



**FINANCIAL REPORTING COUNCIL**

**ANNUAL REPORT 2009/10 - SUPPLEMENTARY REPORT**

**JUNE 2010**

## INTRODUCTION

This report provides a detailed summary of progress on the activities and projects in our Plan for 2009/10 as a supplement to the Annual Report 2009/10. The report also refers, where appropriate, to planned activities and projects in 2010/11. Activities and projects shown in bold represent our major activities and projects.

The key themes for our work as set out in our Plan for 2009/10 were as follows:

- Influence market participants to meet high standards of reporting and governance through a combination of measures to raise awareness of major risks, monitor corporate reporting and governance practices, and take enforcement action where appropriate.
- Influence legislators and international standard setters to encourage a proportionate and principles-based approach which promotes high standards of corporate reporting and governance.
- Influence international regulatory authorities to encourage effective co-operation.

Our decision-making bodies are the FRC Board and the Boards of our six Operating Bodies:

Accounting Standards Board (ASB)  
Auditing Practices Board (APB)  
Board for Actuarial Standards (BAS)  
Financial Reporting Review Panel (FRRP)  
Professional Oversight Board (POB)  
Accountancy and Actuarial Discipline Board (AADB).

The FRC Board and its Operating Bodies are supported by the FRC's professional staff.

We hope that you will find this report helpful. If you have any queries please send them to the Policy and Planning Officer, FRC, 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN. Email: [plan@frc.org.uk](mailto:plan@frc.org.uk)

## Corporate Governance

ACTIVITIES & PROJECTS	PROGRESS REPORT
<p><b>Complete the review of the effectiveness of the Combined Code on Corporate Governance.</b></p> <p><b>Take ownership of the Stewardship Code for Institutional Investors</b></p>	<p>The FRC issued an updated UK Corporate Governance Code (formerly known as the Combined Code on Corporate Governance) to help company boards become more effective and more accountable to their shareholders. Changes include a clearer statement of the board's responsibilities relating to risk, a greater emphasis on the importance of getting the right mix of skills and experience on the board, and a recommendation that all directors of FTSE 350 companies be put up for re-election every year.</p> <p>The consultation on the Stewardship Code closed on 19 April 2010.</p> <p>The implementation of the Corporate Governance Code and the Stewardship Code will be major projects in our 2010/11 Plan.</p>
<p>Develop guidance, as necessary, in relation to the meaning of adequate accounting records.</p>	<p>The FRC will develop guidance, as necessary, in relation to the meaning of adequate accounting records in 2010/11.</p>

## Corporate Reporting

ACTIVITIES & PROJECTS	PROGRESS REPORT
<p><b>Review a risk-based selection of annual and interim accounts and directors' reports. Reviews will focus on the banking, retail, leisure and travel, commercial property and house-building sectors and others which derive significant revenue from the provision of business services such as advertising, media, recruitment and technology.</b></p>	<p>The FRRP published its annual activity report on accounts reviewed in the year to March 2009 in the context of the severe deterioration in the capital markets which marked the period. On the basis of its reviews, the FRRP concluded that the standard of corporate reporting in the UK remained good and that there was evidence of continuing improvement in the general quality of International Financial Reporting Standards (IFRS) reporting. The FRRP brought forward the publication of its report so that its recommendations and comments could be reflected in the half yearly accounts of December reporters.</p> <p>Announcing its priority sectors for 2010/11, the Panel also drew attention to the fact that preparers may need to reconsider their revenue recognition policies if they were having to develop their business models to meet the challenges of the recession.</p> <p>The FRRP's review of accounts for 2010/11 will focus on the commercial property, advertising, recruitment, media and information technology sectors.</p> <p>In January 2010, the FRRP highlighted the challenge of implementing the new international segmental reporting requirements. Its announcement focused on the range of questions that Boards of Directors should consider when determining their reportable segments.</p>

