance funds	1.3	1.3	1.4
Pension Funds	1.3	1.3	1.3
Accountancy Professional bodies	4.7	4.7	4.7
Actuarial profession	0.3	0.3	0.3
Government	0.5	0.5	1.2
Audit Inspection Costs			
Accountancy Professional bodies	2.4	2.8	2.4
Accountancy Discipline Case Costs			
Accountancy Professional bodies	3.7	4.4	2.4
Total	**21.6**	**21.7**	**21.2**

Whilst the total amount received was close to estimates, there were some gains and shortfalls on individual lines.

Collection of levies from publicly traded companies and large private entities exceeded estimates by £0.4m and £0.5m respectively. This was achieved by a higher collection rate, increasing the number of organisations making payment, rather than by an increase in the amounts charged to individual companies.

The amounts received in respect of both audit inspection and accountancy disciplinary cases were lower than the estimates, reflecting the lower expenditure in these areas.

The table below sets out the reconciliation between the income figures used in this financial review and those included in the statutory accounts.

Reconciliation of statutory accounts to financial review

£m	Actual 2011/12	Actual 2010/11
Revenue per statutory accounts	22.9	22.3
Less sale of publications and other income streams shown as cost recoveries	-1.3	-1.1
Total revenue per financial review	**21.6**	**21.2**

Reserves

The FRC is liable to pay tax on all interest earned on its investments. Any surplus funds after the payment of tax are transferred to reserves.

Total reserves are made up of four different funds split between general reserves and case fund reserves. The breakdown is set out in the table below.

During the year to 31st March 2012 the FRC generated a net increase in reserves of £0.3m, represented by a reduction in general reserve of £0.3m and an increase in actuarial case reserves of £0.6m.

The increase in the actuarial case fund has been driven by an expectation of increased actuarial investigations.

The movement in reserves is summarised below.

£m	Balance at 31st March 2011	Change in Year	Balance at 31st March 2012
General reserves			
Accountancy, audit, corporate governance	3.3	-0.6	2.7
Actuarial	0.1	0.3	0.4
Sub total	**3.4**	**-0.3**	**3.1**
Case funds			
FRRP	2.0	0.0	2.0
Actuarial Discipline	1.4	0.6	2.0
Sub total	**3.4**	**0.6**	**4.0**
Total	**6.8**	**0.3**	**7.1**

Principal Risks and Uncertainties

The Board is responsible for risk management within the FRC and for ensuring an appropriate internal control environment.

Risk management is integral to the FRC's business planning and reporting systems and forms part of day-to-day management practice. It is led from the FRC Board and embedded in the working routines and activities of the organisation.

How we manage risk

- We identify risks in relation to our regulatory functions — developments in the markets that are relevant to our responsibilities, the codes and standards we issue and our conduct activities — and risks to our operational effectiveness.

- We consider both the likelihood of a risk materialising and the impact of the risk should it materialise: exploring the potential impact of and response to major risks through scenario planning.

- We identify mitigating actions to reduce the likelihood of risks materialising; and, where appropriate, develop contingency plans to manage the impact of a risk should it materialise.

Based on this approach, the FRC Board has identified the following principal risks and uncertainties.

Risk description	Mitigating action
The FRC's credibility and effectiveness in its regulatory role is compromised by adverse developments in the capital markets, economic turbulence or a major corporate failure.	The FRC makes clear the scope and purpose of its regulatory role, is alert to developments in the markets, and provides thought leadership where appropriate on issues which impact on its responsibilities. The FRC targets its monitoring work and enforcement activities on the basis of its assessment of current and emerging risks. It develops contingency plans to guide its response to economic disruption or significant developments in the capital markets relevant to its responsibilities.
The high level of concentration in the audit market may result in significant disruption in the event of one or more of the major audit firms leaving the market.	The FRC will continue to work with the Competition Commission to better understand the effects of greater concentration in the audit market and promote an effective response to the adverse consequences of a major audit firm withdrawing from the UK market.
The principles-based framework for the regulation of corporate governance and reporting promoted by FRC, is compromised by 'prescriptive' or overlapping regulatory requirements imposed by other authorities, including the the EU.	The FRC works closely with Government, other UK regulatory authorities and stakeholders. The FRC maintains effective relationships with EU and other national authorities and international standard-setters. Building on its thought-leadership and technical expertise, the FRC focuses its influencing work on the major issues that impact on the quality of the regulatory environment in the UK. These include EU proposals in relation to corporate governance and audit, and the future development of IFRS.

Risk description	Mitigating action
The guidance, standards and governance codes that the FRC issues do not contribute to the desired outcomes, or impose disproportionate burden on those that are subject to FRC regulation.	The FRC targets its code and standard-setting activities on the basis of its views on the major risks to the quality of corporate governance and reporting in the UK. The FRC is committed to the principles of good regulation, consulting on its policies, seeking alternatives to regulation where appropriate, and assessing the impact of its regulatory activities to ensure that they are proportionate. Examples include the FRC's work to promote effective stewardship and focus narrative reporting on principal risks.
Perceived shortcomings in the quality and value of audit undermine its effectiveness in supporting high standards of corporate reporting.	The FRC has promoted a wide-ranging debate on the quality and usefulness of audit and seeks to actively promote the quality of audit through targeted activities, such as the Audit Quality Framework and Auditor Scepticism projects. The FRC will give appropriate publicity to the outcome of its audit inspections and to any actions taken within its reformed sanctioning and disciplinary arrangements to address poor quality audit.
Decisions made by the FRC are subject to judicial review or a legal challenge in a way that undermines its credibility in promoting high standards of behaviour by those subject to its regulatory arrangements.	The FRC takes regulatory decisions within the statutory powers delegated by Parliament, its published procedures and the principles of natural justice. It ensures appropriate publicity for its decisions. It will engage stakeholders in developing the scope, processes and targeting of its conduct functions following the FRC reforms and carefully assess the opportunities to promote positive outcomes and minimise the risks associated with its sanctioning and disciplinary arrangements.
The FRC may be faced with a claim for damages in respect of its activities and/or a major claim for costs under the disciplinary schemes.	The FRC carefully monitors the risks associated with disciplinary cases, and has increased the level of its reserves.
The FRC fails to recruit and retain high calibre people to its Board, Committees and executive to match the range, complexity and significance of the issues it addresses.	To support its new structure and powers, the FRC has successfully retained and where necessary recruited senior and experienced Board and Committee members, strengthened its senior executive team, and invested in its staff to promote a strong and effective regulatory culture across the organisation.
The FRC fails to secure adequate funding to ensure its operational effectiveness.	The FRC consults annually on its budget and levies. It operates its funding arrangements on a non-statutory basis but would seek statutory backing for its levies if the current arrangements prove ineffective.

Section 2 Governance

Directors' Report

The Directors have pleasure in presenting their report and financial statements for the year ended 31 March 2012.

