



# FINANCIAL REPORTING COUNCIL

## ANNUAL REPORT 2007/08

MAY 2008

## **The Financial Reporting Council**

The Financial Reporting Council is the UK's independent regulator for corporate governance and reporting. Working mainly through the FRC Board's Committee on Corporate Governance and six Operating Bodies, the FRC sets standards for corporate governance, reporting, auditing and actuarial practice; monitors and, where appropriate, enforces the application of those standards; and works with the accountancy and actuarial professions to promote the professionalism of their members.

### **Our aim**

Confidence in corporate reporting and governance is a fundamental prerequisite to the effective functioning of the economy and financial markets. The FRC's aim is to strengthen that confidence by promoting high-quality corporate reporting, auditing, actuarial practice and corporate governance, and by promoting the integrity, competence and transparency of the accountancy and actuarial professions.

### **Our structure**

The decision-making bodies are the FRC Board and the Boards of the Operating Bodies. The FRC Board is designed to be composed of the Chair, the Deputy-Chair, the Chief Executive, the Chairs of the six Operating Bodies, and seven non-executive directors. The FRC Chair and Deputy-Chair are appointed by the Secretary of State for Business, Enterprise and Regulatory Reform. All other members are appointed by the Board.

**The Committee on Corporate Governance** supports the FRC Board in its work on corporate governance. The Committee keeps under review developments in corporate governance generally, reflecting the FRC's objective of fostering high standards of corporate governance. It monitors the Combined Code on Corporate Governance and its implementation by listed companies and shareholders.

### **The operating bodies**

- **The Accounting Standards Board** issues accounting standards for the UK and Ireland but, with the move to International Financial Reporting Standards (IFRS), is increasingly focussed on influencing the setting of standards by the International Accounting Standards Board (IASB) on behalf of its stakeholders.
- **The Auditing Practices Board** issues standards and guidance for auditing, for the work of reporting accountants in connection with investment circulars, and for auditors' integrity, objectivity and independence. It is active in influencing the setting of international auditing standards by the International Auditing and Assurance Standards Board (IAASB).
- **The Board for Actuarial Standards** sets technical standards for actuarial practice.
- **The Professional Oversight Board** provides independent oversight of the regulation of accountants and actuaries by their respective professional bodies. It provides statutory oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and monitors, through the Audit Inspection Unit, the quality of the auditing function in relation to economically significant entities.
- **The Financial Reporting Review Panel** reviews company accounts for compliance with the law and accounting standards.
- **The Accountancy and Actuarial Discipline Board** is the independent investigative and disciplinary body for accountants and actuaries in the UK.

**The Executive**, led by the CEO, provides support to the Board and to the Operating Bodies.

## Contents

		<i>Page</i>
<b>One</b>	<b>Chair's Statement</b>	<b>1</b>
<b>Two</b>	<b>Chief Executive's Report</b>	<b>4</b>
<b>Three</b>	<b>Reports of the Committee on Corporate Governance and the Operating Bodies</b>	<b>14</b>
<b>Four</b>	<b>Expenditure and Funding</b>	<b>28</b>
<b>Annexes</b>		
<b>Annex A</b>	<b>Directors' Report and Accounts for the year ended 31 March 2008</b>	<b>32</b>
<b>Annex B</b>	<b>Membership of Operating Bodies</b>	<b>60</b>
<b>Annex C</b>	<b>Financial Management and Reporting Framework</b>	<b>66</b>
<b>Annex D</b>	<b>Ipsos MORI Stakeholder Survey Results</b>	<b>69</b>
<b>Annex E</b>	<b>Supporting material published on the FRC website</b>	<b>72</b>
<b>Annex F</b>	<b>Abbreviations</b>	<b>73</b>
<b>Annex G</b>	<b>Contact Details</b>	<b>74</b>

### **Abbreviations**

In the course of its work, the FRC deals with a wide range of organisations. Throughout this Annual Report, we refer to these organisations only by their acronyms. A key to these acronyms can be found in Annex F on page 73.

## Notice of Annual Open Meeting

The Financial Reporting Council will hold its Annual Open Meeting on 17 July 2008 at 2.30 pm in the Council Chamber at The Institute of Electrical Engineers (IET), 2 Savoy Place, London WC2R 0BL.

The AOM is open to the public, and we particularly welcome all our stakeholders.

The agenda for the meeting includes addresses by the Chair, Sir Christopher Hogg, and the Chief Executive, Paul Boyle, followed by an open forum. The main purpose of the meeting is to enable stakeholders and others to discuss with FRC Directors issues related to the FRC's remit.

If you wish to attend the AOM, please follow the instructions on the home page of our website at [www.frc.org.uk](http://www.frc.org.uk) to fill in the response form.

In order to make the discussion part of the meeting more effective, we invite stakeholders to submit questions or topics in advance, preferably with some detail of the particular issue(s) of concern to you. Submissions are welcome regardless of whether or not you intend to attend the AOM.

Submissions should be made, either by email at [aom@frc.org.uk](mailto:aom@frc.org.uk) or by post, to the address below. Please disclose your name, address and affiliation, if any.

Anne McArthur  
Company Secretary  
Financial Reporting Council  
5th Floor  
Aldwych House  
71 - 91 Aldwych  
London WC2B 4HN

## **One – Chair’s Statement**

### **Introduction**

I said in my statement last year that since the considerable enlargement of its remit in 2004, the FRC had been evaluating its effectiveness with three particular objectives in mind. The first was to make the most of the interconnections between the various parts of the FRC while preserving appropriate autonomy for the Operating Bodies (OBs). The second was to have governance arrangements which were clear and well able to provide challenge and focus to the FRC’s strategy and priorities while being credibly independent of any particular stakeholder bias. The third was for the FRC to be appropriately accountable and credible as a national regulator, notwithstanding its necessarily close working relationships with market practitioners.

In 2007/08 we made substantial progress on all three objectives.

### **Making the most of the FRC’s interconnections**

Most of the OBs within the FRC have long and distinguished histories as independent entities and they continue to provide vital work within their remits. The 2004 enlargement of the FRC (and subsequent addition of actuarial regulation in 2006) raised from two to six the number of OBs within the FRC and set us the formidable challenge of making the whole greater than the sum of the parts. A landmark step towards this objective was the publication in April 2007, following intensive internal and external consultation, of a Strategic Framework for the FRC as a whole. The importance of the Framework can hardly be exaggerated. It redirects our thinking towards the outcomes we collectively wish to achieve as well as focusing on the OBs’ own objectives. Many of these outcomes require the combined efforts of two or more OBs. An outstanding example in 2007/08 was our project to promote audit quality, notably by seeking to widen understanding of the real drivers of audit quality. It was a project that required direction and inspiration from both the Auditing Practices Board, which sets auditing standards, and the Professional Oversight Board, which oversees the regulation of accountants and actuaries and monitors the quality of auditing.

### **The FRC’s Governance**

In 2006/07, we undertook a thorough review of the FRC’s governance and, with the support of the Government, published a series of proposals for consultation by our stakeholders on 29 March 2007. The main features of the proposals, which were warmly welcomed by stakeholders, were that:

- the Board and Council should be merged into a single governing body – the new Board, comprising 16 members in total.
- the new Board would comply with the relevant principles and provisions of the Combined Code. It would evaluate its own performance and appoint its own membership, except for the Chair and Deputy Chair, who would be appointed by Government.

- the non-executive members, including the Deputy Chair, should outnumber the executive members, comprising the CEO and the Chairs of the six OBs.
- the non-executive members should be appointed on their individual merits rather than as representatives of particular interests. The intention was that they should bring to the table not only independence but also a very wide practical experience in reporting and governance, as well as intra-professional understanding, international knowledge and experience and diversity.
- the initial non-executive members would be selected by a Temporary Nominations Committee in accordance with the principles set by the Office of the Commissioner of Public Appointments.
- the existing OB Chairs would submit their offices for re-election. The newly appointed or re-appointed Chairs would then join the Board as executive members.
- the new Board would have a Committee on Corporate Governance, as the Council did, which might include members drawn from outside the Board.

We made substantial progress in implementing these proposals in 2007/08. We were delighted that the Government appointed Baroness Hogg to be the FRC's non-executive Deputy Chair. She has also become the Chair of the Board's Committee on Corporate Governance. The search to appoint seven other non-executive Directors attracted a large number of highly qualified individuals and has resulted in a very strong non-executive element on the Board.

The guidelines for the FRC's restructuring gave to the new Board's non-executives the important task of determining, with help from myself and Paul Boyle, the Chairs of the OBs who would *ex officio*, along with Paul as CEO, make up the Board's executive element. The opportunity has been taken to consider thoroughly with each OB and its Chair the question of future leadership, having regard to the benefits of continuity but also to the challenges likely to evolve in the years ahead.

The Chairs of two OBs (the AADB and the POB), both with long tenure in office, decided not to apply for a further period of tenure and their successors will shortly be in place. The Chairs of three further OBs (the ASB, the BAS and the FRRP) have been confirmed in office. The APB is studying how its future remit is likely to develop.

## **The FRC's Accountability**

The FRC's primary criterion is the public interest.

The governance changes described above will undoubtedly enhance the transparency, efficiency and independence of the FRC. They will also expose the plans and performance of the executive to internal scrutiny and challenge by a powerful non-executive element on the Board.

Externally, by reason of its strong consultative ethos, the FRC is exposed to constant feedback and challenge from its stakeholders - companies, investors and the accountancy and actuarial professions. It is also, of course, accountable to Government through its statutory obligations, through the Government's

right to appoint its Chair and Deputy Chair, and (most influential of all) through the constant liaison required to work effectively with the many parts of Government which can affect the FRC's accomplishment of its objectives domestically and internationally.

Until now, the Government has also been one of the principal sources of the FRC's funding. However, early this year, it announced that, as in the cases of other regulators, the FRC should in the future raise almost all its funding from market participants. We will consult on a revised basis for our funding during 2008/09.

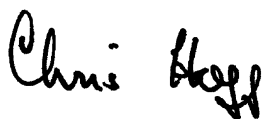
## **Acknowledgements**

Many people have profoundly helped the FRC's progress in 2007/08 by their public-spiritedness and hard work. The support of Council and the old FRC Board was indispensable to the devising of the restructuring and to its successful implementation. The Temporary Nominations Committee gave me invaluable support in the crucial matter of appointing the non-executive members of the new Board. Paul Boyle, the OB Chairs and all their members have provided unstinting co-operation, often when it was neither easy nor convenient to do so. Finally, the FRC's staff, under Paul's leadership, have shown their usual steadiness, skill and application.

## **Looking Forward**

The outlook is bracing, to say the least. The FRC's remit is UK-based but increasingly dependent for its fulfilment on the FRC actively helping to shape EU and international approaches to corporate reporting and governance. This places on the FRC's limited resources great strains which must somehow be accommodated. We shall also, as our published Plan & Budget 2008/09 indicates, be deeply involved with a number of demanding projects which will be made more difficult by the deterioration in the economic climate.

However, I firmly believe the FRC to be better placed to fulfil its remit than it has ever been and thus to continue successfully to promote confidence in corporate governance and financial reporting.



**Sir Christopher Hogg**

27 May 2008

## Two – Chief Executive’s Report

### Introduction

Our aim as an organisation is very clear - to promote confidence in corporate reporting and governance. But our remit is extraordinarily wide, diverse and not always sharply defined. The Committee on Corporate Governance and our six Operating Bodies function on several fronts and, on most of them, they share responsibilities for achieving our overall aim with other bodies and the relevant professions.

In April 2007, following wide consultation with stakeholders, we adopted a comprehensive Strategic Framework to guide us in our work. The initial purpose of the Framework was to agree with our stakeholders the key “Outcomes” that lead us to our shared aim, and then to set out the activities that would help us achieve those Outcomes and identify those responsible for carrying them out.

Once the Framework was agreed, it also became a tool to guide us in identifying the main risks to the achievement of the Outcomes and therefore to help us set priorities for our work. In 2007/08, for the first time, our priorities were set in the context of the Framework; ie, projects were selected on the basis of their importance to the achievement of the Outcomes defined in the Framework. It is therefore appropriate that I report on the FRC’s work in the past year in the context of the Framework.

In finalising our Plan & Budget for 2008/09, we have related our assessment of the risks to the achievement of our Outcomes, and I have incorporated those current assessments in this report.

Every year we commission an independent survey by Ipsos MORI of our stakeholders’ views on the state of confidence in corporate governance and reporting, and in the FRC and its work. We are grateful to those who took time to contribute to that survey, and I report here the main conclusions in respect of our overall Aim. Further details of this year’s survey, conducted in March 2008, are in Annex D.

#### Overall Aim

*Confidence in corporate reporting and governance.*

The Ipsos MORI survey in March 2008 indicated that while overall confidence in corporate reporting and governance in the UK remains generally good, the proportion of respondents who felt “very confident” rather than “fairly confident” had declined. A similar change in the proportion of respondents who felt “very confident” rather than “fairly confident” was found in relation to the Strategic Outcomes on Corporate Reporting, Auditing and the Professionalism of Accountants and Actuaries. These results are consistent with the feedback we received in relation to our Draft Plan & Budget for 2008/09. They are not surprising, given the recent financial markets turbulence and uncertainty over economic growth.

In our view, based on our own assessment and the responses to our Draft Plan & Budget 2008/09, our overall Aim – confidence in corporate reporting and governance in the UK - is largely achieved at present. This is primarily because, as explained in the sections below, we believe that the individual Strategic Outcomes are being largely achieved. An exception is Outcome Four (Actuarial Practice) where we have



significant concerns that present actuarial standards may not contribute to clear and complete actuarial information, although we are now more confident that plans are in place to make the necessary progress. However, recent financial market conditions mean that the risks to confidence in corporate reporting and governance are higher than they have been for some years. For these reasons, despite an overall positive assessment, we do not believe that there is any room for complacency in relation to our overall Aim.

### **Outcome One – Corporate governance**

*UK companies with a primary listing in the UK should be led in a way that facilitates entrepreneurial success and the management of risk.*

The primary responsibility for maintaining good governance in UK listed companies is with the companies themselves. Our role is to foster high standards of corporate governance through publishing the Combined Code on Corporate Governance and monitoring its impact overall. In this, we are assisted by the Committee on Corporate Governance, whose report can be found on page 14.