## Corporate Reporting

ACTIVITIES & PROJECTS	PROGRESS REPORT
<b>Keep under review the guidance to audit committees and directors and issue further guidance if appropriate.</b>	Following publication of guidance highlighting the current challenges being faced by audit committees arising from current economic conditions, as well as issuing revised guidance for directors of UK companies to assist them with making their assessment of going concern disclosures, the FRC will consider whether there remains a need to issue updated guidance in 2010/11.
<b>Review narrative reporting in the light of the business review requirements of the Companies Act 2006 and review the need for additional disclosure requirements relating to business models.</b>	The ASB published its review of narrative reporting of 50 UK listed companies in 2008 and 2009, entitled <i>Rising to the Challenge</i> . The ASB will lead a wide-ranging debate designed to stimulate improvements to narrative reporting, including disclosures in relation to business models.
<b>Promote continued support in the EU for maintaining the IASB and other standard setters' ability to exercise independent judgement in setting accounting standards.</b>	The ASB continued to assess and respond to all European Financial Reporting Advisory Group (EFRAG) draft comment letters and Invitations to Comment. The ASB will seek to ensure continued support in the EU for maintaining the International Accounting Standards Board (IASB) and other standard setters' ability to exercise independent judgement in setting accounting standards.
<b>Continue to influence the development of IFRS during a period in which a large number of important standards are likely to be scheduled for agreement.</b>	The ASB continued to respond to IASB and International Financial Reporting Interpretations Committee (IFRIC) consultations. The ASB will continue to take a lead role in influencing the development of IFRS.
<b>Finalise our recommendations arising from our review of complexity and relevance of requirements relating to corporate reporting.</b>	The FRC issued a consultation document entitled <i>Louder than Words</i> , focusing on ways to reduce the complexity and increase the relevance of corporate reports. The FRC will consider and respond to the comments received. The FRC will continue to promote increased relevance and reduced complexity of corporate reporting.
Contribute to specific IASB projects as appropriate.	The ASB responded to all IASB consultations during the period, and maintained regular contact with IASB board members and staff. The ASB will continue to contribute to IASB projects, as appropriate.
Continue to play a leading role in the global group of National Standard Setters (NSS).	The ASB chaired the meetings of accounting National Standard-Setters (NSS) in April and September 2009 and April 2010. Further meetings of the NSS group are scheduled for September 2010 and March/April 2011.

## Corporate Reporting

ACTIVITIES & PROJECTS	PROGRESS REPORT
Participate in EFRAG and Pro-active Accounting Activities in Europe (PAAinE) projects.	The ASB has participated in EFRAG and Pro-active Accounting Activities in Europe (PAAinE) projects, specifically the accounting for tax project being led jointly with the German ASB. The ASB will continue, as appropriate, to participate in PAAinE projects.
Deliver a report setting out final recommendations on the financial reporting of pensions for consideration by the IASB.	In November 2009, the ASB published a report setting out the results of its re-deliberations in the light of comments received in response to the January 2008 PAAinE Discussion Paper on the financial reporting of pensions.
Implement an agreed strategy for the future of UK GAAP and its convergence with international standards.	The ASB published a discussion paper on policy proposals for the future of UK GAAP in August 2009, with a comment deadline of February 2010. The ASB received 150+ responses. The ASB now plans to host an event with stakeholders to share its initial analysis of the responses and how the process might be taken forward. The ASB will then issue an exposure draft outlining its recommendations for the future of UK GAAP. The future of UK GAAP continues to be a high priority for the ASB.
Re-evaluate the regulatory framework for SME accounting, auditing and related services (corporate reporting for micro-entities).	The APB, jointly with the ASB, will undertake a policy analysis for future corporate reporting by micro-entities. This will take account of European discussions regarding possible exemptions from accounting requirements.
Consider the need to revise the guidance on best practice in narrative reporting including sustainability reporting, in light of the review of narrative reports.	This was assessed in conjunction with the ASB's review of narrative reporting. The report highlighted the possibility that existing sustainability reporting requirements are causing 'clutter' in narrative reports. The ASB will continue to monitor sustainability information contained in annual reports and will consider publishing guidance on sustainability reporting.
Respond to matters drawn to our attention as a result of complaints or public comment, encouraging referrals from the investment community, other professional advisers and elsewhere.	The FRRP selects accounts for review for a number of reasons and prompts. The FRRP's current case-load includes several company reports that have been drawn to its attention by third parties. The FRRP will continue to respond to matters drawn to its attention.
Influence the development of international enforcement practices through active involvement in EECS, established under CESR.	The FRRP was an active contributor to European Enforcer Coordination Sessions (EECS), the EU forum at which financial monitoring and enforcement decisions are discussed and where members exchange views and experiences of IFRS enforcement. The FRRP is a member of the Agenda committee and participated in two Working Groups during the period – the first preparing an outcomes-focused IFRS Checklist for use by members and the second reviewing the various actions taken by members in respect of infringements of IFRS.