Incorporated in England & Wales, the Financial Reporting Council Limited is a not-for-profit organisation, with its primary operations based at:

Aldwych House,
71-91 Aldwych,
London
WC2B 4HN

Principal Activity

The aim of the FRC is to promote high quality corporate governance and reporting to foster investment. The functions we carry out in pursuit of this aim in 2011/12 were exercised by the Board and by our Operating Bodies (the Accounting Standards Board, the Auditing Practices Board, the Board for Actuarial Standards, the Professional Oversight Board, the Financial Reporting Review Panel and the Accountancy and Actuarial Discipline Board). The Operating Bodies and the Board were supported by the FRC's staff (the "Executive").

Directors of the FRC

		Date appointed to FRC Board	Date appointment ended
Baroness Hogg	Chair	1 November 2007	
Glen Moreno	Deputy Chair	18 November 2010	
Stephen Haddrill	Chief Executive	16 November 2009	
Eric Anstee	Non executive Director	1 November 2007	31 May 2011
Mark Armour	Non executive Director	2 July 2012	
Peter Chambers	Non executive Director	1 November 2007	
Elizabeth Corley	Non executive Director	1 April 2011	
Olivia Dickson	Non executive Director	2 July 2012	
Gay Huey Evans	Non executive Director	1 April 2012	
Paul George	Executive Director, Conduct	2 July 2012	
Richard Fleck	Chair, APB	7 October 2008	
John Kellas	Interim Chair, POB	8 June 2011	2 July 2012
Bill Knight	Chair, FRRP	3 February 2008	31 March 2012
Nick Land	Non executive Director	1 April 2011	
Rudy Markham	Non executive Director	1 November 2007	2 July 2012
Roger Marshall	Interim Chair, ASB	1 November 2010	
Melanie McLaren	Executive Director, Codes and Standards	2 July 2012	
Dame Barbara Mills	Chair, POB	1 October 2008	28 May 2011
Sir Michael Rake	Non executive Director	1 November 2007	31 December 2011
Sir Steve Robson	Non executive Director	1 November 2007	
Keith Skeoch	Non executive Director	1 March 2012	
Sir John Sunderland	Non executive Director	1 June 2004	31 May 2011
Jim Sutcliffe	Chair, BAS	15 June 2009	
Lindsay Tomlinson	Non executive Director	1 November 2007	31 October 2011
Timothy Walker	Chair, AADB	27 May 2008	2 July 2012

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.

Board Meetings

Attendance at Board meetings during the year is shown below, with the attendance shown as a proportion of the numbers of meetings individual Directors were eligible to attend:

Baroness Hogg	7/7
Glen Moreno	7/7
Stephen Haddrill	7/7
Eric Anstee	2/2
Peter Chambers	7/7
Elizabeth Corley	7/7
Richard Fleck	7/7
John Kellas	4/5
Bill Knight	6/7
Nick Land	7/7
Rudy Markham	6/7
Roger Marshall	7/7
Dame Barbara Mills	2/2
Sir Michael Rake	5/5
Sir Steve Robson	6/7
Keith Skeoch	1/1
Sir John Sunderland	2/2
Jim Sutcliffe	5/7
Lindsay Tomlinson	3/4
Timothy Walker	7/7

During the year the Board conducted an evaluation of its effectiveness. The evaluation focused not only on past performance but also on the future: in particular, the enhanced role of the Board and its Conduct and Codes & Standards Committees in the proposed reformed FRC structure as set out in the joint consultation with BIS. The conclusion of the evaluation was that there were gaps in the skills and expertise around the Board table which should be, and have been filled by recruitment as some members of the Board stood down. It was also concluded that, following any reforms, it would be appropriate to appoint an independent assessor to ensure that a fair and good process is followed in relation to all Board appointments. Sir John Sunderland conducted an evaluation of the Chairman's performance and gave feedback to the Chairman and reported to the Board. The evaluations also included a consideration of the continued appointments of each of the Directors.

Directors' Emoluments

The remuneration of Directors, including the Chair and Deputy Chair, is determined and reviewed by the Board. The total remuneration and benefits received, including (for the Chief Executive) pension contributions, are shown in the following table, which has been subject to audit (see also note 4 to the Financial Statements).

	2011/12	2010/11
Baroness Hogg	120,000	112,500
Sir Christopher Hogg (to 30 Apr 2010)	0	12,500
Glen Moreno	30,000	11,154
Stephen Haddrill	403,504[1]	399,966[1]
Paul Boyle (to 15 Nov 2009)	0[2]	40,538[2]
Eric Anstee (to 31 May 2011)	3,333	20,000
Peter Chambers	20,000	20,000
Elizabeth Corley	20,000	0
Richard Fleck	70,000	70,000
John Kellas (from 8 June 2011)	60,406	0
Bill Knight	70,000	70,000
Ian Mackintosh (to 31 October 2010)	0	320,833
Nick Land	20,000	0
Rudy Markham	20,000	20,000
Roger Marshall	87,500	36,458
Dame Barbara Mills (to 28 May 2011)	11,667	70,000
Sir Michael Rake (to 31 December 2011)	15,000	20,000
Sir Steve Robson	20,000	20,000
Keith Skeoch (from 1 March 2012)	1,667	0
Sir John Sunderland (to 31 May 2011)	3,333	20,000
Jim Sutcliffe	60,000	60,000
Lindsay Tomlinson (to 31 October 2011)	0[3]	0[3]
Timothy Walker	60,000	60,000
Total	**1,096,410**	**1,383,949**

If the Directors were appointed during the year the amounts payable are for the period from the date of their appointment. The amounts paid to Richard Fleck, Bill Knight, Roger Marshall, Dame Barbara Mills, John Kellas, Jim Sutcliffe and Timothy Walker include the remuneration payable in respect of their roles as Chairs of Operating Bodies.

[1] The only Director during this period who was entitled to receive pension benefit was the Chief Executive, in respect of whom contributions were paid to a personal pension arrangement (see note 4).

[2] Amount paid includes remuneration following resignation from the Board and during contractual notice period which ended on 15 May 2010.

[3] From 1 April 2010 Lindsay Tomlinson waived 100% of his remuneration.

Governance

Directors' insurance and indemnities

The Company 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 Company or its Directors or Officers.

Committees of the Board during the reporting period

Committee on Corporate Governance

The Committee on Corporate Governance assisted the Board in fulfilling its responsibility for promoting confidence in corporate governance by monitoring the operation of the UK Corporate Governance Code by listed companies and shareholders, and by keeping under review developments in corporate governance generally.

The Committee on Corporate Governance met four times during the year. Attendance was as shown below:

Glen Moreno (Chair from 1 June 2011)	4/4
Sir John Sunderland (Chair to 31 May 2011)	N/A[1]
Peter Chambers	4/4
Elizabeth Corley	2/2
Stephen Haddrill	3/4
Baroness Hogg	4/4
Rudy Markham	3/4
Sir Steve Robson	4/4
Lindsay Tomlinson	2/2

[1] (the Committee did not meet during the period)

During the year the Committee oversaw the introduction and implementation of the revised UK Corporate Governance Code and the new UK Stewardship Code for institutional investors, as well as revised guidance on audit committees and board effectiveness.

The Committee also considered the FRC's responses to the Government's discussion paper, 'A Long-Term Focus for Corporate Britain', and the European Commission's consultation on the corporate governance of financial institutions.