In 2007, we undertook one of our regular reviews of the impact of the Combined Code. The consultation process generally endorsed the Code's beneficial impact. Only two amendments to the Code were proposed; to remove the restriction on an individual chairing more than one FTSE 100 company and to allow Chairs of smaller companies to be a member of their audit committees, subject to their independence. These changes were well supported by respondents to our consultation, and will be implemented on 29 June 2008.

#### **Assessment**

Our assessment is that the this Strategic Outcome is being largely achieved at present. We regard the effectiveness of the Code's 'comply or explain' feature as key to its beneficial impact. Companies must give clear reasons for non-compliance and investors must take them seriously. A deterioration in engagement between companies and investors is a risk we shall continue to confront.

### **Outcome Two – Corporate reporting**

*Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.*

Responsibility for the quality of corporate reporting is shared among a very wide variety of organisations and agencies, starting with reporting organisations themselves and including the accountancy professional bodies and the ASB and FRRP. The activities of the ASB and the FRRP in 2007/08 are reviewed in their reports, on pages 16 and 24 respectively.

## **Credit market turbulence**

The most significant elements of our monitoring work in 2007/08 were the additional measures which we took to respond to the heightened risks to confidence in corporate reporting and governance posed by the turbulence in financial markets. Despite initial predictions that the turbulence in the summer of 2007 would be short-lived, by mid-autumn it became apparent that this would not be the case. We concluded that credit market conditions meant that the risks to confidence in corporate reporting and governance were higher than they had been for some years. We responded by taking a number of actions.

In December, we issued a statement warning that the risks to confidence in corporate reporting were higher than they had been for some years and calling for additional diligence on the part of preparers of accounts, members of audit committees and auditors.

After the December year-end date, we instituted rapid high-level reviews of the full-year 2007 results announcements by the major financial institutions and a selection of other major companies in the UK. We have also continued our dialogue with the major audit firms to review their responses to the higher risks and have accelerated our reviews of the financial statements and audits of those organisations which we judge have higher financial reporting risks.

These reviews will not be complete for a number of months and so it is too soon to give a definitive assessment as to whether the risks have been properly addressed. Based on our work to date, our conclusion is that preparers and auditors have responded well to the higher risks and that, although there has been turbulence in financial markets, this has not been compounded by a significant loss of confidence in corporate reporting. We believe, however, that there will be lessons to be learned from the experiences in the past six months and we will take these into account in our future work.

## **Accounting standards**

We have continued our study of the 'true and fair' concept to take account of recent developments, including the Companies Act 2006. We commissioned an opinion from leading counsel, and published it in May 2008. This opinion confirms that the central concept of "true and fair" remains relevant to corporate reporting in the UK even when companies are required, or elect, to report under IFRS.

The ASB stepped up its already intensive work on pensions accounting and disclosure. In January 2008, it published a Discussion Paper, 'The Financial Reporting of Pensions', that proposed important changes to the way pension fund assets and liabilities are calculated and reported. The publication of this paper also highlighted the shift in the emphasis of the ASB's activities from standard-making to influencing the development of international standards. The paper was issued jointly with EFRAG and other European standards bodies with a view to influencing the review by the IASB of the current standard (IAS 19).

In view of the potential significance of the IASB for accounting in the UK, we continued to follow its work carefully, in particular, its programme to bring about convergence between IFRS and US GAAP. In April 2007, the US SEC announced its intention to drop its requirement on non-US issuers to produce a

reconciliation of their IFRS accounts with US GAAP and, following consultation, this was implemented for 2007 year-ends. At the same time, the SEC invited comments on a potential policy to give US companies the option of adopting IFRS. We consider these developments to be very encouraging. In view of the importance to the UK of the IFRS remaining a politically acceptable suite of accounting standards, we have also taken an interest in the proposals to reform the governance and accountability of the IASB.

Meanwhile, the ASB has taken a leading role in strengthening the capability of European standard-setting bodies to influence the IASB's thinking through its participation in EFRAG and PAAinE.

We are committed in principle to further convergence of UK GAAP with IFRS, but this is a complex issue on which our stakeholders hold a variety of views. We support the proposed IFRS for small and medium size enterprises, on which the ASB held a consultation last year, and we hope it will have a role to play in developing a proportionate approach to convergence.

### **Reviewing company reports**

The FRRP reviewed the reports of 300 companies in 2007/08. Our focus for much of last year was on the implementation of IFRS by listed companies. In our published report, we concluded that there was a good level of compliance but there were a number of issues requiring improvement. We gave increased attention to AIM companies, many of which were implementing IFRS for the first time. We also started to implement our new responsibilities for reviewing the business reviews contained in directors' reports.

In April 2007 we entered into a protocol with the SEC and the FSA to facilitate the sharing of information on the application of IFRS by issuers listed in the UK and the US. The ability of the FRC to work closely with the SEC is in the interests of users and preparers of financial statements of dual listed companies.

### **Assessment**

Our assessment is that this Strategic Outcome is being largely achieved at present. We see a number of risks to the continued achievement of this Outcome, notably that regulatory requirements may contribute to the provision of information that is overly complex and that the framework of UK accounting standards – taking account of EU requirements – may impose inappropriate burdens on UK companies.

We are alert to the risk that IFRS may develop in ways that do not contribute to their usefulness and/or that they may be adopted by the EU or other jurisdictions in ways that limit their value in providing a consistent international framework.

## Outcome Three – Auditing

*Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.*

Responsibility for the maintenance and improvement of confidence in the integrity of the audit opinion is down mainly to the auditors themselves and to company audit committees. Our contributions are made by the AIU, through its annual inspections of audit firms. The POB's oversight of the recognised supervisory bodies also plays a role, as do the auditing standard-making and standard-influencing roles of the APB. The reports of the APB and POB can be found on pages 18 and 22 respectively.

### **Credit market turbulence**

Before the 2007 year-end date, we had discussions with other regulatory authorities in the UK and internationally to compare views on the risks and the appropriate responses to the credit market turbulence. We also had discussions with the major audit firms to review their planned responses to the increased risks.

In mid-January, we issued a Bulletin providing guidance on audit issues that could arise, given the difficult market conditions. It focused on the risks of misstatement to financial statements for all entities arising from the possibility of the reduced availability of finance, and difficulties with valuing some assets for balance sheet purposes, especially those that are required to be measured at 'fair value'.

### **Choice in the audit market**

We continued our work on the risks arising from the high degree of concentration in the audit market. In April 2007, the Market Participants Group published its Interim Report and consultation continued over the summer months. In October, the MPG arrived at a consensus on 15 recommendations that, if implemented, could lead gradually to a market-based improvement of the functioning of the independent audit sector. We are monitoring progress on the implementation of the recommendations and will continue to report every six months on progress on the project.

International recognition of our role in leading debate on audit market concentration was heightened in October when the US Treasury established an Advisory Committee on the Auditing Profession, co-chaired by Arthur Levitt, former chairman of the SEC, and Don Nicolaisen, a former Chief Accountant of the SEC. I was pleased to accept an invitation to testify at a meeting of the Committee in December 2007.

### **Audit Quality**

We have stimulated wide discussion of audit quality following publication of our discussion paper on the subject in November 2006. More than 35 organisations and individuals responded to our paper. One of the first outcomes of this project has been the development of a framework of the drivers of audit quality, which we published in February 2008. The framework is intended to be dynamic, and will be updated as and when appropriate.

## **Audit inspection**

The results of the AIU's annual work in monitoring of audit quality at those firms which audit public interest clients in the UK were published in June 2007. The scope of the AIU's work now fully implements the conclusions of the Government 2003 "Review of the Regulatory Regime of the Accountancy Profession".

To increase transparency and meet increased expectations on the part of stakeholders, we made two important changes last year to the AIU's reporting arrangements. We will now publish high-level reports on each of the AIU's inspections of the major audit firms, and prepare new-style reports on each individual audit reviewed by the AIU, which audit firms can share with their clients. We believe that these changes will put us the forefront of best practice in audit monitoring among our major international peers.

Based on its work, the AIU considered the quality of auditing in the UK to be fundamentally sound.

## **Auditing standards**

We have devoted considerable resources to the IAASB's "Clarity" project, which is intended to improve international auditing standards, on which the APB's UK standards are based. This is especially important as the Statutory Audit Directive provides the basis for the adoption of IAASB's standards throughout the EU. The focus of our efforts has been on supporting the idea of principles-based standards and challenging calls for overly prescriptive requirements which might undermine the importance of professional judgement. The Clarity project is not planned to be completed until the end of December 2008 and will continue to be a priority for us in 2008/09.

We have actively contributed to the work of the International Forum of Independent Audit Regulators since its creation in September 2006. Having served as its Vice-Chairman in 2006/07, I am currently Chairman for the year to September 2008. We have already held a number of meetings and workshops, discussing a range of topics relating to audit inspections, highlighting both similarities and differences in the approaches of the different countries to audit regulation. In addition, the issue of how audit regulators should react to the global credit crisis has been discussed and ideas shared. I am very pleased by the development of international awareness and recognition of IFIAR.

## **Assessment**

Our assessment is that this Strategic Outcome is being largely achieved at present. We believe that there is a serious risk to the continued achievement of this Outcome from the current high level of concentration in the audit market. There is also a risk that ISAs develop in ways that are not principles-based.

## **Outcome Four – Actuarial practice**

*Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.*

Responsibility for the maintenance and improvement of confidence in actuarial information is shared among actuaries themselves, the actuarial professional bodies and the BAS and POB, whose reports can be found on pages 20 and 22 respectively.

Since its formation in April 2006, the main focus of the BAS has been on developing a conceptual framework to underpin the setting of technical standards for developing actuarial information that is complete, transparent and comprehensible. An important milestone was the publication in November 2007 of our consultation paper 'Towards a Conceptual Framework'. We received over 40 responses which were broadly supportive of the proposals but reflected a variety of views on aspects of the proposed framework. In light of these comments, we published, in March 2008, Exposure Drafts of the Conceptual Framework and Scope & Authority for actuarial technical standards, as well as a discussion paper on Actuarial Mortality Assumptions.

April 2008 saw the publication of two further important papers. The first was an Exposure Draft of a Reporting Standard. The second was a Consultation Paper on the Structure of the new BAS Standards. The second is a particularly important document as it broadly defines the work that we expect to carry out over the next two to three years, including how the adopted Guidance Notes will be absorbed into the new BAS Standards.

### **Assessment**

Despite this significant progress, our assessment is that there are still significant concerns about the achievement of this Strategic Outcome. These concerns will remain until adequate progress has been made on implementing the new Book of Standards and reviewing the arrangements for scrutinising the quality of actuarial advice, although we are now more confident that plans are in place to make the necessary progress.

## **Outcome Five – Professionalism of accountants and actuaries**

*Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.*

Oversight of the activities of members of the accountancy and actuarial professions is carried out by the relevant professional bodies. The POB verifies that the bodies' arrangements are effective and appropriate. The AADB provides independent investigation of the conduct of members of these professions in public interest cases. The reports of these bodies can be found on pages 22 and 26 respectively.

The POB's oversight of the regulatory activities of the Actuarial Profession gathered pace in 2007/08. The main projects under way are working with stakeholders to review the arrangements for the monitoring and scrutiny of actuarial work and to develop and promote an understanding of the drivers of actuarial quality.

The scope of the AADB's responsibilities was enhanced to include the conduct of members of the actuarial professional bodies, although no cases relating to actuaries were commenced during the year. The largest and most complex investigation relates to the conduct of Deloitte & Touche LLP in relation to MG Rover. Our work on this case continued but cannot be completed until after the inspectors appointed by BERR have reported the results of their investigation. During the year, we announced investigations into one new case and continued work on the four previously announced cases.

We completed a major review of our disciplinary scheme for accountants, and have consulted on a number of proposals for change. Included in the proposals are measures to address some of the issues raised by the outcome of the Mayflower case.

## **Assessment**

Our assessment is that this Strategic Outcome is being largely achieved at present. We believe there are significant risks to the continued achievement of this Outcome. The professional bodies could fail to address issues identified by the POB, and the professions could fail to recruit and retain sufficient numbers of high quality individuals. There is a further risk that, if the proposed changes to the AADB accountancy scheme are not approved, the scheme's effectiveness could be compromised by worries about adverse cost awards in the event of disciplinary complaints not being upheld.

### **Outcome Six – FRC Effectiveness**

*The FRC is an effective, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.*

## **Making the FRC a more capable organisation**

As I have said in previous years, we are primarily a knowledge-based organisation whose success depends crucially on the quality of our staff. I am delighted that we continue to be able to recruit experienced professional accountants, actuaries and lawyers to work for the FRC. During 2007/08 we strengthened our senior management structure by creating and filling the posts of Director of Auditing and Director of Corporate Reporting.

The Chairman has in his report commented on the important changes to our own governance, which are now in the final stages of implementation. The new Board has already helped us sharpen our focus and direct our efforts more effectively toward achieving the Outcomes in our Strategic Framework. We shall keep the Framework under review and will make changes, following consultation, if and when circumstances change.

I believe my reports and assessments above of our progress in the past year towards achieving our five main Outcomes demonstrate that we are “actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance”. I would now like to assess our effectiveness as a regulator on two other bases; our adherence to our regulatory principles and the management of our finances.

## **Our adherence to our regulatory principles**

We are committed to operate in accordance with the principles of good regulation established by the Better Regulation Commission - proportionality, accountability, consistency, transparency and targeting, and I set out below seven ways in which we adapt them to our situation. Our Regulatory Strategy<sup>1</sup> provides more detail on how we have adopted these principles in our work. Our regulatory principles are that:

- We work on the basis that a well-informed market is the best regulator.
- We target the use of our powers, taking a proactive, risk-based and proportionate approach, making effective use of Impact Assessments and having particular regard to the impact of regulation on small enterprises.
- We emphasise principles and clarity in our standard-setting and rule-making and seek to ensure, as far as it is appropriate to do so, that we are consistent with international standards.
- We are consultative - involving preparers, auditors, actuaries, users of corporate reports and other regulatory organisations in our decision-making and allowing adequate time for consultation, without compromising our independence or confidentiality.
- We recognise the importance of professional judgement in the way in which standards and rules are applied and enforced.
- Where we discharge a judicial or quasi-judicial function, we do so in accordance with our formal powers and the rules of natural justice.
- We are transparent, accountable and efficient in our work, and ensure that it receives appropriate publicity.