## Corporate Reporting

ACTIVITIES & PROJECTS	PROGRESS REPORT
	The FRRP will continue to influence the development of international enforcement practices.

## Auditing and related services

ACTIVITIES & PROJECTS	PROGRESS REPORT
<b>Undertake risk based monitoring and report on the quality of audits of publicly traded and other major public interest entities, having particular regard during our inspection work in 2009/10 to audit issues relating to going concern, fair value accounting estimates and disclosures and the impairment of assets including goodwill and other intangibles.</b>	<p>The AIU published its report in respect of its 2008/09 inspections which included an overview of the findings relating to eight major audit firms and ten other firms, along with commentary on the key challenges facing auditors in the current economic conditions.</p> <p>The AIU will publish the findings from 2009/10 programme of inspections. The scope of its work for 2010/11 will have particular regard to audit issues relating to segmental reporting, revenue recognition and fraud, as well as a continuing focus on going concern, fair value accounting estimates, asset impairments and compliance with ethical standards.</p>
<b>Keep under review the guidance to auditors and issue further guidance if appropriate.</b>	<p>In October 2009, the APB issued a consultation paper on audit firms providing non-audit services to listed companies they audit. This was in response to concerns expressed by the House of Commons Treasury Committee about such services jeopardising auditor independence. At the same time, the APB finalised changes to its Ethical Standards for auditors dealing with partner rotation.</p> <p>The non-audit services consultation closed on 29 January 2010 and the APB has been active in considering the issues raised in the responses received as well as considering a number of other auditor independence issues that have arisen during the year. The APB will be responding to these matters and the remaining items raised in its March 2009 consultation on the Ethical Standards shortly.</p> <p>In response to concerns arising from the financial crisis, the APB issued updated interim guidance for auditors on auditing complex financial instruments. The APB also issued updated guidance for auditors of occupational pension schemes, updated example auditor reports and a bulletin on the use of XBRL tagging in audited financial statements.</p> <p>The APB will keep guidance to auditors under review and, if appropriate, issue further guidance.</p>

<p><b>Continue to monitor and implement, where appropriate, the recommendations made by the Market Participants Group which aim to enhance the efficiency of the audit markets and to mitigate the risks associated with a major firm leaving the market.</b></p>	<p>The FRC issued its fifth report in June 2010 outlining the progress in implementing the recommendations made by the Market Participants Group and other developments relating to choice in the audit market.</p> <p>During 2010/11 the FRC will issue a further report which will include an assessment of the effectiveness of the recommendations as a whole and make proposals on what further action is required.</p>
<p><b>Implement the decision to apply Clarity ISAs in the UK and Ireland and work positively towards the adoption of Clarity ISAs in the EU.</b></p>	<p>The APB issued final clarified ISAs (UK and Ireland), including a small amount of additional UK and Ireland specific guidance, a clarified International Standard on Quality Control (UK and Ireland) and a revised Statement of the Scope and Authority of APB Pronouncements. The implementation of these standards is effective for audits of financial statements for periods ending on or after 15 December 2010. To help auditors implement the new standards, the APB also issued a summary of the main changes in the clarified standards and updated its guidance on audit documentation on smaller audits.</p> <p>Whilst compliance with these standards will enable the auditor to assert full compliance with the ISAs issued by the International Auditing and Assurance Standards Board (IAASB), in the new standard on auditor's reports the APB diverged from the IAASB's equivalent standard to respond to investors' concerns by providing options for reducing the amount of 'boiler plate' wording.</p> <p>During 2010/11, the APB will update its other Practice Notes to reflect the new standards and will monitor the extent to which audit firms take advantage of the flexibility to reduce 'boiler plate' and how investors react to it.</p> <p>During 2009, the European Commission consulted on whether to adopt the Clarity ISAs. The APB's response strongly supported adoption, as soon as possible, as an important element of strengthening the European framework for the performance and oversight of auditors. Responses were generally supportive and the APB hopes that the forthcoming European Commission Green Paper on Audit will further progress this.</p>
<p><b>Contribute to the work of IFIAR and EGAOB and promote effective co-operation between national audit regulatory authorities, in particular gaining an enhanced understanding of the audit networks; and consider the implication for audit quality.</b></p>	<p>The FRC continued to be a major participant in the work of the European Group of Auditors' Oversight Bodies (EGAOB) and of the International Forum of Independent Audit Regulators (IFIAR), of which the FRC Director of Auditing is the Deputy Chair.</p> <p>The POB will continue to play a leading role in IFIAR. The POB will work within the EGAOB to develop a consistent and appropriate regulatory approach across Europe for third country auditors.</p>
<p><b>Continue to work with the EU and BIS to influence the implementation of the</b></p>	<p>The POB continued to play a major role in agreeing arrangements for cooperation amongst Member States and for taking forward the international aspects of the Directive. In 2010/11 the POB will continue work with the EU and the Department for Business, Innovation and Skills (BIS) on further legislation and practical measures to develop the Director's regulatory</p>