Nominations Committee

The Nominations Committee was responsible for leading the selection process and making recommendations to the Board for Directors of the FRC (except for the Chair and the Deputy Chair who are appointed by the Secretary of State). The Committee was also responsible for overseeing the selection process for members of the Operating Bodies and of the FRC's senior management and for appointing and reappointing members of the Operating Bodies.

The Nominations Committee met four times during the year. Attendance was as shown below:

Baroness Hogg (Chair)	4/4
Glen Moreno	4/4
Eric Anstee	1/1
Peter Chambers	4/4
Elizabeth Corley	3/4
Stephen Haddrill	4/4
Nick Land	4/4
Rudy Markham	3/4
Sir Michael Rake	2/2
Sir Steve Robson	4/4
Keith Skeoch	1/1
Sir John Sunderland	1/1
Lindsay Tomlinson	1/1

During the year the Committee initiated and led the selection process for the appointment of three non-executive Directors from 1 March, 1 April and 2 July 2012 and for the appointment of two executive Directors from 2 July 2012 and made recommendations to the Board. An external search consultancy and open advertising were used and candidates were shortlisted with regard to the outcome of the Board evaluation and the necessary skills and experience around the Board table and to the benefits of diversity on the Board, including gender.

The Committee also considered succession arrangements in relation to the Chair of the POB and made recommendations to the Board on the appointment of the Interim Chair. It made recommendations to the Board in relation to the appointments of the Chairs of the APB and FRRP and the Chairs and members of the new Codes & Standards Committee and Conduct Committee as well as the Chairs of the Accounting, Audit & Assurance and Actuarial Councils established in July 2012. It monitored and participated in the selection process for the recruitment of various members to several of the FRC's Operating Bodies and approved 42 appointments and reappointments to these Bodies and the appointments of the Executive Counsel to the AADB, the acting Technical Director to the BAS and the Director of Accounting to the ASB.

Remuneration Committee

The Remuneration Committee was responsible for determining and reviewing the remuneration policy for the FRC. It set the remuneration of the Chief Executive and the Chairs and members of the Operating Bodies, and reviewed and/or approved the remuneration recommendations of the Chief Executive for the senior management team.

The Remuneration Committee met four times during the year. Attendance was as shown below:

Peter Chambers (Chair from 1 June 2011)	4/4
Sir John Sunderland (Chair to 31 May 2011)	N/A[1]
Baroness Hogg	4/4
Nick Land	4/4

[1] (the Committee did not meet during the period)

During the year the Committee oversaw a review of the FRC's reward policy and approved proposals aimed at ensuring its objectivity and transparency with a strong link to performance. The Committee approved the budgetary limits and for the salary review and bonus pool for FRC Staff, approved and reviewed the remuneration of the Chief Executive and approved his salary and bonus recommendations in relation to the Senior Management Team. The Committee reviewed the remuneration of Board members and considered the remuneration of all the anticipated committee, sub-committee and council members following the anticipated reforms and made recommendations to the Board. It also made recommendations to the Board in relation to the remuneration of Conduct and Codes & Standard Committee Chairs and members to apply from 1 April 2012. The Committee considered the remuneration of the Interim Chair of the POB and made recommendations to the Board.

Audit Committee

The Audit Committee assisted the Board in fulfilling its responsibility for monitoring the quality and integrity of the accounting, auditing and reporting practices of the FRC. The Committee's purpose was to scrutinise the accounting and financial reporting processes of the FRC and the audits of the FRC's financial statements.

The Committee met three times during the year. Attendance was as shown below:

Rudy Markham (Chair)	3/3
Eric Anstee	1/1
Nick Land	2/2
Sir Steve Robson	1/1
Lindsay Tomlinson	1/2

In order to ensure good corporate governance and that the services of the external auditor remained of the highest quality, the Audit Committee recommended that the provision of external audit services be put to tender in 2011. The Audit Committee undertook an open and competitive tendering process, involving three firms. Following this process, the Audit Committee recommended to the Board the appointment PKF (UK) LLP as the FRC's auditor. PKF (UK) LLP was formally appointed in October 2011.

The Committee reviewed the Annual Plan and Budget and recommended the funding requirements for 2012/13 to the Board. The annual report was reviewed and the Committee considered the reporting from the auditor during the year.

The Committee also considered the effectiveness of service IT provision and the IT security policy.

The Committee monitored the level of non-audit work carried out by the auditor. During the period consultancy services valued at £12k were provided. The agreement for the provision of this service was in place prior to the appointment of PKF (UK) LLP as auditor and ended soon after their appointment.

The Committee continued to monitor major areas of risk including that arising from the prosecution of cases by the AADB, ensuring appropriate mitigating action had been taken.

Financial performance

Total operating expenditure was £22.7m (2010/11 £20.8m). The FRC did not incur any investigation costs to be charged to the legal costs fund during the year (2010/11 £nil). The legal costs funds may be used only to meet legal, professional and other costs of the FRRP's investigations.

The FRC obtained funding for the year from the following organisations:

- Accountancy professional bodies
- Publicly traded companies
- Large private entities
- Insurance companies
- Pension schemes
- Department for Business Innovation and Skills
- Public sector organisations
- Actuarial Profession

Revenue received towards operating costs and the purchase of property, plant, equipment and software for accounting, auditing and corporate governance amounted to £12.6m (2010/11 £13.6m), see note 8. In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) £0.2m (2010/11 £0.4m) of the income relating to property, plant, equipment and software, was deferred and £0.3m of deferred income has been released in the year (2010/11 £0.3m).

Audit inspection costs and accounting, auditing and discipline case costs were funded entirely by the relevant CCAB bodies.

Revenue received towards operating costs and the purchase of property, plant and equipment for actuarial standards and regulation amounted to £1.9m (2010/11 £2.1m), see note 8.

£0.9m (2010/11 £0.8m) was received during the year towards actuarial case costs. Actuarial case costs expenditure of £0.1m (2010/11 £0.4m) was incurred during the year, leaving £0.6m (2010/11 £0.4m) to be transferred to the actuarial case costs fund and £0.2m to the general reserve. The actuarial case costs fund has increased to £2.0m (2010/11 £1.4m).

There was a deficit for the year on general activities of £0.6m (2010/11 £1.2m surplus). The accumulated general surplus as at 31 March 2012 stands at £3.1m (2010/11 £3.4m).

The FRC's policy and practice is to make payments to creditors in line with agreed payment terms. Suppliers are paid on a fortnightly basis. No contributions were made for political or charitable purposes.

The FRC is a company limited by guarantee and is not listed; there are no directors' shareholdings and there has been no acquisition by the FRC of its own shares.

Going concern

The FRC's activities, together with the business and financial review are set out above. The financial position of the FRC, its cash flows and liquidity position are shown later in the financial statements. In addition, note 10 to the financial statements includes a description of the FRC's financial risk management approach.

The FRC prepares an annual budget supported by regular revised forecasts of both income and expenditure and these are reviewed by the Board. Cash flow forecasts are prepared on a monthly basis.