Examples of how we adhere to these principles can be found in my comments above on each Strategic Outcome.

## **Managing our finances effectively**

In section four of this report, we report on the way we have managed our finances in 2007/08. Our core operating costs in 2007/08 in relation to our responsibilities for accounting, auditing and corporate governance were £10.7m, which was very close to budget. Our core operating costs in relation to our responsibilities for actuarial standards and regulation were also close to budget at £1.8m. When these costs are considered against the range and significance of our responsibilities I believe that we are a very cost-effective organisation.

---

<sup>1</sup> Available on our website at <http://www.frc.org.uk/about/>

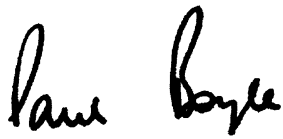


## **Assessment**

Our assessment for the Plan & Budget 2008/09 was that Strategic Outcome Six is being largely achieved at present. We are confident that we can continue to achieve this Outcome, but the Government's decision that the FRC should in the future be funded largely by market participants creates some risk to our funding arrangements in the medium term.

## **Looking ahead to 2008/09**

Our Plan & Budget for 2008/09, which we published in April 2008, contains a range of activities and projects which are intended to reinforce confidence in corporate reporting and governance, and to reduce the risks to confidence. I would point, in particular, to our project to review the complexity and relevance of current reporting requirements and to the continuation of our work on the risks arising from the degree of concentration in the audit market. However, the most important determinant of the level of confidence, particularly at a time of turbulence in many markets, is not the work of the FRC but the skills and behaviour of the large number of market participants who are responsible for corporate reporting and governance.

A handwritten signature in black ink that reads "Paul Boyle". The signature is written in a cursive, flowing style.

**Paul Boyle**

27 May 2008

## **Three – Reports of the Committee on Corporate Governance and the Operating Bodies**

### **Committee on Corporate Governance**

#### *Our role*

The Committee on Corporate Governance supports the Board of the FRC in its work on corporate governance. The Committee keeps under review developments in corporate governance generally, reflecting the FRC's objective of fostering high standards of corporate governance. In particular it publishes the Combined Code on Corporate Governance and oversees its implementation by listed companies and investors.

#### *Review of the Combined Code*

The Committee's main activity during 2007/08 was to oversee the latest of the FRC's periodic reviews of the Combined Code. The main conclusion from this review, which was published in November 2007, was that the Code continues to have a broadly beneficial impact, and is seen as having contributed to higher overall standards of governance among UK listed companies and to more professional boards.

However, while there are many positive indicators to suggest that the 'comply or explain' approach is working fairly well, such as the increase in resources devoted to engagement by institutional investors, there is also a good deal of frustration with its day-to-day operation. This view was held most strongly by smaller listed companies who perceive themselves to be of lower priority to investors.

We have consulted on two proposed changes to the Code: to remove the restriction on an individual chairing more than one FTSE 100 company; and, for listed companies outside the FTSE 350, to allow the company chairman to sit on the audit committee where he or she was considered independent on appointment. Consultation ended in March 2008 and the changes will take effect on 29 June 2008.

#### *Other action*

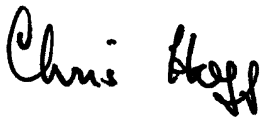
We have worked closely with BERR and the FSA on implementing the corporate governance requirements in the 4<sup>th</sup> and 8<sup>th</sup> EU Company Law Directives (which respectively require listed companies to produce a corporate governance statement and to have an audit committee). These will be implemented through the FSA Rules, which will also take effect at the end of June.

#### *Looking ahead*

In 2008/09 we will focus our efforts on improving the practical application of the Combined Code. Our review of the Code identified a number of challenges to the effectiveness of the 'comply or explain' approach, including the quality of disclosure by companies, changes in patterns of share ownership, increased contracting out of voting and engagement activity by investment institutions, and structural barriers to engagement.

*People*

As a result of the changes in the FRC's own governance arrangements, reported on page 1, the composition of the Committee changed in December 2007, with those members who had been members of the FRC Council standing down and being replaced by the majority of the non-executive directors on the new FRC Board. I would like to record my gratitude to the outgoing Committee for their invaluable advice and assistance during my time as Chair.

A handwritten signature in black ink that reads "Chris Hogg". The signature is written in a cursive, slightly slanted style.

**Sir Christopher Hogg (Chair)**

27 May 2008

## **Accounting Standards Board (ASB)**

### *Our role*

The ASB's main role is to issue accounting standards for the UK. But with the move to IFRS, it is increasingly focused on influencing the setting of standards by the IASB on behalf of its stakeholders.

### *Research*

In January 2008, the ASB issued a Discussion Paper on 'The Financial Reporting of Pensions' that proposes for discussion important changes to the way pension fund assets and liabilities are calculated and reported. The paper aims to stimulate debate and to influence the IASB and the US FASB as they review their current standards governing pensions.

The Discussion Paper is the outcome of an extensive research project, led by the ASB, as part of the PAAinE initiative, which is a partnership between the EFRAG and European accounting standard-setters. The views expressed in the paper are the preliminary views of the ASB; other bodies associated with it have not taken a position on them.

The Discussion Paper has attracted a significant amount of comment and reaction. The ASB is seeking responses by July. After consideration of the responses, a report setting out final recommendations will be issued for submission to the IASB and FASB.

The ASB continues to monitor closely the joint project by the IASB and FASB to develop a common conceptual framework that both Boards can use in preparing new and revised accounting standards. The project will have a significant influence on the future direction of financial reporting. The ASB led the development of another PAAinE paper to articulate the importance of stewardship as an objective of financial reporting.

### *Influencing*

During the year, the ASB has submitted substantial responses on a number of major IASB consultations, including fair value measurement, accounting for insurance contracts, and an Exposure Draft of a proposed IFRS for SMEs. We also work closely with other national standard-setters, and I chair a global group, in order to facilitate accounting research and communications, as well as to influence the IASB.

### *Europe*

Working within the EU remains an important element of the ASB's work, given that listed companies in the UK and Republic of Ireland are required to use EU-adopted IFRS in their group financial statements. During the year, the ASB has continued to play an active role in EFRAG, both in its work in advising the Commission on the endorsement of IFRS and as a partner in the PAAinE initiative.

## *UK GAAP*

The ASB has continued to discuss its strategy for convergence of UK standards with IFRS. Respondents to an ASB consultation on the Exposure Draft of an IFRS for SMEs broadly agree that such a standard might fit into the UK financial reporting regime as being suitable for application by 'middle entities', with the FRSSE continuing to be used by small companies. The convergence debate is now centred on whether there should be a three-tier or two-tier system of reporting.

As always, the ASB has engaged actively with its UK and Irish constituents, both to obtain input for developing our own standards and to help us in our interaction with the IASB and Europe. The convergence programme is now focusing on the myriad of detail involved in putting the overall principles into practice. A great deal of public consultation on the issues will be involved.

## *Looking ahead*

The major challenges faced by the ASB are threefold. The first is to continue to ensure an appropriate influence on the development of IFRS through high-quality submissions to, and communications with, the IASB, arguing the case for accounting standards based on clear principles rather than detailed rules. The second is to work for the timely adoption of IFRS as developed by the IASB for adoption in the EU. The endorsement process has become increasingly political and we work hard with our European counterparts and EFRAG to maintain the policy of using IFRS in Europe. This is of particular importance now that the US SEC allows foreign issuers to apply IFRS in the USA without reconciliation to US GAAP, and other major economies (such as China, India and Japan) are moving to adopt IFRS. The third major challenge, which will be particularly testing over the coming year, is to develop an appropriate strategy for convergence of UK standards with IFRS.

## *People*

There have been some changes in the membership of the ASB during the year. Roger Marshall and Helen Weir stood down, and I thank them for their contribution to the Board's work. I welcome three new members: Nick Anderson, Edward Beale and Andy Simmonds.



**Ian Mackintosh (Chair)**

27 May 2008

## **Auditing Practices Board (APB)**

### *Our role*

The APB issues standards and guidance for auditing, for the work of reporting accountants in connection with investment circulars and for auditors' integrity, objectivity and independence. It is active in influencing the setting of international auditing standards by the IAASB.

### *Auditing standards*

The finalisation of the EU Statutory Audit Directive in June 2006 provided the platform for the adoption of ISAs issued by the IAASB throughout Europe. Although no date has yet been specified for the adoption of ISAs by the EU this will become feasible once IAASB's Clarity Project has been completed at the end of 2008. The APB anticipated this development and, rather than issue its own new standards (except where necessitated by changes in UK law or regulation), it has directed its efforts at being actively involved in the work of the IAASB - contributing directly to some IAASB projects and indirectly, through commenting on exposure drafts. During 2007/08 APB has commented on 21 ISA exposure drafts.

The APB has also, through its press releases and other material published on the FRC website, sought to raise the awareness of UK and Irish auditors, investors and preparers of financial statements of the important changes that are being made to ISAs and to facilitate their input to the process.

### *Smaller audits*

The APB is conscious that auditing standards must be appropriate to all audits including the audits of smaller entities. Despite recent increases in the audit exemption threshold, many small companies are still audited and there remain statutory requirements for other small entities including charities and pension funds.

During the year the APB's SME Audit sub-committee has reviewed ISA exposure drafts and, through the APB's responses to IAASB, has been effective in eliminating those proposed requirements which are not appropriate on smaller audits and in adding to the guidance material on how the requirements can best be applied on smaller audits.

A particular concern of the SME Audit sub-committee has been the cost effectiveness of the documentation requirements in ISAs. During the year the APB issued guidance intended to help auditors understand what audit documentation is required on a smaller audit. This includes illustrative examples of audit documentation that are relevant to the requirements of the audit risk and fraud standards. The illustrative examples can be viewed as a training material and therefore not directly falling within the APB's remit. We have discussed with the accountancy professional bodies the important question of who provides training support on the application of auditing standards to audit firms, especially smaller audit firms. This will be an important issue when revised ISAs are adopted by the EU and the degree of change involved is likely to be considerable.

### *Ethical standards*

During the year, the APB undertook a review of its Ethical Standards for Auditors (ESs), proposed revisions to them for consultation in October 2007 and finalised updated standards in March 2008. Responses from the consultation process, together with research findings, suggest that the ESs seem to be meeting the needs of stakeholders and are working in practice. Additionally, the APB remains of the view that the ESs are proportionate to their purpose and are comparable with the highest standards internationally.

Work is also underway, through the International Ethics Standards Board for Accountants (IESBA), on a fundamental revision of international ethical standards. During 2007, the APB reviewed, and commented on, proposed changes to section 290 of the IFAC Code of Ethics on auditor independence.

As with auditing standards, the challenge will remain how to balance the need for standards that are sufficiently robust to meet the public interest test, especially for the audits of listed companies, with maintaining a workable approach to smaller audits.

### *Drivers of audit quality*

APB collaborated with other parts of the FRC in developing the 2006 Consultation Paper 'Promoting Audit Quality'. Responses to this confirmed the need to avoid auditing standards becoming too prescriptive, highlighted the critical importance of the skills and personal qualities of partners and staff and demonstrated that some investors believe that more needs to be done to increase the usefulness of the auditor's report. In response to this in December 2007, APB issued a consultation paper 'The Auditor's Report: A Time for Change?' exploring how this might be achieved.

### *People*

I welcome Paul Lee who was appointed to the APB during the year.



**Richard Fleck (Chair)**

27 May 2008

## **Board for Actuarial Standards (BAS)**

### *Our role*

The BAS is the UK's independent setter of technical actuarial standards.

### *Conceptual Framework*

Our main area of work during the year has been the development of a Conceptual Framework for actuarial standards. The first step was the publication in April 2007 of a Preliminary Consultation Paper 'Towards a Conceptual Framework'. This paper considered the application of certain core principles to actuarial information. It also contained a preliminary discussion of how these core principles might be applied to central actuarial concepts such as value, risk and forecasting – including mortality.

As part of the process of developing the Conceptual Framework, the BAS and the POB commissioned a survey of the needs of the principal users of actuarial services, focusing on the needs of pension trustees and NEDs of insurance companies. The survey indicated that NEDs had a higher level of confidence in understanding the intricacies of the actuarial information presented to them than did pension trustees. It highlighted a number of concerns, but the key priority identified was the need for actuaries to improve their communication. It also identified as a major challenge the need to deal with mortality and longevity assumptions.

The next step in the process was the publication of our Consultation Paper 'Towards a Conceptual Framework' in November 2007. This paper addressed the following issues:

- The scope of BAS standards - what actuarial work they should cover other than that specifically reserved to actuaries by regulation.
- The objectives and characteristics of standards - for instance, whether they should be generic or limited to a specific context, whether they should be principles based or rules based, and the need to address the outputs of actuarial work.
- The enforceability of standards - the BAS is proposing not to develop standards that are only recommendations. It is suggesting that all standards should have the same status, and non-compliance would generally render the actuary liable to disciplinary action.

As well as considering these issues the paper also discussed the likely content of a generic Reporting Standard. Such a standard would be a first step in addressing the problem of communication that had been highlighted in the Morris Review and was further identified in the survey of user needs. The paper attracted over 40 written responses and more than 500 people attended our consultation meetings.

While developing the Conceptual Framework, the BAS established two working groups to consider matters relevant to the calculation of value and the assessment of risk. The reports of these two working groups were published on the website in November 2007.



The formal implementation process for the Conceptual Framework continued with the publication of two Exposure Drafts in March 2008 covering the Conceptual Framework itself, and the Scope & Authority of the BAS.

### *Implementation of Standards*

With the Conceptual Framework implementation process now well advanced, the BAS has begun to focus on the creation of the new book of standards.

Work began in the second half of 2007 on mortality, and we published in March 2008 a Discussion Paper on Actuarial Mortality Assumptions.

April 2008 saw the publication of two important papers. The first was an Exposure Draft of a Reporting Standard. The second was a Consultation Paper on the Structure of the new BAS Standards, which broadly defines the work that the BAS expects to carry out over the next 2 to 3 years, including how the adopted Guidance Notes will be absorbed into the new BAS Standards.


### *Other Matters*

At the request of the FSA, the BAS prepared a report in September 2007 on the proxy methods that might be used by small general insurance companies for calculating insurance technical provisions for very small lines.

