

FRC Annual Report and Accounts 2020/21 – on track to become a new, more resilient regulator



Financial Reporting Council

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



Keith Skeoch Interim Chair, FRC Board

The last year has certainly been an eventful one for the FRC. Along with the rest of society and the corporate world we have had to adjust to new ways of working and the rapidly changing economic environment that resulted from the Covid-19 pandemic. I have been impressed by how FRC staff have all risen to this challenge, to serve the public interest during this personally difficult time and engage with our stakeholders and other regulators to deliver on the 2020/21 plan in a proportionate and agile way.



Sir Jonathan Thompson CEO, FRC

Over the last year the FRC has continued to press on with transformation and drive the reform that will ultimately deliver the creation of a new regulator: the Audit, Reporting and Governance Authority (ARGA).

The [Annual Report 2020/21](#) sets out progress against our strategy and plan and looks forward into 2021/22 and beyond, as we continue our transition towards becoming the new robust and independent regulator, ARGA, set out in the Government's White Paper, subject to legislation.

First, I would like to thank all FRC staff for their dedication, agility and hard work, during what has been a challenging year. And I am pleased that our staff survey has shown significant positive increases in engagement and staff sentiment. As well as focusing on our duty of care to staff, we have also acted quickly to respond to the external environment that we – and our stakeholders – have found ourselves in.

I am particularly proud of the progress we have made in three key areas over the last year:

- Improving our delivery
- Transforming our organisational capacity and capability
- Listening to and engaging more with stakeholders.

The improved capacity, capability and processes that we delivered in 2020/21 have moved us towards becoming the fit-for-purpose regulator that Kingman envisaged and provides a firm foundation on which to build further. We need to continue to build our resilience, provide quality standards, supervision and support to stakeholders and the regulated community, and to increase the pace of change to deliver on the package of reforms that Government has put forward in its White Paper.

2020/2021 Highlights

 **162**

asset managers applied to be signatories to the Stewardship Code

 **246**

corporate reporting reviews completed, corporate reporting review case summaries published for the first time and 5 thematic reviews published

 **150**

audit quality reviews completed



Operational separation implemented across the Big Four audit firms on a negotiated basis

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FRC Lab projects, including the Climate Change Thematic report published in Oct 2020

 **49**

Growing caseload for enforcement – £16.4m in financial sanctions, 49 cases open as at 1 April 2021

 **179**

recommendations from the Professional Oversight team to improve oversight and standards of members of professional accountancy bodies

 **326**

FRC has grown to 326 staff, with recruitment continuing at pace during lockdown to provide capacity and capability for transformation to ARGA

Key thematic programmes across the FRC

The last year has seen many issues needing an 'all FRC' response, not only for our people to ensure they had the support they needed to protect their health and families, but also to do their job and ensure continuity of service and support to all stakeholders and coordination with Government and other regulators.

We have:

1.

Responded to the Covid-19 pandemic by providing guidance to audit firms and companies on going concern, a review of Covid-19 reporting and work on remote examinations by professional bodies.

2.

Brought together our leadership and guidance on climate change and the role of corporate reporting and governance – the Climate Change Thematic report published in 2020 brought together our work on climate change to date and a cross-FRC group continues to work on the issue, as well as working with other regulators and BEIS in the run-up to COP26.

3.

Transformation programme and strategy – I am pleased with our progress so far and, as noted above, we have delivered change that doesn't require change in legislation. Risks still remain around legislation, but we will continue to transform the FRC and drive higher standards.

4.

We continue to maintain a strong relationship with BEIS and to collaborate on the future of audit and corporate governance, on the White Paper and the UK's exit from the EU. (hereafter EU Exit). On UK's exit from the EU, we worked across the organisation and jointly with BEIS to plan for the end of the transition period and support continuity of business. Following EU Exit on policy and third-country regimes, we are also supporting the set-up and staffing of the independent UK Endorsement Board (UKEB) for International Financial Reporting Standards (IFRS).

5.

We are now working more closely with other regulators and Government Departments (including HM Treasury (Actuarial), the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) as well as BEIS in the response to Covid-19, climate change and with the Ministry of Housing, Communities and Local Government in relation to audit quality in local government.

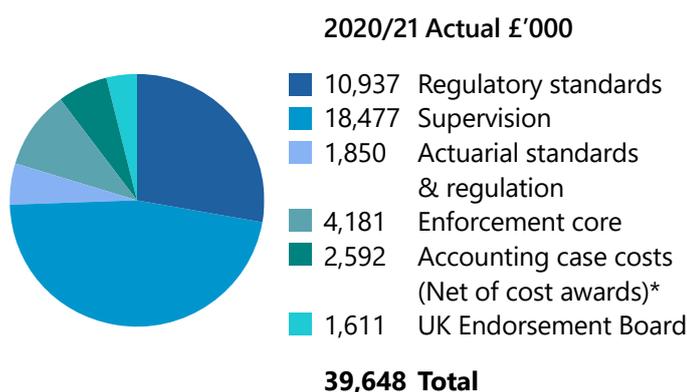
6.

We continue to promote our international and UK credibility and leadership through high-quality outputs and impact on wider corporate governance and stewardship practice; for example, gathering 162 applicants to be signatories to the Stewardship Code this year, increasing the number and quality of consultations, ongoing thought leadership from the FRC Lab and driving change on a voluntary basis with firms, e.g. operational separation.

Our finances

Our Strategy 2020/21 set out our Budget and Levies for the year. This explained that we would increase our budget and the amount we would request from our stakeholders to fund our regulatory activities, continue the transition to ARGA and implement new responsibilities following the UK's exit from the EU Exit. The latter included the establishment of the UKEB to endorse IFRS standards within the UK.

Expenditure across our main areas of responsibility is shown below.



2020/2021 Total £38m