The directors have a reasonable expectation that the FRC has adequate financial resources and reserves to continue to operate for the foreseeable future. The directors believe that the FRC is well placed to manage its liquidity risks successfully despite the current uncertain economic outlook. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

People

The FRC is committed to promoting equality and diversity in all areas of our work as an employer and a regulator, irrespective of gender, disability, ethnicity, sexual-orientation, nationality, age or religion. The FRC is an inclusive employer and values diversity amongst employees. These commitments extend to recruitment, selection and appointments, training, flexible working arrangements and performance appraisal. The FRC's policies outline our approach to equality, diversity and inclusion, flexible working and health & safety. The FRC's commitment to promoting equality and diversity extends to the membership of the Board and the committees and councils of the Board. The FRC regard it as a fundamental right for everyone to be able to work in an environment which is free of harassment and discrimination.

Feedback from staff on FRC affairs and performance is encouraged through an annual staff survey and regular team and staff meetings held by their senior manager and the Chief Executive respectively. Staff participate in HR policy development.

Impact on the environment

We are conscious of the impact of our work on the environment and the increasing expectation that organisations should manage this impact. We take steps to reduce energy, water and office waste, and we will be further increasing the amount of office waste that is recycled. We also aim to maintain procurement policies which favour sustainable products and services in order to reduce our environmental impact.

Disclosure to auditor

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

The Directors consider that this annual report is fair and balanced in that it provides, in a form which is readily understandable, the information necessary for users to assess the financial performance, activities and prospects of the FRC.

BY ORDER OF THE BOARD

Anne McArthur
Company Secretary

14 September 2012

Section 3 Financial statements and notes

Statement of Directors' Responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the surplus or deficit of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of The Financial Reporting Council Limited

We have audited the financial statements of The Financial Reporting Council Limited for the year ended 31 March 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the parent company statement of financial position, the consolidated and parent company statement of changes in equity, the consolidated and parent company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion;

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's surplus for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Rosemary Clarke
(Senior statutory auditor)

for and on behalf of PKF (UK) LLP,
Statutory auditor

London, UK

14 September 2012

THE FINANCIAL REPORTING COUNCIL LIMITED

Consolidated Statement of Comprehensive Income for the year ended 31 March 2012

		2011/12			2010/11		
	Notes	**Accounting auditing & corporate governance £'000**	**Actuarial standards and regulation £'000**	**Total £'000**	Accounting auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000
OPERATING EXPENDITURE	3	**(20,664)**	**(2,045)**	**(22,709)**	(18,265)	(2,532)	(20,797)
Interest income	7	**84**	**20**	**104**	38	2	40
NET OPERATING EXPENDITURE		**(20,580)**	**(2,025)**	**(22,605)**	(18,227)	(2,530)	(20,757)
REVENUE	8	**20,009**	**2,852**	**22,861**	19,386	2,955	22,341
(Deficit)/ Surplus before taxation		**(571)**	**827**	**256**	1,159	425	1,584
Taxation	9	**(21)**	**-**	**(21)**	(8)	-	(8)
(DEFICIT)/ SURPLUS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(592)**	**827**	**235**	1,151	425	1,576

The notes on pages 35-48 form part of these financial statements.

All operations are continuing.

Financial Statements & Notes

THE FINANCIAL REPORTING COUNCIL LIMITED REGISTERED NUMBER: 2486368

Consolidated Statement of Financial Position

	Notes	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	11	**203**	242	-
Property, plant and equipment	12	**568**	733	893
		771	975	893
CURRENT ASSETS				
Trade and other receivables	13	**2,555**	1,989	1,521
Investments	14	**2,000**	1,550	-
Cash and cash equivalents	15	**7,175**	6,842	6,590
		11,730	10,381	8,111
TOTAL ASSETS		**12,501**	11,356	9,004
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	16	**(4,531)**	(3,423)	(2,591)
Current tax liabilities	9	**(21)**	(8)	(7)
		(4,552)	(3,431)	(2,598)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,949**	7,925	6,406
NON-CURRENT LIABILITIES				
Trade and other payables	17	**(587)**	(822)	(903)
Long term provisions	18	**(294)**	(270)	(246)
		(881)	(1,092)	(1,149)
NET ASSETS		**7,068**	6,833	5,257
EQUITY				
RETAINED EARNINGS AND OTHER RESERVES				
Accounting, auditing & corporate governance		**4,715**	5,307	4,156
Actuarial standards & regulation		**2,353**	1,526	1,101
		7,068	6,833	5,257

Approved by the Board and authorised for issue on 14 September 2012 and signed on its behalf by:

Baroness Hogg

Chairman

The notes on pages 35-48 form part of these Financial Statements.

THE FINANCIAL REPORTING COUNCIL LIMITED
REGISTERED NUMBER: 2486368

Parent Company Statement of Financial Position

	Notes	**31 March 2012 £'000**	31 March 2011 £'000	1 April 2010 £'000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	11	**203**	242	-
Property, plant and equipment	12	**568**	733	893
		771	975	893
CURRENT ASSETS				
Trade and other receivables	13	**1,590**	1,223	1,301
Investments	14	**2,000**	1,550	-
Cash and cash equivalents	15	**7,175**	6,842	6,590
		10,765	9,615	7,891
TOTAL ASSETS		**11,536**	10,590	8,784
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	16	**(3,566)**	(2,657)	(2,371)
Current tax liabilities	9	**(21)**	(8)	(7)
		(3,587)	(2,665)	(2,378)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,949**	7,925	6,406
NON-CURRENT LIABILITIES				
Trade and other payables	17	**(587)**	(822)	(903)
Long term provisions	18	**(294)**	(270)	(246)
		(881)	(1,092)	(1,149)
NET ASSETS		**7,068**	6,833	5,257
EQUITY				
RETAINED EARNINGS AND OTHER RESERVES				
Accounting, auditing & corporate governance		**4,715**	5,307	4,156
Actuarial standards & regulation		**2,353**	1,526	1,101
		7,068	6,833	5,257

Approved by the Board and authorised for issue on 14 September 2012 and signed on its behalf by:

Baroness Hogg

Chairman

The notes on pages 35-48 form part of these Financial Statements.

THE FINANCIAL REPORTING COUNCIL LIMITED

Consolidated and Parent Company Statement of Changes in Equity for the year ended 31 March 2012

	Accounting, auditing and corporate governance		Actuarial standards and regulation		
	General £'000	FRRP Legal Costs Fund £'000	General £'000	Actuarial Case Costs Fund £'000	Total £'000
At 31 March 2010	2,156	2,000	86	1,015	5,257
Surplus and total comprehensive income for 2010/11	1,151	-	-	425	1,576
At 31 March 2011	3,307	2,000	86	1,440	6,833
(Deficit)/Surplus and total comprehensive income for 2011/12	(592)	-	267	560	235
At 31 March 2012	**2,715**	**2,000**	**353**	**2,000**	**7,068**

Consolidated and Parent Company Cash Flow Statement for the year ended 31 March 2012

	Notes	2011/12 £'000	2010/11 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	20	**651**	1,805
Corporation tax paid		**(8)**	(7)
Total cash inflow from operating activities		**643**	1,798
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment		**(60)**	(170)
Purchase of software		**(36)**	(242)
Contributions from funding groups towards property, plant, equipment and software		**156**	376
Investment in money market deposits		**(450)**	(1,550)
Interest received		**80**	40
Total cash outflow from investing activities		**(310)**	(1,546)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**333**	252
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	15	**6,842**	6,590
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	15	**7,175**	6,842

Cash and cash equivalents comprise cash at bank and other short-term highly liquid bank deposits with an original maturity of three months or less. Other short term deposits with an original maturity of over three months but less than one year are shown under Investment in money market.