The BAS considered the IASB's Consultation Paper on Insurance Contracts and submitted detailed comments on it in December 2007. Generally, the BAS supported the paper but had a number of comments on the details of the proposals.

### *People*

In May 2007 the BAS recruited another full-time actuary increasing the professional staff to three. The Board's first Director of Actuarial Standards, Nigel Bankhead, stood down at the end of 2007. His role is being filled on an interim basis by an actuarial member of the Board until a new full time Director is appointed.

A handwritten signature in black ink, appearing to read 'Paul Seymour', with a long horizontal flourish extending to the right.

**Paul Seymour (Chair)**

27 May 2008

## **Professional Oversight Board (POB)**

### *Our role*

The POB provides independent oversight of the regulation of accountants and actuaries by their respective professional bodies. It provides statutory oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and, through the Audit Inspection Unit, monitors the quality of the auditing function in relation to economically significant entities.

### *Audit Inspection Unit*

We announced in December 2007 important changes to the way in which we report on the work of the AIU. These are designed to increase transparency and meet increased expectations on the part of stakeholders by publishing high-level reports on each of AIU's inspections of the major audit firms, and by preparing new-style reports on each individual audit reviewed by the AIU, which audit firms can share with their clients.

The AIU extended its audit inspection cycle so as to relate the frequency of visits more closely to the size and impact of the firms. Consequently, the number of firms where a full scope inspection visit was carried out was reduced from nine in 2006/07 to seven in 2007/08, including the largest six firms in both years. With four rounds of inspections now completed, we see good evidence that independent inspection is having a positive impact on audit quality by identifying the weaker aspects of an audit firm's procedures -and practices and ensuring the firm improves them. Whilst this offers no absolute guarantee against future audit failures, independent inspection – and the positive response of the firms – has, I believe, played a significant part in raising confidence in external audit.

### *Oversight of Audit Regulation*

We again monitored the work of each accountancy body that offers a recognised UK audit qualification or which we recognise to supervise UK auditors. The work this year has been focussed in each body more precisely on regulatory activities where there has been a significant change to processes or where we have identified a particular risk. We will report on this work to the Secretary of State later this year. All of the bodies take their regulatory responsibilities very seriously. Much of the practice we have seen is of a high standard, though we continue to identify some points of concern and elements in need of improvement.

### *Changes in the UK Regulatory Framework*

The need to give effect to the new European SAD has led to significant changes to the UK statutory framework within which we work, and has also led to an enhanced need for cooperation with our counterparts in other EU Member States. We have, therefore, worked closely with BERR to help ensure that we have an effective regulatory framework which does not impose disproportionate burdens. And we have played a significant role within the EGAOB, in particular on how to give effect to the complicated SAD provisions on the regulation of third country auditors of non-EU issuers. The revisions to the statutory framework took effect on 6 April 2008 and includes a new Order which increases the

responsibilities and powers delegated to us from Government. At the same time a new requirement to bring the statutory functions of the POB within the Freedom of Information Act took effect. As part of the preparation for this we have consulted on a Publications Scheme, which has been approved by the Information Commissioner.

#### *Oversight of Actuarial Regulation*

The POB's oversight of the regulatory activities of the Actuarial Profession started in 2006/07 and gathered pace in 2007/08. We have taken forward two major projects, which led to the publication in May of two discussion papers - to review with stakeholders the arrangements for the monitoring and scrutiny of actuarial work, and to develop and promote an understanding of the drivers of actuarial quality. We have also commented publicly on the Profession's draft Actuaries' Code, and in January 2008 published a further detailed report on the Profession's progress in implementing the recommendations made to it by the Morris Review of the Actuarial Profession.

#### *Contributing to the Wider FRC Auditing Agenda*

We continued to work closely with other parts of the FRC on key projects relating to audit. The work on audit quality reached fruition with the publication of the 'Audit Quality Framework' in February 2008. Work on 'Choice in the Audit Market' has moved into the implementation phase following the publication of the Report of the Market Participants' Group in October.

#### *Looking ahead*

I would identify three particular priorities for the POB in the coming year - to introduce the new arrangements for reporting on audit inspections effectively; to influence the detailed requirements for regulating third country auditors and apply them in an effective and proportionate way; and to take forward issues emerging from our projects on actuarial regulation.



**Sir John Bourn (Chair)**

27 May 2008

## **Financial Reporting Review Panel (FRRP)**

### *Our role*

The FRRP reviews company reports and accounts for compliance with the law and accounting standards. Its remit includes the annual accounts and directors' reports of all UK public companies and large private companies. The FRRP is also appointed to keep under review interim accounts of listed issuers and the periodic accounts of some overseas companies trading in the UK. The FRRP's aim is to improve the quality of financial reporting.

The FRRP writes to companies about their reports where it appears that there is, or may be, a question of non-compliance with the Companies Act or other reporting requirements.

### *Reviewing company accounts*

During the year, the FRRP reviewed 300 sets of accounts selected in accordance with its risk-based selection strategy. The selection included interim and annual accounts and included reports issued by overseas companies.

We also published a detailed report on the results of its reviews for the 2006/07 financial year. The report concentrated on the annual accounts of listed companies which had been prepared under IFRS for the first time. We found a good level of compliance with the international requirements which testified to the thoroughness of the preparatory work undertaken by companies and their auditors. The report aimed to remind preparers of the changes required by the international framework and to be of assistance to AIM quoted companies preparing for IFRS.

### *New responsibilities*

From 1 April 2007 our remit was extended to include directors' reports, including business reviews, for periods commencing on or after 1 April 2006. We have published our approach to the monitoring of narrative reports, which is to consider the directors' report as part of its review of the accounts as a whole. We consider whether the business review is consistent with the accounts and other material included in the annual report and whether it is balanced and comprehensive in dealing even-handedly with the development, performance and position of the business.

The scope of the FRRP's work was also increased by the Transparency Directive which introduced a mandatory requirement for interim accounts of listed issuers to comply with IAS 34, 'Interim Financial Reporting' and new rules issued by the FSA. Although not within our remit, we also reviewed a number of interim accounts of AIM quoted companies, prepared in accordance with IFRS principles, with a view to settling issues which arose in advance of the preparation of the companies' first IFRS annual accounts. Co-operation with the FRRP by AIM quoted companies was voluntary at that stage.

### *Other actions*

In February 2008, we reminded preparers of the new disclosure requirement arising from interim regulations implementing the Takeover Directive, which appeared to have been overlooked by a number of companies in the preparation of their directors' reports.

In March 2008 we published a revised set of operating procedures for public consultation. The proposed changes were aimed at maintaining public support of the FRRP's approach by clarifying existing practices and introducing new measures to further the transparency of its operations.

### *International cooperation*

Since the mandatory introduction of IFRS for group accounts of listed issuers in the EU, we have sought to improve its understanding of, and relationship with, overseas regulators. The FRRP is an active participant in EECS co-ordinated under CESR, and continues to serve on the Agenda Committee. The Panel will continue to liaise with other national enforcers of financial information to ensure that the advantages of its consensual approach are appreciated. It will aim to ensure that developments in the internationalisation and harmonisation of enforcement practices do not compromise the fundamental principles of peer review, confidentiality and trust on which the FRRP's success is based.

### *People*

During the year Richard Delbridge and Sir John Bourn left the Panel, having served three full terms. Robert Hildyard QC also retired when his term expired in March 2008. I am grateful to them for their years of service to the Panel.



**Bill Knight (Chair)**

27 May 2008

## **Accountancy and Actuarial Discipline Board (AADB)**

### *Our role*

The AADB is the UK's independent investigative and disciplinary body for accountants and actuaries. It is responsible for operating and administering separate disciplinary schemes for these two professions.

The Accountancy Scheme covers Members of the following accountancy professional bodies: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in Ireland, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in England and Wales.

On 16 August 2007 the AADB's remit was expanded to include the actuarial profession and on 13 September 2007 the Actuarial Scheme came into operation. It covers Members of the Faculty of Actuaries in Scotland and the Institute of Actuaries.

The focus of the AADB is on the investigation and, where appropriate, hearing by disciplinary tribunal of public interest cases where there may have been misconduct on the part of Members or Member Firms of the accountancy profession in the UK or Ireland who are subject to the Accountancy Scheme and Members of the actuarial profession in the UK.

### *Investigations*

During 2007/08 the AADB considered 16 potential matters. It also monitored a number of other potential cases which came to its attention from a number of sources. In June 2007, the AADB announced that it had decided to investigate the conduct of Members in relation to events at European Home Retail plc and Farepak Food & Gifts Ltd which led up to the collapse of Farepak Food & Gifts Ltd in October 2006.

The decision was taken following consultation with the ICAEW and CIMA.

### *Accountancy Scheme Review*

In early 2007, the AADB extended its review of the Accountancy Scheme to take account of issues highlighted by the hearing of its first formal complaint by a disciplinary tribunal under the Accountancy Scheme. At the conclusion of the review the AADB decided to propose a number of changes to the Accountancy Scheme. Changes to the Accountancy Scheme must be agreed by the participating accountancy bodies and the FRC and the AADB is in the process of consulting with these bodies. The AADB published its proposals in January 2008 and the public consultation on the proposals closed in April 2008.

### *Looking forward*

The AADB will focus on three priorities over the coming year.


First, it will continue to progress ongoing investigations and to bring potential matters to the attention of the Board as appropriate.

Second, it will conclude its consultation on the Accountancy Scheme Review, reconsider its proposals in the light of its analysis of the consultation responses, and seek the agreement of the participating accountancy bodies and the FRC to its revised proposals. The AADB will then consult with the actuarial profession on similar proposals in relation to the Actuarial Scheme.

Third, it will take appropriate and timely steps to replace those Board members whose terms are due to expire over the coming year and reappoint and replace members of the Tribunal panel as necessary. The FRC Nominations Committee has already appointed my successor. It will also put in place arrangements for selecting successors to three other Board members.

### *People*

In February 2008 three new Board members were appointed to the AADB, increasing the size of the Board from eight to eleven. I am pleased that Graham Aslet, Norval Bryson and Jeremy Barnett have chosen to contribute their valuable experience and knowledge to the work of the Board. The increase in the Board's size is the result of the expanded remit of the Board to include the actuarial profession. The Board retains its lay majority.



**Mike Fogden (Chair)**

27 May 2008

## Four – Expenditure and funding

Our Financial Management and Reporting Framework set out in Annex C provides the framework within which we manage and report on the costs of our activities and how they are funded. While we endeavour to secure value for money in all our expenditure, we believe that the cost of our core operating activities is the best indicator of our effectiveness in managing our costs.

### Summary of expenditure

	<b>Actual 2007/08 £m</b>	<b>Budget 2007/08 £m</b>	<b>Actual 2006/07 £m</b>
<i>Accounting, auditing and corporate governance</i>			
Core operating costs	10.7	10.9	10.8
Audit inspection costs	2.1	2.8	2.1
Accountancy disciplinary case costs	1.1	1.0	0.9
Review Panel case costs	-	-	-
<b>Total</b>	<b><u>13.9</u></b>	<b><u>14.7</u></b>	<b><u>13.8</u></b>
<i>Actuarial standards and regulation</i>			
Core operating costs	1.8	1.8	1.4
Actuarial disciplinary case costs	-	-	-
<b>Total</b>	<b><u>1.8</u></b>	<b><u>1.8</u></b>	<b><u>1.4</u></b>
<b>Total</b>	<b><u><u>15.7</u></u></b>	<b><u><u>16.5</u></u></b>	<b><u><u>15.2</u></u></b>

Our audited financial statements are in Annex A on pages 44 to 59. The expenditure as reported above can be reconciled to the audited financial statements as follows:

	<b>£m</b>
Total expenditure in the table above	15.7
Deduct: Capital expenditure included in core operating costs	(0.2)
Deduct: Tax on bank interest included in core operating costs	(0.1)
Add: Depreciation not included in core operating costs	0.3
Net operating expenditure per audited financial statements (page 44)	<u><u>15.7</u></u>



## Accounting, auditing and corporate governance

### Core operating costs

Core operating costs, analysed by category of expenditure were as follows:

	Actual 2007/08 £m	Budget 2007/08 £m	Actual 2006/07 £m
Staff costs	8.3	8.0	7.2
Accommodation costs	0.8	1.0	1.1
Professional fees	0.6	0.6	0.3
IT costs	0.5	0.5	0.5
Other costs	1.0	0.9	1.1
Contingency	-	0.3	-
AADB costs award	-	-	1.0
	<u>11.2</u>	<u>11.3</u>	<u>11.2</u>
Sundry income	(0.7)	(0.5)	(0.6)
Capital expenditure	0.2	0.1	0.2
<b>Total</b>	<u><u>10.7</u></u>	<u><u>10.9</u></u>	<u><u>10.8</u></u>
Staff numbers	58	63	55

Core operating costs, analysed by operating unit, were as follows:

	Actual 2007/08		Budget 2007/08		Actual 2006/07	
	£m	Staff	£m	Staff	£m	Staff
ASB	2.3	13	2.4	13	1.8	13
APB	1.0	6	1.2	7	0.9	6
FRRP	1.8	10	1.9	12	1.4	10
POB	1.3	6	1.3	7	1.5	7
AADB	1.0	5	1.0	6	1.9	4
CGU	0.1	1	0.1	1	0.1	1
Planning & Resources	1.9	12	1.8	12	2.0	9
Corporate	1.3	5	1.2	5	1.2	5
<b>Total</b>	<u><u>10.7</u></u>	<u><u>58</u></u>	<u><u>10.9</u></u>	<u><u>63</u></u>	<u><u>10.8</u></u>	<u><u>55</u></u>

These figures represent the core operating costs of each operating unit plus an allocation of the central overheads based on the number of full time equivalent staff members in each operating unit.

### *Audit Inspection Unit*

The costs of the AIU represent the costs of the programme of independent audit inspections. The costs in 2007/08 were £ 2.1m compared to a budget of £2.8m and a budget of £2.5m in 2006/07. The average number of AIU staff increased to 17 from 16 in 2006/07. For 2007/08, costs are net of £0.1m of fee income received from the Audit Commission in respect of inspection work undertaken by the AIU.

### *Investigation and disciplinary case costs*

During the year the AADB incurred costs of £1.1m in relation to investigating and prosecuting individual cases. These costs are not susceptible to firm budgetary limits because the number and complexity of cases is unpredictable.