<b>Statutory Audit Directive</b>	framework.
Participate in the arrangements for the co-ordination of the regulation of audit and the oversight of the auditing profession in the EU.	The POB continued to be a leading member of the EGAOB and its sub-groups. Much of the focus was on the relationship between the EU and the US Public Company Accounting Oversight Board (PCAOB). More generally, the focus has been on deepening cooperation amongst member states on audit regulation, particularly on the registration and regulation of third country auditors and on planning for the gradual transformation during 2010/11 of the EGAOB itself from a group chaired by the Commission into an independent grouping of EU audit oversight bodies.
Review the implementation of regulations and practice on transparency reporting by firms and issue guidance as required.	The POB issued guidance material in June 2009 for those audit firms required to publish a statutory Transparency Report. The POB reviewed the 2009 reports published by the firms and published its findings in May 2010. Further reviews will be undertaken as part of the 2010/11 programme.
Participate in the IAASB and contribute to the EGAOB's ISA sub-group to provide technical advice on the implementation of ISAs in Europe.	The FRC's Director of International Auditing Standards is a member of the IAASB and the APB's Executive Director is his Technical Advisor. The FRC's Director of International Auditing Standards participates in a number of IAASB working groups and is leading the working group that is conducting the IAASB's ongoing review of the implementation of the Clarity ISAs. APB staff will continue to participate in the EGAOB's ISA sub-group.
Work with the accountancy professional bodies to consider measures to address the fragmented market for audits of smaller companies and to ensure auditors are able to gain and maintain sufficient competence.	The POB completed its review of audit monitoring reviews conducted by the accounting professional bodies to assess the extent to which the fragmented market results in poor quality auditing. The POB wrote to the bodies regarding the outcome of this assessment and requested plans from the bodies to improve underlying audit quality. The POB will monitor progress against these plans during 2010/11.
Promote the audit quality framework.	The POB reviewed transparency reports, a selection of audit proposals and audit committee reports and considered the extent to which the Audit Quality Framework assists market participants. The APB and POB will consider the need to update and promote further the framework in 2010/11.
Carry out statutory responsibilities for the oversight of the regulatory processes of the RSBs and RQBs.	The POB completed the annual compliance reviews and will publish its findings in its report to the Secretary of State for BIS in July 2010. The Recognised Supervisory Body (RSB) reviews focused on complaints and discipline and the Recognised Qualifying Body (RQB) reviews concentrated on the process of approving and monitoring training offices. As part of the 2010/11 work programme, the POB will commence its next cycle of compliance reviews ensuring that matters raised in prior years have been adequately addressed and reviewing the process for registering individuals as Senior Statutory auditors.
Review the extent to which the practice assurance schemes operated by the accountancy professional bodies provide an appropriate degree of confidence in services provided by their members in practice.	The POB published its recommendations following its review of the UK professional bodies' monitoring of their members practising in non-regulated areas in May 2010 and has requested that the Bodies publish their responses to the recommendations by September 2010. Once responses are received these will be reviewed to ensure that they address the matters raised.