There is no difference between the cashflow of the group and the parent company as all transactions are processed through the bank accounts of the FRC.

The notes on pages 35-48 form part of these financial statements.

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the FRC's financial statements.

a) Basis of Preparation

The FRC has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

These financial statements are prepared on an historical cost basis.

As at the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 7 (amendment)	Disclosures – Transfers of Financial Assets (effective 1 January 2013)
IFRS 9 (amendment)	Financial Instruments (effective 1 January 2015)
IFRS 10	Consolidated Financial Statements (effective 1 January 2013)
IFRS 11	Joint Arrangements (effective 1 January 2013)
IFRS 12	Disclosure of Interests in Other Entities (effective 1 January 2013)
IFRS 13	Fair Value Measurement (effective 1 January 2013)
IAS 1 (amendment)	Presentation of Items of Other Comprehensive Income (effective 1 July 2012)
IAS 19 (revision)	Employee Benefits (effective 1 January 2013)
IAS 27 (revision)	Separate Financial Statements (effective 1 January 2013)
IAS 28 (revision)	Investments in Associates and Joint Ventures (effective 1 January 2013)
IAS 32 (amendment)	Offsetting Financial assets and Financial liabilities (effective 1 January 2014)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)

The Directors expect that the adoption of these standards and interpretations in future accounting periods, where relevant, will not have a material impact on the FRC's results.

b) Presentation of Financial Statements

In order to reflect more fairly that the FRC's expenditure is met by contributing organisations, the Directors have presented the Consolidated Statement of Comprehensive Income to focus initially on the FRC's net operating expenditure and thereafter on the various contributions received from its funding groups. Further categories have been included to provide a fairer representation of the FRC's income and expenditure. Comparative amounts totalling £634,000 in 2011 and £361,000 in 2010 relating to Crown dependencies, audit inspections and publications have been reclassified from other payables to deferred income in the comparative period Parent Company Statement of Financial Position as the balances relate to income received in advance.

Trade and other payables of £766,000 have been offset against trade and other receivables in the comparative period Parent Company Statement of Financial Position to offset a group payable against a group receivable due from the same company. The corresponding change to the Parent Company Statement of Financial position as at 1 April 2010 was to offset a group payable of £220,000 against a group receivable.

The presentational and functional currency of the FRC is the British Pound Sterling.

c) Consolidation

The FRC has one subsidiary, The Accountancy and Actuarial Discipline Board Limited (AADB). The AADB has no surplus or deficit for the year and has no retained earnings or net assets. In previous years the transactions and balances of the AADB have been accounted for as transactions of the FRC. As those transactions and balances are material in 2011/12 consolidated financial statements have been prepared.

The comparative consolidated financial statements are identical to the company only financial statements of the FRC in previous years. The surplus/ deficit, retained earnings and net assets of the company have not changed. The effect on the comparative parent company Statement of Financial Position of the FRC is to eliminate AADB receivables and payables and replace them with a net intra group receivable. For further information, please see notes 13 and 16. The company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual parent company Statement of Comprehensive Income and related notes.

d) Revenue Recognition

The FRC has a variety of sources of revenue as described below:

1. Revenue in respect of levies is accounted for on a receipts basis as they are voluntary contributions. These are used to fund current operating activities and also to fund specific activities, such as:
   - A contribution towards the purchase of property, plant and equipment. This is accounted for as deferred income and is credited to the Statement of Comprehensive Income over the expected useful life of the relevant fixed assets on a basis consistent with the depreciation policy applied in respect of the related assets.
   - A contribution towards the funding of actuarial investigation cases.
2. Revenue is received from participants to fund specific activities, so that:
   - Revenue in respect of AIU inspection costs is recognised to match the costs incurred in each financial year.
   - Revenue in respect of AADB accountancy disciplinary case costs represent the reimbursement of costs incurred in each financial year.
   - Revenue in respect of FRRP legal costs is set at a level which meets the costs incurred in the preceding financial year.
3. Revenue in respect of publications and professional fee income is accounted for on an accruals basis.

e) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Office equipment includes cost of software that is an integral part of the asset function. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, over their expected useful lives, as follows:

Office equipment	3 Years	straight line basis
Fixtures, fittings & furniture	10 years	straight line basis
Leasehold improvements	shorter of lease term and useful life	straight line basis

If events or changes in circumstances indicate the carrying value may not be recoverable then the carrying values of property, plant and equipment are reviewed for impairment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income. An equal and opposite entry regarding the associated deferred income is also recognised in the Statement of Comprehensive Income.

f) Intangible assets

Costs associated with acquiring, developing, tailoring and implementation of identifiable and unique software products that will generate economic benefits beyond one year are recognised as intangible assets. Costs include any employee costs incurred in bringing the asset into use.

Capitalised software costs are amortised on a straight line basis over their estimated useful life considered to be three years from the time the software is brought into use. The amortisation charge and the associated deferred income are recognised in the Statement of Comprehensive Income.

g) Impairment

At each Statement of Financial Position date, the FRC reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell, and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

No impairment charge has been recognised during the year.

h) Leases

Leases of property, plant and equipment where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Any interest elements under a finance lease are charged to the Statement of Comprehensive Income over the lease term to produce a constant rate of charge on the balance of capital repayments outstanding.

All other leases are treated as operating leases. Total rentals payable under operating leases are charged to the Statement of Comprehensive Income over the term of the lease on a straight line basis. The benefits from lease incentives including rent free periods are spread over the lease term on a straight line basis.

i) Taxation

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

j) Collection of the UK share of the IASB funding requirement

The FRC raises the UK contribution to the cost of the International Accounting Standards Board (IASB) by issuing invoices and collecting monies on its behalf. The FRC pays over to the IASB the amount it requires up to the amount collected. Accordingly, these amounts are not accounted for within revenues and costs of the FRC. (See note 19).

k) Financial Instruments

Financial assets and financial liabilities are recognised on the FRC's Statement of Financial Position when it becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

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

Money market cash deposits

Money market cash deposits comprise bank deposits with an original maturity of more than three months but less than one year and these are disclosed within current investments.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Income when there is objective evidence that the asset is impaired.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade payables

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

l) Employee Benefits

Pension Costs

The FRC makes contributions to personal pension schemes. The amount charged to the Statement of Comprehensive Income in respect of these schemes is the total contributions payable in the year. Differences between the contributions payable and those paid are shown as accruals or prepayments in the Statement of Financial Position.

Holiday Pay

The FRC accrues for holiday pay to recognise the employee benefits to be paid in exchange for the holiday allowance which is permitted, but not taken, by the employees as at the year end.

m) Provisions and contingencies

Provisions are recognised when the following three conditions are met:

(i) The FRC has a present obligation (legal or constructive) as a result of a past event;

(ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) A reliable estimate can be made of the amount of the obligation.