### *The business levy 2007/08*

The business levy, which applied to companies listed on the London Stock Exchange Main Market, was collected on our behalf by the FSA at the same time that it collected its own fees, which helped to reduce the costs of collection. The levy rates set at the beginning of 2007/08 resulted in collections of around £0.2m more than planned. This excess will be taken into account in setting the business levy rates for 2008/09 which will be lower than would otherwise be the case.

## **Actuarial standards and regulation**

### *Core operating costs*

Core operating costs comprise the cost of BAS, the cost of the work undertaken by POB and AADB in relation to actuarial matters, and a fair apportionment of the cost of our support services and corporate costs (£0.7m in 2007/08). The average number of staff working on actuarial standards and regulation in 2007/08 was 6 compared to 5 in 2006/07.

### *Actuarial disciplinary case costs*

The formalities relating to the extension of the scope of the AADB's work to include actuarial costs were completed in 2007. There was no expenditure on cases during the year.

### *Actuarial Standards and Regulation – Funding Requirement*

Our funding for our work on actuarial standards and regulation was as set out below:

	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>
	<b>2007/08</b>	<b>2007/08</b>	<b>2006/07</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Core operating costs	1.8	1.8	1.4
Actuarial disciplinary case costs fund	0.3	0.3	-
Recovery of set-up costs	0.1	0.1	0.3
<b>Total</b>	<b>2.2</b>	<b>2.2</b>	<b>1.7</b>

The funding of our work on actuarial standards and regulation comes from the actuarial profession (10%), insurance companies (45%) and pension funds (45%).

## **Reserves**

The Directors believe it is prudent to maintain reserves to meet unforeseen circumstances in recognition of the fact that the FRC has entered into a number of long-term commitments. The target level of reserves is kept under review by the Directors.

At 31 March 2008 our General Fund showed a surplus of £1.1m, approximately the same level as 31 March 2007. The Directors will continue to keep the level under review.

## **Annex A – Directors’ Report and Accounts for the year ended 31 March 2008**

**Financial Reporting Council Limited – Company number 2486368**

	<b>Page</b>
<b>Directors’ Report</b>	<b>33</b>
<hr/>	
<b>Statement of Directors’ Responsibilities</b>	<b>41</b>
<hr/>	
<b>Independent Auditor’s Report to the Members of The Financial Reporting Council Limited</b>	<b>42</b>
<hr/>	
<b>Consolidated Income and Expenditure Account</b>	<b>44</b>
<hr/>	
<b>Balance Sheets</b>	<b>45</b>
<hr/>	
<b>Consolidated Cash Flow Statement</b>	<b>46</b>
<hr/>	
<b>Notes to the Financial Statements</b>	<b>47</b>
<hr/>	

## Directors' Report

The Directors have pleasure in presenting their report and financial statements for the year ended 31 March 2008.

### Principal Activity

The aim of the FRC is to promote confidence in corporate reporting and governance. The functions we carry out in pursuit of this aim are exercised principally 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) and by the Board. The Committee on Corporate Governance, a committee of the Board, assists the Board in its work on corporate governance. The operating bodies and the Committee are supported by the FRC's professional staff (the "Executive"). Details of our organisational structure and the roles of the various parts of the FRC are set out in our Regulatory Strategy, available on our website at: <http://www.frc.org.uk/about>.

### FRC Board

During the year, with the support of our stakeholders, we commenced the revision of our governance arrangements. Up to November 2007 all Directors, with the exception of the Chief Executive, were appointed by the Secretary of State for Business, Enterprise and Regulatory Reform.

In accordance with the planned governance changes, on 1 November 2007, seven new non-executive Directors were appointed to the FRC Board by a Temporary Nominations Committee which had been established for this one-off task. The new Deputy Chair was appointed by the Secretary of State. The Chief Executive's directorship was confirmed by the new Board.

Two executive Directors were appointed by the non-executive Directives. The outstanding four executive Directors will be appointed to the Board in 2008/09.

The Chair and the Deputy Chair will continue to be appointed by the Secretary of State and the Board as a whole will appoint the other Directors.

### Directors

Sir Christopher Hogg	* CN	Chair
The Hon Barbara Thomas Judge	*†	Deputy Chair - <i>up to 6 November 2007</i>
Baroness Hogg	RNC	Deputy Chair - <i>from 1 November 2007</i>
Paul Boyle	C	Chief Executive
Eric Anstee	NA	Former Chief Executive of The Institute of Chartered Accountants in England & Wales - <i>from 1 November 2007</i>
Tim Breedon	*†	Group Chief Executive, Legal and General - <i>up to 6 November 2007</i>

Peter Chambers	RC	Chief Executive Officer at Legal & General Investment Management – <i>from 1 November 2007</i>
Paul Druckman FCA	*†	Chairman, Clear Group – <i>up to 6 November 2007</i>
Bill Knight		Chair, FRRP – <i>from 13 February 2008</i>
Ian Mackintosh		Chair, ASB – <i>from 13 February 2008</i>
Rudy Markham	AC	Former Financial Director, Unilever – <i>from 1 November 2007</i>
Sir Michael Rake		Chairman, BT Group plc – <i>from 1 November 2007</i>
Sir Steve Robson CB	NC	Former Second Permanent Secretary, HM Treasury – <i>from 1 November 2007</i>
Sir John Sunderland	*†NRC	Chairman, Cadbury Schweppes
Lindsay Tomlinson	AC	Vice Chairman, Barclays Global Investors Europe – <i>from 1 November 2007</i>

#### Key to symbols:

- \* member of Nominations and Remuneration Committees up to 6 November 2007;
- † member of Audit Committee up to 6 November 2007;
- N member of the Nominations Committee;
- R member of the Remuneration Committee;
- A member of the Audit Committee;
- C member of the Committee on Corporate Governance.

Under the terms of the FRC's Memorandum and 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.

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:

#### Board Meetings

Sir Christopher Hogg	7/7
Eric Anstee	2/3
Paul Boyle	7/7
Tim Breedon	3/4
Peter Chambers	3/3
Paul Druckman FCA	2/4
Baroness Hogg	3/3
The Hon Barbara Thomas Judge	4/4
Bill Knight	0/0
Ian Mackintosh	0/0
Rudy Markham	2/3
Sir Michael Rake	2/3

Sir Steve Robson CB	3/3
Sir John Sunderland	7/7
Lindsay Tomlinson	3/3

## Committees of the Board

### *Nominations Committee*

The Nominations Committee is responsible for the selection process and succession planning for members of the operating bodies. The Committee is also responsible for the oversight of the selection process of the Company's senior management.

During the year, the Committee approved 27 appointments and re-appointments to the operating bodies and 2 senior management appointments.

The Nominations Committee met once during the year and most of the business of the Committee was done by correspondence. Attendance was as shown below:

Baroness Hogg (Chair)	1/1
Sir Christopher Hogg	1/1
Sir John Sunderland	1/1
Eric Anstee	0/1
Sir Steve Robson CB	1/1

### *Remuneration Committee*

The Remuneration Committee is directly responsible for determining and reviewing the remuneration policy for the FRC. It sets the remuneration of the Chief Executive and of the Chairs and members of the Operating Bodies, and approves the remuneration recommendations of the Chief Executive for the senior management team.

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

Sir John Sunderland (Chair)	2/2
Sir Christopher Hogg	2/2
The Hon Barbara Thomas Judge	2/2
Tim Breedon	1/2
Paul Druckman FCA	2/2

### *Audit Committee*

The Audit Committee is responsible for monitoring the quality and integrity of the accounting, auditing, and reporting practices of the Company and its subsidiaries. The Committee's purpose is to scrutinise the

accounting and financial reporting processes of the Group and Company and the audits of the Group and Company's financial statements. It reviews the qualifications and the performance of the public accounting firm engaged as the independent auditors in the preparation and issue of the audit report on the financial statements. The Committee considers the appointment, compensation, retention and oversight of the independent auditor, making recommendations to the Board on these matters.

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

Paul Druckman (Chair to 06 Nov 2007)	1/1
Rudy Markham (Chair from 11 Dec 2007)	1/1
Eric Anstee	1/1
Tim Breedon	1/1
The Hon Barbara Thomas Judge	1/1
Sir John Sunderland	1/1
Lindsay Tomlinson	1/1

The FRC is a small organisation with a relatively small proportion of its staff having a role in the financial reporting processes. The Committee has reviewed the need for an internal audit function and concluded that it would be neither necessary nor cost-effective for the FRC.

The independent auditor has in the year provided some non-audit services to the FRC. Objectivity and independence have been safeguarded through a robust process to avoid conflicts of interest and requiring the partners and staff of the auditors to declare their independence on an annual basis. The Committee are agreed that the objectivity of the audit engagement partners and audit staff is not impaired.

## **Business and Financial Review**

### *Business review*

The activities of the FRC during 2007/08 and the expected developments in 2008/09 are summarised on pages 1 to 27. Since the FRC is a not-for-profit organisation and does not sell goods or services, the Directors consider that non-financial factors are of greater relevance than financial key performance indicators to an understanding of its performance. The Directors do attach particular importance to the level of core operating costs as the primary indicator of the FRC's effectiveness in managing costs. A comparison of core operating costs against budget and against previous years is shown on page 28.

### *Financial review*

Total operating expenditure was £ 16,986,000 (2006/07 £15,599,000). We did not incur any investigation costs which were charged to the Legal Costs Fund during the year (2006/07 £14,000). The Legal Costs Fund may be used only to meet legal, professional and other costs of the FRRP's investigations.

Gross income from publications was £ 764,000 (2006/07 £765,000). Interest, including interest on the Legal Costs Fund, has been used to offset general operating costs, and amounted to £369,000 before taxation



(2006/07 £287,000). The AIU received £127,000 of income from the Audit Commission during the year (2006/07 £ nil).

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

- Department for Business, Enterprise and Regulatory Reform
- Consultative Committee of Accountancy Bodies
- Listed companies
- Actuarial Profession
- Insurance companies
- Pension schemes

Revenue received towards operating costs and capital expenditure for accounting, auditing and corporate governance amounted to £10,756,000 (2006/07 £10,182,000). In accordance with SSAP 4 (Accounting for government grants) £192,000 (2006/07 £153,000) of the income relating to capital expenditure, was deferred. £275,000 of the deferred income has been released in the year (2006/07 £314,000).

£14,000 (2006/07 £11,000) was received during the year from organisations earmarked for the Legal Costs fund as these costs were incurred in 2006/07. As indicated in Note 5 to the accounts, revenue to make good drawings on the Legal Costs Fund is not sought until the financial year following the expenditure.

£250,000 (2006/07 £nil) was received during the year from organisations earmarked for the actuarial case cost fund.

The audit inspection costs and the investigation and discipline case costs were funded entirely by the relevant CCAB bodies.

Revenue received towards operating costs and capital expenditure for actuarial standards and regulation amounted to £1,831,000 (2006/07 £1,378,000).

There was a surplus for the year on general activities of £83,000 (2006/07 117,000). The accumulated general surplus as at 31 March 2008 was £1,153,000 (2006/07 £1,070,000).

### *Staff*

The Company values the involvement of its employees in its affairs, policy development and performance. Feedback from staff on Company affairs and performance is encouraged through regular team and staff meetings presided over by their senior manager and the Chief Executive respectively. Staff participate in HR policy development through focus groups and consultation.

The Company recruits staff on the basis of fair and open competition and selection on merit. Applications are invited from suitably qualified people without regard to gender, disability, ethnicity, sexual-orientation, nationality, age or religion. The Company strives towards best practice in its HR policies, is

aware of and tries to ensure a reasonable work-life balance amongst its employees, and strives toward best practice.

The Company appreciates its responsibilities to protect the health and safety of its employees and to enhance their potential through targeted training, professional and personal development. The Company regards it as a fundamental right for everyone to be able to work in an environment which is free of harassment and discrimination, and does not tolerate any form of unacceptable behaviour.

#### *Impact on the environment*

The Company carefully considers its impact on the wider environment. During the course of the year we developed processes to assess and manage the Company's environmental impact. A number of steps were taken to reduce our environmental impact and raise environmental awareness across the Company.

#### *Future developments*

For some years, the Government has contributed a third of our core operating costs in relation to our responsibilities for accounting, auditing and corporate governance. On 6 February, the Government announced that these responsibilities should in future be funded largely by market participants.

The Government has confirmed that it will continue to make a substantial contribution to our costs for at least the 2008/09 financial year. We will publish a consultation document on the principles and approach in relation to our future funding arrangements in the first half of 2008. In autumn 2008, we will issue detailed proposals for our future funding arrangements.

It is our intention to continue to raise our funds on a non-statutory basis based on the widespread support in the business, investor and professional communities for our work. This approach has worked successfully and flexibly since 1990. The Companies (Audit, Investigations and Community Enterprise) Act 2004 provides for the Secretary of State to make regulations enabling the FRC to recover our costs through a statutory levy, but we believe that non-statutory arrangements are more flexible and cost-effective. The Directors believe that the FRC will continue to command the support of market participants to operate in a cost-effective manner.

#### *Principal risks and uncertainties*

The Company's most important asset is its reputation as an effective and influential regulator. In the current context of a credit crunch and economic uncertainty there is a heightened possibility of the risk of failures in corporate governance and reporting, with consequent risk of the loss of confidence in UK markets and in the FRC itself. As is made clear in the FRC's Strategic Framework, the responsibility for that confidence is shared among a wide range of government departments, agencies and professionals, and is therefore beyond the sole direct control of the FRC. Nevertheless the FRC does everything within its powers to minimise this risk and encourages others to take appropriate actions.

In finalising our Plan & Budget for 2008/09, we revised our assessment of the risks to the achievement of our Strategic Outcomes to take account of the credit crunch and current economic uncertainty. The Plan is available on our website at: <http://www.frc.org.uk/about/plans.cfm>.

Other significant risks and uncertainties which face the FRC are:

- The proposed funding arrangements, which are based on continuing widespread support from market participants, failing to command sufficient support.
- Failure to retain and recruit sufficient members of the Operating Bodies and the Executive of the high quality necessary to deliver the activities and projects in the annual Plan.
- The potential for awards of substantial costs against the FRC relating to enforcement activities.
- Failures to identify and address significant defects in the execution of the FRC's regulatory responsibilities.