## Actuarial Practice

ACTIVITIES & PROJECTS	PROGRESS REPORT
<b>Keep under review the guidance for users of actuarial information and issue further guidance if appropriate</b>	In November 2009, the FRC published an update to the document highlighting the challenges being faced by users of actuarial information arising from the current economic conditions.
<b>Continue to develop a new suite of technical actuarial standards - publishing final standards on data, modelling and reporting, and draft standards on pensions and insurance; and reviewing the implications of the introduction of Solvency II.</b>	<p>The BAS issued technical actuarial standards on Reporting Actuarial Information, Data and Modelling, as well as issuing consultations on technical actuarial standards on Insurance, Pensions, Actuarial information used for accounts, and Transformations.</p> <p>The BAS will complete its suite of technical actuarial standards, which focus on the needs of users of actuarial information, in 2010/11.</p>
Contribute as appropriate to the continuing development of UK pension legislation and the EU Solvency II project.	The BAS liaised with other regulators and government departments on the continuing developments in UK legislation and the EU Solvency II project.
The BAS will continue to work closely with Government and other regulators to ensure consistency as it develops its technical actuarial standards.	The BAS liaised with other regulators and government departments as it developed its technical actuarial standards.
Promote the actuarial quality framework and keep it under review.	The FRC issued its Actuarial Quality Framework in January 2009 and initiated a review in the spring of 2010.
Make recommendation to the Actuarial Profession on professional quality assurance arrangements for actuaries and their firms.	The POB's recommendations to the Actuarial Profession on professional quality assurance arrangements for actuaries and their firms were issued and published in May 2009.

## Professionalism of accountants and actuaries

ACTIVITIES & PROJECTS	PROGRESS REPORT
<b>Complete the implementation of changes to the AADB Accountancy Scheme.</b>	The AADB issued its amended Accountancy Scheme in February 2009.
<b>Review the effectiveness of the regulatory framework for professional discipline and enforcement of standards, including the FRC's role within the framework.</b>	During 2010/11, the FRC will undertake a review of its regulatory powers, including the powers associated with disciplinary and enforcement actions.
Monitor the regulatory activities of the accountancy and actuarial professional bodies in relation to their members.	The POB continued its monitoring of the regulatory activities of the RSBs and RQB's in relation to audit and have continued to provide general oversight of the non regulatory activities of the UK professional accountancy and actuarial bodies. making recommendations on current practices and following up progress of prior year recommendations.
Monitor developments, assessing those issues that could adversely affect public confidence in accountants and actuaries and, where appropriate, undertake more detailed research and make recommendations to the professional bodies or recommend the development of new standards.	The POB along with the FRC has continued to monitor developments which could affect public confidence and, in addition to making recommendations to the professional bodies, has contributed to an FRC review of risks as part of the planning process for 2010/11 and beyond. The POB will continue to work with the other FRC operating bodies to address issues highlighted.
Take forward initiated disciplinary cases and consider taking on additional cases as required.	The AADB has continued with its investigations and disciplinary cases. As part of the 2010/11 work programme, the AADB will continue to take forward disciplinary cases and, as required, consider taking on additional cases.

## FRC Effectiveness

ACTIVITIES & PROJECTS	PROGRESS REPORT
<b>Review and update as necessary our published statement on the FRC and the Public Sector.</b>	The FRC published online factsheets which provided an overview of the basis for the Preparers Levy, the functions of the FRC and the benefits each of its funding groups, including the public sector, receives from the work of the FRC.
<b>Review the adequacy of the FRC's arrangements for monitoring emerging events and appropriately prioritise our activities.</b>	The FRC will continue to monitor and, where appropriate, respond to emerging events.
Participate in the project to be undertaken by the World Bank to review the UK's compliance with the international standards relating to accounting, auditing and corporate governance.	The FRC liaised and participated with the World Bank team to ensure that the FRC has provided any necessary input to the World Bank project to review the UK's compliance with the international standards relating to accounting, auditing and corporate governance.