The amount of the provision represents the best estimate of the expenditure required to settle the obligation at the end of the reporting period. Contingent liabilities, including liabilities that are not probable or which cannot be measured reliably are not recognised, but are disclosed unless the possibility of settlement is considered remote.

Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Dilapidations

Provision is made for the estimated costs of dilapidation repairs. Estimated costs of removing leasehold improvements are provided and capitalised, such expenditure being amortised over the term of the lease.

Case costs

The legal and professional costs of AADB and FRRP cases incurred in the period are included in the accounts on an accruals basis. Provision is made for the future costs of any disciplinary cases only where the costs are unavoidable and represent a present obligation under IAS 37 at the Statement of Financial Position date.

Fines

Fines receivable in respect of AADB Accountancy cases are due to the relevant participant body under the Accountancy Scheme and are not recognised in the accounts as the AADB receives the fines solely as collection agent.

Fines receivable in respect of AADB Actuarial cases are retained and included within revenue in the period in which the fines become due and payable.

2. Significant judgements and key sources of estimation uncertainty

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 the 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 ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates have been made in the following areas:

Provision for dilapidations

Provision for dilapidations is calculated by estimating costs of removing leasehold improvements and related repairs which may arise at the end of the lease. This estimation is carried out by an independent chartered surveyor. See note 18 for further details.

Litigation cost provision

Management has considered the likelihood of potential litigation costs and believes that a provision is not required.

3. Operational Expenditure

	Group 2011/12			Group 2010/11		
	Accounting auditing & corporate governance	**Actuarial standards and regulation**	**Total**	Accounting auditing and corporate governance	Actuarial standards and regulation	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Staff & related people costs (note 4)	**12,453**	**1,182**	**13,635**	12,548	1,350	13,898
Other operating charges (note 5)	**4,477**	**751**	**5,228**	3,317	786	4,103
AADB case costs	**3,734**	**112**	**3,846**	2,400	396	2,796
Total operational expenditure	**20,664**	**2,045**	**22,709**	18,265	2,532	20,797

Financial Statements & Notes

4. Staff and related people costs (including directors)

	Group 2011/12 £'000	Group 2010/11 £'000
Permanent staff:		
Salaries	**9,727**	9,975
Social security costs	**1,303**	1,221
Other pension costs	**911**	800
Total permanent staff costs	**11,941**	11,996
Other people related costs:		
Seconded staff and contractors	**239**	385
Fees to operating body and committee members	**1,235**	1,267
Other costs	**220**	250
Total staff and related people costs	**13,635**	13,898

The average number of persons employed in the financial year was 102 (2010/11: 102) in total. Of this the average number of persons so employed under: Accounting, auditing and corporate governance including Audit inspection and Accountancy disciplinary cases were 95 (2010/11: 93) and Actuarial standards and regulation was 7 (2010/11: 9).

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

Directors' emoluments

	Group 2011/12 £'000	Group 2010/11 £'000
Fees (included in staff costs)	**1,096**	1,384

The social security costs relating to the directors emoluments were £135k (2010/11 £159k).

The only Director entitled to receive a pension benefit in 2011/12 was the Chief Executive. The contributions paid to a personal pension arrangement by the company were £33,812 (2010/11 £17,792). Details of the emoluments of the directors are contained in the Directors' Report on page 23. An interest-free loan of £nil (2010/11 £3,313) was made to one Director (Ian Mackintosh) in regard to his health insurance. He left the FRC at the end of February 2011.

5. Other operating charges

	Group 2011/12 £'000	Group 2010/11 £'000
Other operating charges include:		
Amortisation (note 11)	**75**	-
Depreciation (note 12)	**285**	300
Operating leases		
- land and buildings	**452**	442
- office equipment	**8**	9

The auditor's remuneration is as follows:

	Group 2011/12 £'000	Group 2010/11 £'000
Fees payable to the FRC's auditors for the audit of the FRC's annual accounts	**35**	26
Total audit fees	**35**	26
Other services provided by auditors		
- Tax services	-	2
- Payroll services	-	5
- Audit assurance review	-	7
- Secondment	**12**	-
Total non-audit fees	**12**	14

During the year new external auditor, PKF (UK) LLP ("PKF") was appointed following a tender process with three companies including the previous auditor. A PKF employee was under secondment to the FRC prior to PKF being engaged and hence the related payment is shown under non-audit services. The secondment ended after PKF was formally appointed as auditor.

6. Costs fund

6.1 FRRP legal costs fund

Contributions have been received to enable the Financial Reporting Review Panel to take steps to ensure compliance with the accounting requirements of the Companies Act 2006, including applicable Standards, and to investigate departures from those standards and requirements. 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 BIS for the purposes of section 456 of the Companies Act 2006.

Since the costs of Review Panel investigations in a financial year cannot be forecast with sufficient certainty, funding contributions to make good expenditure on the Legal Costs Fund are sought in the financial year following the expenditure.

	Group and Company 2011/12 £'000	Group and Company 2010/11 £'000
The fund is represented by:		
Cash at bank and in hand	**2,000**	2,000

6.2 Actuarial case costs fund

The actuarial case fund is used to fund investigations into potential misconduct by actuaries and to fund any subsequent prosecution.

	Group and Company 2011/12 £'000	Group and Company 2010/11 £'000
The fund is represented by:		
Cash at bank and in hand	**2,000**	1,440

7. Interest income

Interest on the FRRP Legal Cost Fund and the Actuarial Case Cost Fund is used to offset core operating costs. For the FRRP interest should be used first to bring the fund back up to £2m if there has been any spend and then any excess is set against the core operating costs

	Group 2011/12 £'000	Group 2010/11 £'000
Bank interest – Accounting, auditing and corporate governance		
- General	**65**	26
- Case Fund	**19**	12
	84	38
Bank interest – Actuarial standards and regulation		
- General	**1**	-
- Case Fund	**19**	2
	20	2
	104	40

8. Revenue

Revenue analysed by category of cost is as follows:

	Group 2011/12			Group 2010/11		
	Accounting auditing & corporate governance £'000	**Actuarial standards and regulation £'000**	**Total £'000**	Accounting auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000
Core operating costs	**12,571**	**1,913**	**14,484**	13,569	2,134	15,703
AIU inspection costs	**2,370**	**-**	**2,370**	2,367	-	2,367
AADB case costs	**3,734**	**112**	**3,846**	2,400	396	2,796
Actuarial case cost fund	**-**	**827**	**827**	-	425	425
Income from publications	**645**	**-**	**645**	573	-	573
Professional fee income	**689**	**-**	**689**	477	-	477
	20,009	**2,852**	**22,861**	19,386	2,955	22,341

Revenue relating to core operating costs includes £342,000 (2010/11 £282,000) of deferred income released in accordance with note 1(d).

9. Taxation

	Group 2011/12 £'000	Group 2010/11 £'000
Corporation Tax at an effective rate of 20% (2010/11: 21%) on general interest received of £104,000 (2010/11: £40,000).	**21**	8

Tax is payable only on interest and analogous income.