The Directors keep these risks and uncertainties under review and believe that appropriate steps to mitigate them have been taken or are planned, examples are given in the Chief Executive's Report (pages 4 to 13).

## Directors' Emoluments

The remuneration of the Chair and Deputy Chair is determined and reviewed by the Secretary of State. The remuneration of the other Directors is determined and reviewed by the Board. Prior to November 2007, the remuneration of all the Directors, with the exception of the Chief Executive, was determined by the Secretary of State. The total remuneration and benefits, excluding pension contributions, received as Directors is shown in the following table, which has been subject to audit.

		2007/08	2006/07
		£	£
Sir Christopher Hogg		130,000	130,000
The Hon Barbara Thomas Judge	(to 6 Nov 2007)	11,667	20,000
Baroness Hogg	(from 01 Nov 2007)	12,500	-
Eric Anstee	(from 01 Nov 2007)	8,333	-
Paul Boyle		339,909	312,783
Tim Breedon	(to 6 Nov 2007)	8,750	15,000
Peter Chambers	(from 01 Nov 2007)	8,333	-
Paul Druckman	(to 6 Nov 2007)	8,750	15,000
Bill Knight	(from 13 Feb 2008)	9,154	-
Ian Mackintosh	(from 13 Feb 2008)	39,231	-
Rudy Markham	(from 01 Nov 2007)	8,333	-
Sir Michael Rake	(from 01 Nov 2007)	8,333	-
Sir Steve Robson CB	(from 01 Nov 2007)	8,333	-
Sir John Sunderland		17,083	15,000
Lindsay Tomlinson	(from 01 Nov 2007)	8,333	-

The amounts payable to Bill Knight and Ian Mackintosh include the remuneration payable in respect of their roles as Chairs of the FRRP and ASB respectively for the period from the date of their appointment as Directors.

The only Director who is entitled to receive pension benefits is the Chief Executive, in respect of whom contributions of £29,575 (2006/07 £25,707) were paid to a personal pension arrangement.

*Other matters*

The Company's policy and practice are to make payments to creditors on a weekly basis. No contributions were made for political or charitable purposes. The Company is not listed; there are no directors' shareholdings and no acquisition by the company of its own shares.

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 Company's auditors are unaware. Each Director has taken all necessary steps to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

**Anne McArthur**

*Company Secretary*

27 May 2008

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the surplus or deficit of income over expenditure of the Group for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of each Company and hence taking reasonable steps for the prevention and detection of fraud or other irregularities.

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

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

We have audited the group and company financial statements ("the financial statements") of The Financial Reporting Council Limited for the year ended 31 March 2008 which comprise the consolidated Income and Expenditure Account, the group and company balance sheets, the consolidated cash flow statement and the related notes numbered 1 to 22. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements are properly prepared in accordance with the Companies Act 1985 and the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Chair's statement, Chief Executive's Report, Committee on Corporate Governance, Operating Body Reports, the reports headed "Expenditure and Funding" and Annexes B to G. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information beyond that referred to in this paragraph.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant

estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's surplus of income compared to expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information provided in the directors' report is consistent with the financial statements.

Horwath Clark Whitehill LLP  
Chartered Accountants and  
Registered Auditors  
London

27 May 2008

The Financial Reporting Council Limited  
Consolidated Income and Expenditure Account  
Year ended 31 March 2008

		2007/08			2006/07		
	Notes	Accounting, auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000	Accounting, auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000
Operational expenditure	2	15,186	1,800	16,986	14,221	1,378	15,599
Other operating income	6	(891)	-	(891)	(765)	-	(765)
Net interest income	7	(364)	(5)	(369)	(245)	-	(245)
<b>NET OPERATING EXPENDITURE</b>		<b>13,931</b>	<b>1,795</b>	<b>15,726</b>	<b>13,211</b>	<b>1,378</b>	<b>14,589</b>
<b>REVENUE</b>	8	<b>14,101</b>	<b>2,081</b>	<b>16,182</b>	<b>13,408</b>	<b>1,378</b>	<b>14,786</b>
Surplus before taxation		170	286	456	197	-	197
Taxation	9	(108)	(1)	(109)	(83)	-	(83)
<b>SURPLUS AFTER TAXATION</b>		<b>62</b>	<b>285</b>	<b>347</b>	<b>114</b>	<b>-</b>	<b>114</b>

The notes on pages 47 to 59 form part of these financial statements. There were no recognised gains or losses in the current or previous financial period other than those contained within the Consolidated Income and Expenditure account, and accordingly a Statement of Total Recognised Gains and Losses has not been presented. All operations are continuing.



The Financial Reporting Council Limited  
Balance Sheets  
Year Ended 31 March 2008

	Notes	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>FIXED ASSETS</b>					
Tangible assets	10	<u>933</u>	<u>1,027</u>	<u>933</u>	<u>1,027</u>
<b>CURRENT ASSETS</b>					
Debtors	11	<b>1,093</b>	1,610	<b>1,093</b>	1,610
Cash at bank and in hand	12	<u>5,337</u>	<u>4,727</u>	<u>5,337</u>	<u>2,728</u>
		<b>6,430</b>	6,337	<b>6,430</b>	4,338
<b>CREDITORS:</b>					
Amounts falling due within one year	13	<b>(2,945)</b>	(3,228)	<b>(2,945)</b>	(3,215)
<b>NET CURRENT ASSETS</b>					
		<u><b>3,485</b></u>	<u>3,109</u>	<u><b>3,485</b></u>	<u>1,123</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		<b>4,418</b>	4,136	<b>4,418</b>	2,150
<b>CREDITORS:</b>					
Amounts falling due after more than one year	14	<b>(825)</b>	(915)	<b>(825)</b>	(915)
<b>PROVISIONS FOR LIABILITIES</b>					
	15	<b>(190)</b>	(165)	<b>(190)</b>	(165)
<b>NET ASSETS</b>					
		<u><b>3,403</b></u>	<u>3,056</u>	<u><b>3,403</b></u>	<u>1,070</u>
<b>CAPITAL AND RESERVES</b>					
Accounting, Auditing & Corporate Governance	16	<b>3,118</b>	3,056	<b>3,118</b>	1,070
Actuarial Standards & Regulation	16	<b>285</b>	-	<b>285</b>	-
		<u><b>3,403</b></u>	<u>3,056</u>	<u><b>3,403</b></u>	<u>1,070</u>

Approved by the Board of Directors on 27 May 2008 and signed on its behalf by:

Sir Christopher Hogg, Chair  
Paul Boyle, Chief Executive

The notes on pages 47 to 59 form part of these financial statements.

The Financial Reporting Council Limited  
Consolidated Cash Flow Statement  
Year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	18	<u>222</u>	<u>(382)</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		<u>369</u>	<u>287</u>
<b>TAXATION</b>			
Corporation Tax paid		<u>(82)</u>	<u>(78)</u>
<b>CAPITAL EXPENDITURE</b>			
Cash paid for fixed assets		<u>(91)</u>	<u>(153)</u>
Contributions from sponsors towards capital expenditure		<u>192</u>	<u>153</u>
		<u>101</u>	<u>-</u>
<b>NET CASH FLOW BEFORE AND AFTER FINANCING</b>		<u>610</u>	<u>(173)</u>
<b>INCREASE/(DECREASE) IN CASH IN THE YEAR</b>	12	<u>610</u>	<u>(173)</u>
<b>RECONCILIATION OF MOVEMENT IN NET FUNDS</b>			
Net funds at 1 April 2007		4,727	4,900
Increase/(decrease) in cash in the year		610	(173)
Net funds at 31 March 2008	12	<u>5,337</u>	<u>4,727</u>

Net funds consist solely of cash at bank.

The notes on pages 47 to 59 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 Group's financial statements.

### a) Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

### b) Accounts presentation

In order to reflect more fairly that the Group's expenditure is met by contributing organisations, the Directors have presented the Income & Expenditure Account to focus initially on the group's net operational expenditure and funding requirement and thereafter on the various contributions received from its funding groups. Further categories have been included to provide a fairer representation of the company's income & expenditure.

### c) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, after elimination of balances and transactions between members of the Group.

### d) Revenue

The Group has a variety of sources of revenue, some of which becomes receivable in respect of financial years and some of which becomes receivable as a result of expenditure incurred by the Group.

Sources of revenue receivable in respect of financial years are:

In respect to accounting, auditing and corporate governance, revenue in respect of core operating costs is determined by reference to the annual funding requirement.

In respect to actuarial, standards and regulation, revenue in respect of core operating costs and contributions to the actuarial case costs fund is determined by reference to the annual funding requirement.

Revenue which contributes towards capital expenditure is accounted for as deferred income and is credited to the Income and Expenditure Account over the expected useful life of the relevant tangible fixed assets on a basis consistent with the depreciation policy applied in respect of the related assets.

Sources of revenue as a result of expenditure incurred by the Group are:

Revenue in respect of AIU inspection costs is set at a level which matches the costs incurred in each financial year.

Revenue in respect of AADB accountancy disciplinary case costs is set at a level which matches the costs incurred in each financial year.

Revenue in respect of FRRP legal costs (note 5) is set at a level which meets the costs incurred in the preceding financial year.

**e) Case Costs**

The legal and professional costs of AADB and FRRP cases cannot be estimated with reasonable certainty until the investigation is substantially complete. Provision is made to the extent that costs have been incurred at the balance sheet date. Legal and professional costs of FRRP cases are charged to the Legal Costs Fund.

**f) Depreciation**

Depreciation is provided on all tangible fixed assets 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	term of lease	straight line basis

During the year the company revised the expected useful life of its fixtures, fittings & furniture to reflect operational experience to date. Estimated useful life has been extended from 5 years to 10 years. The effect of the revision is a decrease in the depreciation charge of £55,000 and a similar decrease in the release of deferred income in 2007/08.

**g) Leased Assets**

Total rentals payable under operating leases are charged to the Income and Expenditure Account over the term of the lease on a straight line basis.

**h) Estimates and Assumptions**

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 affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**i) Dilapidations**

Provision is made for the estimated costs of dilapidation repairs. Estimated costs of removing leasehold improvements are provided and capitalised in accordance with FRS15, such expenditure being amortised over the term of the lease.

**j) Deferred Taxation**

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

**k) 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. FRC pays over to the IASB the amount it requires up to the amount collected.

**2. OPERATIONAL EXPENDITURE**

	2007/08			2006/07		
	Accounting, auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000	Accounting, auditing and corporate governance £'000	Actuarial standards and regulation £'000	Total £'000
Staff costs (note 3)	10,690	1,175	11,865	9,366	632	9,998
Other operating charges (note 4)	3,344	625	3,969	3,245	746	3,991
AADB case costs	1,152	-	1,152	923	-	923
Costs awarded against AADB	-	-	-	988	-	988
FRRP case costs (note 5)	-	-	-	14	-	14
Credit for onerous lease	-	-	-	(315)	-	(315)
	<u>15,186</u>	<u>1,800</u>	<u>16,986</u>	<u>14,221</u>	<u>1,378</u>	<u>15,599</u>

**3. STAFF COSTS (INCLUDING DIRECTORS)**

	2007/08 £'000	2006/07 £'000
Permanent staff:		
Salaries	7,646	6,261
Social security costs	957	764
Other pension costs	570	378
	<u>9,173</u>	<u>7,403</u>
Seconded staff and contractors	1,427	1,470
Fees to operating body and committee members	1,063	957
Other costs	202	168
	<u>11,865</u>	<u>9,998</u>

The Financial Reporting Council Limited  
Notes to the Financial Statements  
Year ended 31 March 2008

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

The average monthly number of employees during the year was as follows:

	<b>2007/08</b>	<i>2006/07</i>
	<b>No.</b>	<i>No.</i>
ASB	<b>13</b>	<i>13</i>
AIU	<b>17</b>	<i>16</i>
APB	<b>6</b>	<i>6</i>
FRRP	<b>10</b>	<i>10</i>
POB	<b>8</b>	<i>9</i>
AADB	<b>5</b>	<i>4</i>
BAS	<b>4</b>	<i>3</i>
Support Services and Corporate	<b>18</b>	<i>15</i>
	<b>81</b>	<i>76</i>

#### **DIRECTORS' EMOLUMENTS**

	<b>2007/08</b>	<i>2006/07</i>
	<b>£'000</b>	<i>£'000</i>
Fees (included in staff costs)	<b>627</b>	<i>508</i>

The only Director who is entitled to receive a pension benefit is the Chief Executive, in respect of whom contributions of £29,575 (2006/07 £25,707) were paid to a personal pension arrangement.

Details of the emoluments of the directors are contained in the Directors' Report.

#### **4. OTHER OPERATING CHARGES**

	<b>2007/08</b>	<i>2006/07</i>
	<b>£'000</b>	<i>£'000</i>
Other operating charges include:		
Depreciation (note 10)	<b>286</b>	<i>325</i>
Operating leases (note 1g)		
- land and buildings	<b>446</b>	<i>448</i>
- office equipment	<b>7</b>	<i>7</i>

#### 4. OTHER OPERATING CHARGES (continued)

The auditor's remuneration is as follows:

	2007/08 £'000	2006/07 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	29	7
Fees payable to the company's auditors for other audit services to the group: The audit of the company's subsidiaries pursuant to legislation	-	16
<b>Total audit fees</b>	<u>29</u>	<u>23</u>
Other services:		
- Taxation services	5	3
- Payroll services	9	9
<b>Total non-audit fees</b>	<u>14</u>	<u>12</u>

#### 5. 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 1985, including applicable accounting 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 Group. The Financial Reporting Review Panel 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 Business, Enterprise and Regulatory Reform for the purposes of section 245B of the Companies Act 1985.

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.

The Financial Reporting Council Limited  
Notes to the Financial Statements  
Year ended 31 March 2008

	2008 £'000	2007 £'000
The fund is represented by:		
Cash at bank and in hand	2,027	1,999
Debtor	4	11
Taxation payable	<u>(31)</u>	<u>(24)</u>
At 31 March	<u>2,000</u>	<u>1,986</u>

The movements in the fund during the year were as follows:

Funding contributions	14	11
Costs of Review Panel investigations and legal advice	<u>-</u>	<u>(14)</u>
Surplus/(deficit) for year	<u>14</u>	<u>(3)</u>

## 6. OTHER OPERATING INCOME

	2007/08 £'000	2006/07 £'000
Income from publications	764	765
AIU fee income	<u>127</u>	<u>-</u>
	<u>891</u>	<u>765</u>

Income from publications relates to royalties, copyright and electronic rights income from publications produced by the ASB and APB.