10. Financial risk management

The FRC's operations expose it to some financial risks. The 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.

Fair value of financial instruments

The FRC's financial instruments in both years comprise of cash and cash equivalents, current investments, loans and receivables including short-term debtors and creditors that arise directly from its operations.

The principal purpose of these financial instruments is to generate revenue and capital appreciation for the FRC's operations. The FRC has no gearing or other financial liabilities apart from creditors. It is, and has been throughout the year under review, the FRC's policy that no trading in derivative financial instruments shall be undertaken.

In the Directors' opinion, the carrying value of the trade receivables, trade payables and cash and cash equivalents approximate to their fair value.

Credit Risk

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

The age analysis of trade receivables not impaired is:

	Group and Company	
	2012	2011
	£'000	£'000
Not past due date	**91**	98
Past due date more than six months but not more than one year	**36**	170
	127	268

The average trade receivable period is 22 days (2011: 39 days). The trade receivables that are neither impaired nor past due date are made up of two balances (2011: four). The FRC does not hold any collateral or other credit enhancements as security for its trade receivables. No other receivables were past due date at the year end (2011: nil).

Interest rate risk

The FRC invests the majority of its surplus funds in highly liquid short term deposits with an original maturity no greater than eighteen months, following a change in treasury policy. To reduce the risk of loss, these bank deposits are spread across a range of major UK Banks. The average interest rate on short term deposits is 1.08% (2011: 0.53%) and none of the deposits have an original maturity of more than one year.

For a change in interest rates of 1%, the gross interest earned would change by approximately £95,000.

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 determine the requirements for its day-to-day operations.

The age analysis of trade payables is as follows:

	Group and Company	
	20112	2011
	£'000	£'000
Not past due date	**877**	103
Past due date by no more than three months	**43**	4
Past due date by more than three months but not more than six months	-	4
	920	111

The average creditor payment period is 22 days (2011: 24 days).

11. Intangible Assets

2012

	Group and Company Software £'000
Cost at 1 April 2011	242
Additions	36
Cost at 31 March 2012	278
Amortisation at 1 April 2011	-
Charge for year	75
Amortisation at 31 March 2012	75
Net book value at 31 March 2012	**203**

2011

	Group and Company Software £'000
Cost at 1 April 2010	-
Additions	242
Cost at 31 March 2011	242
Amortisation at 1 April 2010	-
Charge for year	-
Amortisation at 31 March 2011	-
Net book value at 31 March 2011	**242**

Software costs have been amortised in the year to 31 March 2012 as the software was brought into use during the year.

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12. Property, plant and equipment

2012	Group and Company			
	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings & furniture £'000	Total £'000
Cost at 1 April 2011	699	1,280	606	2,585
Additions	-	119	1	120
Cost at 31 March 2012	699	1,399	607	2,705
Depreciation at 1 April 2011	456	1,033	363	1,852
Charge for year	73	161	51	285
Depreciation at 31 March 2012	529	1,194	414	2,137
Net book value at 31 March 2012	**170**	**205**	**193**	**568**

2011	Group and Company			
	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings & furniture £'000	Total £'000
Cost at 1 April 2010	692	1,169	584	2,445
Additions	7	111	22	140
Cost at 31 March 2011	699	1,280	606	2,585
Depreciation at 1 April 2010	383	856	313	1,552
Charge for year	73	177	50	300
Depreciation at 31 March 2011	456	1,033	363	1,852
Net book value at 31 March 2011	**243**	**247**	**243**	**733**

13. Trade and other receivables

	Group			Company Restated		
	2012 £'000	2011 £'000	2010 £'000	**2012 £'000**	2011 £'000	2010 £'000
Current:						
Net Trade receivables	**127**	268	368	**127**	268	368
Other receivables	**1,657**	1,098	625	**452**	179	137
Intercompany receivable	-	-	-	**240**	153	271
Prepayments and accrued income	**771**	623	528	**771**	623	525
	2,555	1,989	1,521	**1,590**	1,223	1,301

14. Current Investments

	Group and Company	
	2012 £'000	2011 £'000
Money market deposits (original maturity over three months)	**2,000**	1,550
	2,000	1,550

Carrying value of the money market deposits is not significantly different from fair value.

15. Cash and cash equivalents

	General Accounts £'000	**Actuarial Case Cost Fund £'000**	**FRRP Legal Costs Fund Accounts £'000**	**Total £'000**
At 31 March 2011	3,402	1,440	2,000	6,842
Net cash inflow for 2011/12	132	201	-	333
At 31 March 2012	**3,534**	**1,641**	**2,000**	**7,175**

At the year end, £359k of the Actuarial Case Cost Fund was included in the FRC's General bank account and was transferred over after the year end.

The amount in the Actuarial Case Cost Fund may only be used for actuarial disciplinary case costs. The amount in the FRRP Legal Costs Fund accounts may be used only for the purposes described in note 6.

16. Trade and other payables: current

	Group			Company	Restated	
	2012 £'000	2011 £'000	2010 £'000	**2012 £'000**	2011 £'000	2010 £'000
Trade payables	**920**	111	264	**920**	111	264
Other taxation and social security	**661**	682	34	**661**	682	34
Accruals	**1,917**	1,683	1,428	**952**	917	1,208
Deferred income	**813**	651	701	**813**	651	701
Other payables	**220**	296	164	**220**	296	164
	4,531	3,423	2,591	**3,566**	2,657	2,371

17. Trade and other payables: non-current

	Group and Company	
	2012 £'000	2011 £'000
Accruals	**151**	262
Deferred income	**436**	560
	587	822

18. Long Term Provisions

	Group and Company 2012 £'000	2011 £'000
Leasehold Improvements and dilapidations		
Balance at 31 March 2011	**270**	246
Amount capitalised	**-**	7
Amount charged to Statement of Comprehensive Income	**24**	17
Balance at 31 March 2012	**294**	270

A provision has been made for obligations under the lease at Aldwych House. These obligations are to remove the leasehold improvements and return the property at the end of the lease in August 2014 to its original state and to meet the tenant repairing clause for dilapidations.

This provision is based on an estimate by an independent surveyor of the cost of the obligations, and the liability in relation to the provision which is likely to arise at the end of the lease agreement. This provision has not been discounted as the effect of discounting is not material.

19. Significant transactions with other standard setters

The FRC raises the UK contribution to the cost of the IASB by issuing invoices and collecting monies on its behalf. The FRC does not make a charge for providing this service. The amount of monies collected during the year was £865,000 (2010/11: £936,000), of which £105,000 (2010/11: £141,000) remained to be paid over by the FRC to the IASB as at 31 March 2012.

20. Cash flow statement – cash generated from operations

	Group and Company 2011/12 £'000	2010/11 £'000
Surplus on ordinary activities before taxation	**256**	1,584
Adjustments for:		
Interest income	**(104)**	(40)
Depreciation and amortisation	**361**	300
Release of deferred income	**(342)**	(282)
Provision for dilapidation	**24**	17
(Increase) / Decrease in trade and other receivables	**(646)**	(468)
(Decrease) / Increase in trade and other payables	**1,102**	694
Net cash inflow from operations	**651**	1,805

21. Commitments

There were no capital commitments outstanding at 31 March 2012 (2011: nil).

The commitments for the FRC under operating leases relating to the leasehold property for each of the following periods are as follows:

	Group and Company	
	2011/12 £'000	2010/11 £'000
Leases which expire within one year	**453**	453
Leases which expire within two to five years	**617**	1,070
	1,070	1,523

Total commitments for the FRC under operating leases other than those relating to leasehold property are as follows:

	2011/12 £'000	2010/11 £'000
Leases which expire within one year	**1**	-
Leases which expire within two to five years	**13**	22
	14	22

22. Subsidiary undertaking

The FRC has only one wholly owned subsidiary, The Accountancy and Actuarial Discipline Board Limited (a company incorporated in England & Wales) which as explained in note 1(c) has been consolidated. AADB Limited has no surplus or deficit for the year and has no retained earnings.

23. Related party transactions

This disclosure is on a consolidated and company basis.

Key Management Compensation

The Directors represent key management personnel for the purposes of the FRC's related party disclosure reporting and their compensation is as disclosed in note 4.

Transactions with subsidiary entities

The FRC entered into the following transactions with the Accountancy and Actuarial Discipline Board Limited (AADB) during the year:

- Amounts receivable from AADB £5,368,000 (2010/11: £4,149,000)
- Contributions made by FRC towards costs of the AADB £5,368,000 (2010/11: £4,149,000)

Balances due from AADB are included in note 13.

Transactions with related parties

The related party transactions are transacted in the normal course of business.

24. 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.

Membership of Operating Bodies to 2 July 2012 (or otherwise stated)

Accounting Standards Board		
Chair	Roger Marshall	
Members	Nick Anderson	
	Edward Beale	
	Peter Elwin	
	Ken Lever	
	David Loweth	to 2 May 2012
	Michelle Sansom	from 3 May 2012
	Robert Overend	
	Andy Simmonds	
	Pauline Wallace	

Auditing Practices Board		
Chair	Richard Fleck	to 31 March 2012
	Nick Land	from 1 April 2012
Members	John Adam	
	Alyson Coates	
	Russell Frith	
	Marek Grabowski	
	John Hughes	
	Paul Lee	
	Ronan Nolan	
	Ian Pickering	
	Ranjan Sriskandan	
	Robert Talbut	
	David Thomas	
	Stuart Turley	
	Martin Ward	
	Allister Wilson	

Board for Actuarial Standards		
Chair	Jim Sutcliffe	
Members	Keith Barton	
	David Blackwood	
	Lawrence Churchill	
	Harold Clarke	
	Olivia Dickson	
	Steven Haberman	
	David Hare	
	Paul Kennedy	from 29 June 2011
	Dr Oonagh McDonald	
	Louise Pryor	to 28 June 2011
	Sir Derek Wanless	to 31 March 2012

Professional Oversight Board

Chair	Dame Barbara Mills	to 28 May 2011
	John Kellas	from 8 June 2011
Members	Lillian Boyle	
	Anthony Carus	to 31 March 2012
	Iain Cheyne	to 31 March 2012
	Hilary Daniels	from 21 June 2011
	Rudolf Ferscha	to 31 March 2012
	Paul George	
	John Kellas	
	Mick McAteer	to 31 March 2012
	Diane Walters	to 31 March 2012

Financial Reporting Review Panel

Chair	Bill Knight	to 31 March 2012
	Richard Fleck	from 1 April 2012
Deputy Chairs	David Lindsell	
	Joanna Osborne	from 1 June 2011
Members	Daniel Abrams	
	Charles Allen-Jones	to 31 December 2011
	David Cairns	
	Anthony Carey	to 31 December 2011
	Jim Coyle	
	Jimmy Daboo	
	Graeme Dacomb	from 1 June 2011
	Mary Dolson	from 1 June 2011
	Stephen Edlmann	from 1 June 2011
	Margaret Ewing	from 1 June 2011
	Christopher FitzGerald	to 31 December 2011
	Gordon Hamilton	to 30 June 2011
	Eric Hutchinson	
	Alun Jones	to 31 December 2011
	Dame Mary Keegan	
	Vanessa Knapp	from 1 June 2011
	Iain Lowson	from 1 June 2011
	David Mabb	
	Andrew McIntyre	from 1 June 2011
	Desmond McCann	
	Richard Meddings	
	Barbara Moorhouse	
	Chris Moulder	
	Richard Murley	
	Brendan Nelson	from 1 June 2011
	John Nicholas	
	Andrew Palmer	
	Richard Pinckard	
	Richard Piper	
	Brian Pomeroy	
	John Reizenstein	to 31 December 2011
	Mary Tokar	from 1 June 2011
	Alan Trotter	from 1 June 2011
	Colin Walklin	
	Richard Wilson	from 1 June 2011
	John Worby	from 1 June 2011
	Ian Wright	from 1 June 2011

Accountancy and Actuarial Discipline Board	
Chair	Timothy Walker
Members	Graham Aslet
	Jeremy Barnett
	Mark Eames
	James Gemmell
	Mike Green
	Jan Kamieniecki
	James Kellock
	Paul Smith
	Philip Taylor
	Stephen Walzer

Abbreviations

AADB	Accountancy and Actuarial Discipline Board
ACCA	Association of Chartered Certified Accountants
AIU	Audit Inspection Unit
APB	Auditing Practices Board
ASB	Accounting Standards Board
BAS	Board for Actuarial Standards
BIS	Department for Business, Innovation and Skills
CCAB	Consultative Committee of Accountancy Bodies
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors
CGU	Corporate Governance Unit
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance & Accountancy
CPD	Continuing Professional Development
EECS	European Enforcers Coordination Sessions
EFRAG	European Financial Reporting Advisory Group
ES	Ethical Standard
ESMA	European Securities and Markets Authority
EU	European Union
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FRS	Financial Reporting Standard
FRSSE	Financial Reporting Standard for Smaller Entities
FSA	Financial Services Authority
GAAP	Generally Accepted Accounting Practice
HMT	Her Majesty's Treasury
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAI	Institute of Chartered Accountants in Ireland
ICAS	Institute of Chartered Accountants of Scotland
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFIAR	International Forum of Independent Audit Regulators
ISA	International Standard on Auditing
OB	Operating Body
POB	Professional Oversight Board
PAAinE	Proactive Accounting Activities in Europe
SME	Small and Medium sized Enterprises
TAS	Technical Actuarial Standard
UK GAAP	UK Generally Accepted Accounting Practice

Supporting material published on the FRC website

This Annual Report 2011/12 is supported by the following material which is available on the 'About the FRC' section of the FRC website.

Plan 2012/13 at **http://www.frc.org.uk/plans**

The 'About the FRC' section of our website gives details about:

Our Structure

Activities of our Committees and Councils

Our policies and procedures

Our plans and budgets

In addition, the FRC website provides details of all our publications, including:

Standards and related guidance

Press Notices

Consultation and discussion papers

Reports

Events

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For general information about the work of the FRC, please see our website at: www.frc.org.uk

For any further enquiries, please contact us at the above address.

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