## 7. NET INTEREST INCOME

Interest on the legal costs fund is used to offset general operating costs.

	2007/08 £'000	2006/07 £'000
Bank interest – Accounting, auditing and corporate governance	250	193
Bank interest – FRRP legal costs fund (note 5)	114	94
Bank interest – Actuarial standards and regulation	<u>5</u>	<u>-</u>
	<u>369</u>	<u>287</u>
Other finance costs	<u>-</u>	<u>(42)</u>
	<u>369</u>	<u>245</u>

Other finance costs relate to the unwinding of the discount on the obligations attaching to the leasehold property formerly occupied by the Accountancy Foundation.



The Financial Reporting Council Limited  
Notes to the Financial Statements  
Year ended 31 March 2008

8. REVENUE

	2007/08			2006/07		
	Accounting, auditing and corporate governance	Actuarial standards and regulation	Total	Accounting, auditing and corporate governance	Actuarial standards and regulation	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core operating costs	10,839	1,831	12,670	10,343	1,378	11,721
AIU inspection costs	2,096	-	2,096	2,131	-	2,131
AADB case costs	1,152	-	1,152	923	-	923
FRRP case costs	14	-	14	11	-	11
Actuarial case cost fund	-	250	250	-	-	-
	<u>14,101</u>	<u>2,081</u>	<u>16,182</u>	<u>13,408</u>	<u>1,378</u>	<u>14,786</u>

Revenue relating to core operating costs includes £275,000 (2006/07 £314,000) of deferred income released in accordance with note 1(d).

9. TAXATION

	2007/08 £'000	2006/07 £'000
Corporation Tax at 30% (2006/07: 29%) on general interest received	78	59
Corporation Tax at 28% (2006/07: 25%) on interest received by the FRRP legal costs fund (note 5)	31	24
	<u>109</u>	<u>83</u>

Tax is payable only on interest and analogous income.

	2007/08 £'000	2006/07 £'000
Interest earned	<u>369</u>	<u>287</u>
Tax @ 30%	111	86
Marginal Relief	(2)	(3)
Current year tax change as above	<u>109</u>	<u>83</u>

## 10. TANGIBLE ASSETS

	Group and Company			
	Leasehold improvements	Office equipment	Fixtures, fittings & furniture	Total
	£'000	£'000	£'000	£'000
Cost at 1 April 2007	655	652	462	1,769
Additions	-	191	1	192
Cost at 31 March 2008	<u>655</u>	<u>843</u>	<u>463</u>	<u>1,961</u>
Depreciation at 1 April 2007	173	382	187	742
Charge for year	66	183	37	286
Depreciation at 31 March 2008	<u>239</u>	<u>565</u>	<u>224</u>	<u>1,028</u>
<b>Net book value at 31 March 2008</b>	<b>416</b>	<b>278</b>	<b>239</b>	<b>933</b>
<i>Net book value at 31 March 2007</i>	<u>482</u>	<u>270</u>	<u>275</u>	<u>1,027</u>

## 11. DEBTORS

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts falling due within one year:				
Trade debtors	154	663	154	663
Other debtors	594	613	594	411
Prepayments and accrued income	345	334	345	334
Amount due from subsidiary undertaking	-	-	-	202
	<u>1,093</u>	<u>1,610</u>	<u>1,093</u>	<u>1,610</u>

## 12. CASH AT BANK AND IN HAND

	<b>General Accounts</b>	<b>Actuarial Case Cost Fund</b>	<b>FRRP Legal Costs Fund Accounts</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31 March 2007	2,728	-	1,999	4,727
Net cash inflow for 2007/08	<u>332</u>	<u>250</u>	<u>28</u>	<u>610</u>
At 31 March 2008	<b>3,060</b>	<b>250</b>	<b>2,027</b>	<b>5,337</b>

The amount in the actuarial case cost fund may only be used for actuarial disciplinary case costs.

General Accounts at 31 March 2007 relate to Group & Company. The FRRP Legal Costs Fund at 31 March 2007 relates to Group. All balances at 31 March 2008 relate to Group & Company.

The amount in the FRRP legal costs fund accounts may be used only for the purposes described in note 5.

## 13. CREDITORS: amounts falling due within one year

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<i>2007</i>	<b>2008</b>	<i>2007</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Trade creditors	622	483	622	483
Corporation tax payable	109	81	109	57
Other taxation and social security	2	267	2	267
Accruals	1,516	1,041	1,516	1,041
Deferred income	329	443	329	443
Other creditors	367	913	367	605
Due to subsidiary company	-	-	-	319
	<u>2,945</u>	<u>3,228</u>	<u>2,945</u>	<u>3,215</u>

## 14. CREDITORS: amounts falling due after more than one year

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<i>2007</i>	<b>2008</b>	<i>2007</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Accruals	201	296	201	296
Deferred income	624	619	624	619
	<u>825</u>	<u>915</u>	<u>825</u>	<u>915</u>

## 15. PROVISIONS FOR LIABILITIES

### Leasehold Improvements and dilapidations

Group and  
Company  
£'000

Balance at 31 March 2007	165
Charge to Income and Expenditure Account	25
Balance at 31 March 2008	<u>190</u>

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 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 or sooner if the company exercises the tenants' break clause in August 2009.

## 16. ACCUMULATED SURPLUS OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption conferred by section 230 of the Companies Act 1985 not to present its own individual Income and Expenditure Account in these financial statements. The Company's surplus for the year was £ 347,000 (2006/07 £117,000). Changes in the Company and Group's capital and reserves were as follows:

	Accounting, auditing & Corporate governance		Actuarial standards & regulation		Total £'000
	General £'000	FRRP Legal Costs Fund £'000	General £'000	Actuarial Case Costs Fund £'000	
At 31 March 2007	1,070	1,986	-	-	3,056
Surplus for 2007/08	48	14	35	250	347
At 31 March 2008	<u>1,118</u>	<u>2,000</u>	<u>35</u>	<u>250</u>	<u>3,403</u>

The General surplus at 31 March 2007 relates to Group and Company. The FRRP Legal Cost Fund at 31 March 2007 relates to Group. All balances at 31 March 2008 relate to Group & Company.

Contributions from Government in 2007/08 were £3,467,000 (2006/07: £3,415,000).

Differences between the actual and planned contribution receivable from each funding group are taken into account in planning contribution receivable from each funding group in future years. As at 31 March 2008 the differences were: £212,000 (31 March 2007: £221,000) more than planned from the business levy in respect of accounting, auditing and corporate governance; £55,000 (31 March 2007: £15,000) more than planned from the insurance levy in respect of actuarial standards and regulation; and £140,000 less than planned (31 March 2007, £15,000 more than planned) from the pension levy in respect of actuarial standards and regulation.

#### 17. SIGNIFICANT TRANSACTIONS WITH OTHER STANDARD SETTERS

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 does not make a charge for providing this service. The amount of monies collected during the year was £743,000, of which £43,000 remained to be paid over by the FRC to IASB as at 31 March 2008.

#### 18. CASH FLOW STATEMENT - RECONCILIATION OF OPERATING RESULT TO NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES

	2007/08	2006/07
	£'000	£'000
Surplus on ordinary activities before taxation	456	197
Interest receivable	(369)	(287)
Depreciation	286	325
Release of deferred income	(275)	(314)
Provision for dilapidations	25	(37)
Decrease/(Increase) in debtors	517	(222)
(Decrease)/Increase in creditors and accruals	(418)	229
Release of provision on onerous lease	-	(315)
Unwinding of the discount	-	42
	222	(382)
Net cash inflow / (outflow) from operating activities		

#### 19. COMMITMENTS

There were no capital commitments outstanding at 31 March 2008 (2007: nil).

At the balance sheet date, the annual commitment for the Group and the Company relating to its Aldwych leasehold property was £446,000. This lease extends beyond five years but there is a break clause in the lease which, if exercised by the company, would bring the lease to an end in August 2009.

Annual commitments for the Group and Company under non-cancellable operating leases other than those relating to leasehold property are as follows:

	2007/08	2006/07
	£'000	£'000
Leases which expire within one year	7	7

## 20. SUBSIDIARY UNDERTAKINGS

### **The Accounting Standards Board Limited ('ASB')**

Issues accounting standards for the UK and Ireland and is recognised for this purpose under the Companies Act 2006.

### **The Financial Reporting Review Panel Limited ('FRRP')**

Reviews company accounts for compliance with the requirements of companies legislation and accounting standards.

### **The Auditing Practices Board Limited ('APB')**

Issues standards and guidance for the performance of external audit and other activities undertaken by accountants that result in reports or other output that is published, required by law or otherwise relied upon in the operation of the financial markets ('assurance services'); and, in relation to the independence, objectivity and integrity of external auditors and the providers of assurance services.

### **The Accountancy and Actuarial Discipline Board Limited ('AADB')**

Is the independent investigative and disciplinary body for accountants and actuaries in the UK. It is responsible for operating and administering independent disciplinary schemes.

### **The Professional Oversight Board Limited ('POB')**

Provides independent oversight of the regulation of accountants and actuaries by their respective professional bodies. It provides statutory oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and, through the Audit Inspection Unit, monitors the quality of the auditing function in relation to economically significant entities.

All of the above companies are 100% subsidiaries of The Financial Reporting Council Limited which acts as their sole director.

During the year, the activities of these five subsidiaries were undertaken by unincorporated bodies established under the articles of association of each subsidiary. The Board for Actuarial Standards is established as an unincorporated body under the articles of association of the Company.

## **21. POST-BALANCE SHEET EVENTS**

With effect from 6 April 2008, further to amendments to the Memorandum and Articles of Association of the FRC, the Operating Bodies became boards of the FRC as opposed to boards of separate limited companies.

Applications to strike off the subsidiary limited companies will be lodged with Companies House in due course.

## **22. LIABILITY OF MEMBERS**

The members of the Company have undertaken to contribute a sum not exceeding £1 each to meet the liabilities of the Company if it should be wound up.

## Annex B – Membership of Operating Bodies

### ACCOUNTING STANDARDS BOARD

#### *Chair*

Ian Mackintosh

#### *Members*

Nick Anderson	Head of Equity Research, Insight Investment – from 1 September 2007
Mike Ashley	Partner, KPMG
Edward Beale	Chief Executive, City Group plc – from 13 March 2007
Marisa Cassoni	Finance Director, John Lewis Partnership
Peter Elwin	Head of Accounting and Valuation Research, Cazenove
David Loweth	Technical Director ASB
Roger Marshall	Partner, PricewaterhouseCoopers LLP – up to 31 July 2007
Robert Overend	Technical Partner, Ernst & Young LLP
Andy Simmonds	Consultation Partner, Deloitte & Touche LLP – from 1 September 2007
Helen Weir	Group Finance Director, Lloyds TSB – up to 31 December 2007
Peter Westlake	Former Head of Research, Deutsche Asset Management – up to 31 July 2007
Professor Geoffrey Whittington CBE	Judge Business School, Cambridge University

#### *Observers*

Dame Mary Keegan	Former Managing Director, Government Financial Management, HM Treasury – up to 10 October 2007
Ken Beeton	Director of Government Reporting, HM Treasury – from 10 October 2007
Geoffrey Dart	Director, Corporate Law & Governance, BERR
Ian Drennan	Chief Executive, The Irish Auditing and Accounting Supervisory Authority
Bob Garnett	International Accounting Standards Board

#### *Secretary*

David Loweth	<i>up to 31 August 2007</i>
Simon Peerless	<i>from 1 September 2007</i>



## AUDITING PRACTICES BOARD

### *Chair*

Richard Fleck Partner, Herbert Smith

### *Members*

Professor Andrew Chambers Director of Management Audit LLP  
Jon Grant Executive Director  
Lew Hughes CB Former Assistant Auditor General, UK National Audit Office  
Paul Lee Director of Hermes Equity Ownership Service – *from 1 July 2007*  
Keith Nicholson Partner, KPMG  
Ronan Nolan Partner, Deloitte Ireland  
Graham Pimlott Chairman of Export Credits Guarantee Department  
Minnow Powell Partner, Deloitte & Touche LLP  
Will Rainey Partner, Ernst & Young LLP  
David J. Thomas Head of Business Risk, Invensys plc  
Tom Troubridge Partner, PricewaterhouseCoopers LLP  
Stuart Turley Professor of Accounting, University of Manchester  
Martin Ward Partner, Dodd & Co

### *Observers (non-voting)*

Ian Drennan Irish Auditing & Accounting Supervisory Authority  
David Loweth Technical Director, Accounting Standards Board  
Richard Thorpe Financial Services Authority  
Richard Leyland BERR – *up to 30 April 2007*  
Jim Bellingham BERR – *from 1 May 2007*

## THE BOARD FOR ACTUARIAL STANDARDS

### *Chair*

Paul Seymour Director BGI Endowment Fund II, SCOR Global Life Reinsurance UK Limited

### *Members*

Mike Arnold Principal and Head of the Life Practice at Milliman in London  
Nigel Bankhead Director, Actuarial Standards – *up to 31 December 2007*  
David Blackwood Finance Director, Yule Catto & Co plc  
Lawrence Churchill Chairman of the Pension Protection Fund and Senior Independent Director, The Children's Mutual & Monkton Group  
Harold Clarke Independent General Insurance Consultant, former Actuarial Partner at Deloitte & Touche LLP. Interim Director, Actuarial Standards from January 2008  
Christopher Daws Consultant to and Former Financial and Deputy Secretary, Church Commissioners; Trustee, NCH; Trustee – Director NCH Superannuation Fund  
Steven Haberman Professor of Actuarial Science and Deputy Dean of Cass Business School, City University  
Dianne Hayter Chair of the Consumer Panel of the Bar Standards Board, member of the Board of the National Consumer Council, the Insolvency Practices Council and the Determinations Panel of the Pensions Regulator, and former Vice Chair of the Financial Services Consumer Panel  
Julian Lowe Actuarial Director, Aviva GI  
Jerome Nollet Corporate Finance Advisor in Risk and Capital Management for the insurance industry  
Tom Ross Senior Independent Director, Royal London Mutual Ins. Society  
Sir Derek Wanless Chairman, Northumbrian Water Group plc, Vice Chairman, Statistics Commission  
Martin Weale Director, National Institute of Economic and Social Research, Statistics Commissioner and Hon. Treasurer of the Alzheimer's Research Trust

### *Observers*

Peter Askins Head of Policy for Defined Benefit Pension Schemes, DWP – *up to 30 November 2007*  
Valerie Christian Department for Work & Pensions – *from 1 December 2007*  
Caroline Instance Chief Executive, The Actuarial Profession – *from 10 September 2007*  
Jim Kehoe Consulting Actuary – representing Groupe Consultatif Actuariel Européen  
Sue Rivas Head of Defined Benefits, Research and Determinations Panel,

Paul Sharma The Pensions Regulator  
Head of Department for Risk Modelling and Review, FSA  
James Templeton Head of Institutional Investment, HM Treasury – *from 13 August 2007*

*Secretary*

Anna Colban up to *12 November 2007*

## PROFESSIONAL OVERSIGHT BOARD

*Chair*

Sir John Bourn KCB Former (up to 31 January 2008) Comptroller and Auditor General,  
National Audit Office

*Members*

Richard Barfield Director of Equitas, Umbro plc. Former Chief Investment Manager of  
Standard Life in Edinburgh  
Tim Barker Director, Drax Group plc and Electrocomponents plc. Chairman,  
Robert Walters plc. Former Vice Chairman, Dresdner Kleinwort Benson  
Anthony Carus Consulting Actuary in private practice and Director,  
Royal Liver Assurance Limited. Former Appointed Actuary,  
NFU Mutual Life Insurance Society  
David Crowther Former Senior Partner, PricewaterhouseCoopers LLP, responsible for  
quality assurance and risk management. Non-Executive Director,  
TT Electronics plc. Member of the Board of the Financial  
Ombudsman Service  
Hilary Daniels Former Chief Executive, West Norfolk Primary Care Trust and  
Interim Chief Executive, Norfolk Primary Care Trust  
Roger Davis Former Partner and Head of Professional Affairs  
PricewaterhouseCoopers LLP. Member of the Competition Commission  
Stella Fearnley Professor of Accounting, University of Portsmouth Business School  
Paul George Director of Auditing, FRC and Director, Professional Oversight Board  
Michael Jones Head of Management Services & Administration, Trades Union Congress  
Anne Maher Former Chief Executive, The Pensions Board for Ireland.  
Board member of the Irish Auditing and Accounting  
Supervisory Authority and of Allied Irish Banks plc

*Secretary*

John Grewe

## FINANCIAL REPORTING REVIEW PANEL

### *Chair*

Bill Knight Former Senior Partner, Simmons & Simmons

### *Deputy Chair*

Ian Brindle Former Chairman, PricewaterhouseCoopers LLP

Ian Wright Director of Corporate Reporting, FRC – *from 4 December 2007*

### *Members*

Daniel Abrams Former Chief Financial Officer CDT Inc.

Charles Allen-Jones Former Senior Partner, Linklaters

Rupert Beaumont Former Partner, Slaughter and May

Sir John Bourn KCB Former Comptroller and Auditor General, National Audit Office  
– *up to 31 December 2007*

Stephen Box Former Finance Director, The National Grid Group plc

Michael Brindle QC Barrister

David Cairns IFRS consultant, Visiting Professor, London School of Economics and  
former Secretary General of the IASC

Anthony Carey Partner, Mazars

Jim Coyle Group Chief Accountant, HBOS plc

Jimmy Daboo Partner KPMG. Vice Chairman of KPMG's Global Energy and Natural  
Resources Practices

Richard Delbridge Former Group Chief Financial Officer, NatWest Group  
– *up to 31 December 2007*

Martin Eadon Partner, Deloitte & Touche LLP

Christopher FitzGerald Former Chairman, Regulatory Decisions Committee, Financial Services  
Authority

John Grieves Former Senior Partner, Freshfields

Gordon Hamilton Former Partner, Deloitte & Touche LLP

Robert Hildyard QC Barrister

Stephen Hodge Deputy Chairman of the Franchise Board, Chairman of the Audit  
Committee, Lloyds of London & Chairman, Shell Pensions Trust

Alun Jones Former Partner, PricewaterhouseCoopers LLP

Dame Mary Keegan Former Managing Director, Government Financial Management,  
HM Treasury

David Lindsell Partner, Ernst & Young

Desmond McCann Former Risk & Quality Partner, PricewaterhouseCoopers LLP

Barbara Moorhouse Director General of Finance at Department of Constitutional Affairs

Chris Moulder Partner KPMG

Richard Murley	Managing Director, NM Rothschild & Sons
Richard Pinckard	Partner KPMG, Consumer and Industrial Markets business unit
Brian Pomeroy	Management Consultant, former Senior Partner, Deloitte Consulting
John Reizenstein	Chief Financial Officer, Co-operative Financial Services
George Rose	Finance Director, BAE Systems plc
Colin Walklin	Chief Financial Officer, Barclaycard

*Secretary*

Carol Page	Director, Panel Operations
------------	----------------------------

## **ACCOUNTANCY AND ACTUARIAL DISCIPLINE BOARD**

*Chair*

Mike Fogden CB	Former Deputy Chairman, Civil Service Appeal Board, former Chairman, National Blood Transfusion Service
----------------	------------------------------------------------------------------------------------------------------------

*Members*

Graham Aslet	Fellow of the Institute of Actuaries – <i>from 4 February 2008</i>
Jeremy Barnett	Barrister, St Pauls Chambers – <i>from 4 February 2008</i>
Sarah Brown OBE	Reporting Member of the Competition Commission
Dr Norval Bryson	Director, Scottish Widows Group plc – <i>from 4 February 2008</i>
Chris Lainé	Former President of ICAEW & former Chairman Allied Textile Companies plc
Elizabeth Llewellyn-Smith CB	Former Department of Trade and Industry and Office of Fair Trading, then Principal of St Hilda's College, Oxford
Stuart McKee	Corporate Finance Partner, PricewaterhouseCoopers LLP
James Miller	Member of the ICAS
Laurance Shurman	Former Managing Partner, Kingsley Napley and Banking Ombudsman
David Thomas	Corporate Director and Principal Ombudsman of the Financial Ombudsman Service

*Secretary*

Anna Colban

## **Annex C – Financial Management and Reporting Framework**

Our Financial Management and Reporting Framework provides the framework within which we manage and report on the costs of our activities and how they are funded.

### **Accounting, auditing and corporate governance**

The Framework identifies four categories of cost in relation to our responsibilities for accounting, auditing and corporate governance:

#### *Core operating activities - Accounting, auditing and corporate governance*

- Core operating activities (accounting, auditing and corporate governance) cover all our activities in relation to accounting, auditing and corporate governance other than audit inspection, disciplinary case and Review Panel case costs.
- The costs of the core operating activities are measured in accordance with applicable accounting standards but the amount of funds raised is adjusted for significant non-cash items, principally depreciation and capital expenditure.
- The funds are provided by the FRC's three sponsors: the accountancy profession (the six major professional bodies); the business community (primarily companies listed in the UK); and the Government.
- Our intention is to raise in each financial year the funds expected to be required for that year.

#### *Audit inspection costs*

- Audit inspection costs include only the specific and variable costs of the AIU. The AIU's fixed overheads (principally office accommodation and shared IT systems) are included in core operating costs.
- Audit inspection costs are met by the individual Recognised Supervisory Boards with which the firms that are subject to inspection are registered.
- Our intention is to raise in each financial year the costs incurred in that year.

#### *Accountancy disciplinary case costs*

- Accountancy disciplinary case costs include only the specific and variable costs of cases taken by the AADB. The other costs of the AADB (principally staff, accommodation, shared IT systems and other overheads) are included in core operating costs.
- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits.
- Case costs are met by the individual participating bodies to which the members or firms that are the subject of each case belong. In the event of disciplinary complaints being brought, the disciplinary tribunals have powers to award costs against those found guilty of misconduct.
- Our intention is to raise in each financial year the costs incurred in that year.

### *Review Panel case costs*

- Review Panel case costs include only the specific and variable costs of cases which the FRRP decides to take to Court or prepares to take to Court. The other costs of the FRRP (principally the staff, office accommodation and shared IT systems) are included in core operating costs.
- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits. These costs are met in the first instance from the Review Panel case costs fund, which is then replenished in the following financial year on the same basis as the costs of the core operating activities (accounting, auditing and corporate governance).

### **Actuarial standards and regulation**

The Framework identifies two categories of cost in relation to our responsibilities for actuarial standards and regulation.

With the agreement of HM Treasury, these costs are met from an annual contribution from the actuarial profession (10% of total costs) and a levy on insurance companies (45%) and pension funds (45%) - the actuarial funding arrangements.

#### *Core operating costs - Actuarial standards and regulation*

- Core operating activities (Actuarial standards and regulation) cover all of our activities in relation to actuarial standards and regulation other than disciplinary case costs. They include a proportion of our overheads.
- The costs of the core operating activities are measured in accordance with applicable accounting standards but the amount of funds raised is adjusted for significant non-cash items, principally depreciation and capital expenditure.
- Our intention is to raise in each financial year the funds expected to be required for that year.

#### *Actuarial disciplinary case costs*

- Actuarial disciplinary case costs include only the specific and variable costs of actuarial cases taken by the AADB. The other costs of the AADB (principally staff, accommodation, shared IT systems and other overheads) are included in the two categories of core operating costs in proportion to the relative costs of accountancy and actuarial cases.
- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits. We have decided to establish a fund to cover these costs.
- The level of the fund will be kept under review in the light of experience of the number and size of cases.
- The contribution that will be required to maintain the fund at an appropriate level will be reviewed each year.

- Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases will be used to replenish the fund. Should the fund exceed the target level, the excess will be used to meet the FRC's actuarial operating costs, thereby reducing the costs to the funding groups.

## **Measuring our effectiveness in managing costs**

While we endeavour to ensure that we secure value for money in all our expenditure, the Directors believe that the cost of our core operating activities is the best indicator of our effectiveness in managing our costs.

## **Reserves**

The Directors believe that it is prudent for the FRC to maintain reserves to meet unforeseen expenditure and in recognition of the fact that the FRC has entered into a number of long-term financial commitments.

In relation to our responsibilities for accounting, auditing and corporate governance, the level of reserves in recent years has been approximately £1.0m but is kept under review by the Directors. The Directors have undertaken to consult on any proposal to vary the level of reserves in the context of the annual Plan & Budget.

A separate reserve will be held in relation to our responsibilities for actuarial standards and regulation, built up from the actuarial funding arrangements. A proportion of the surplus may be allocated to the actuarial case cost fund. The Directors will keep the level of actuarial reserves under review and will consult on them each year in the context of the annual Plan & Budget.



## **Annex D – Ipsos MORI Stakeholder Survey Results**

For the last four years, we have employed Ipsos MORI to survey representative samples of our stakeholders on the state of confidence in corporate governance and reporting and their perceptions of the FRC.

The references in this annual report are to the latest survey, which was carried out between 25 February and 8 April 2008. In that period, Ipsos MORI conducted 286 telephone interviews, covering 104 company directors (97 quoted company directors and seven insurance company directors), 51 auditors, 50 investors, 25 actuaries, 31 pension scheme managers and 25 pension scheme trustees.

Overall the survey results indicated that levels of confidence in corporate governance, corporate reporting, auditing, actuarial practice and professionalism of accountants and actuaries remained generally high. The results also indicated that the understanding of the FRC's role had improved and company directors' overall view of the FRC had become increasingly favourable.

The tables below show the latest Ipsos MORI results alongside, where available, those from the previous two years. The data indicates that the overall levels of confidence remain fairly to very high, but the proportion of respondents who were "very confident" has declined compared with that in the 2007 survey.

Note: Results of opinion surveys should be treated with some caution for a number of reasons, including the size and random nature of the samples or respondent groups.

*Levels of confidence in corporate reporting and governance*

	2008			2007			2006		
	Overall confidence	Very confident	Fairly confident	Overall confidence	Very confident	Fairly confident	Overall confidence	Very confident	Fairly confident
	%	%	%	%	%	%	%	%	%
<b>Levels of confidence in corporate governance</b>									
Directors	93	21	72	95	36	59	94	31	63
Investors	86	24	62	95	29	66	92	22	70
Auditors	89	18	71	92	28	64	88	10	78
<b>Levels of confidence in corporate reporting</b>									
Directors	96	28	68	94	52	42	96	36	60
Investors	92	24	68	94	36	58	94	26	68
Auditors	96	33	63	98	44	54	92	24	68
<b>Levels of confidence in auditing</b>									
Directors	92	32	60	95	53	42	94	41	53
Investors	88	16	72	94	27	67	86	20	66
Auditors	98	47	51	100	70	30	96	38	58
<b>Levels of confidence in the reliability of actuarial information</b>									
Insurance Directors	71	14	57	55	22	33			
Pension trustees/managers	93	27	66	93	31	62			
Actuaries	72	24	48	81	38	43			
<b>Levels of confidence in the integrity of the accountancy profession</b>									
Directors	97	54	43	99	71	28	90	44	46
Investors	92	38	54	95	33	62	76	16	60
Auditors	98	65	33	100	90	10	87	54	33
<b>Levels of confidence in the competence of the accountancy profession</b>									
Directors	97	41	56	96	50	46			
Investors	94	34	60	95	35	60			
Auditors	100	49	51	100	72	28			
<b>Levels of confidence in the integrity of the actuarial profession</b>									
Insurance Directors	100	71	29	96	50	46			
Pension trustees/managers	100	54	46	95	35	60			
Actuaries	92	64	28	100	72	28			
<b>Levels of confidence in the competence of the actuarial profession</b>									
Insurance Directors	100	14	86	78	22	56			
Pension trustees/managers	95	29	66	100	38	62			
Actuaries	84	48	36	95	57	38			

*FRC effectiveness*

	2008		2007		2006	
	Well understood	Not well understood	Well understood	Not well understood	Well understood	Not well understood
	%	%	%	%	%	%
<b>Understanding of the FRC's role</b>						
<b>Directors</b>	80	20	71	29	64	36
<b>Investors</b>	38	62	29	71	32	68
<b>Auditors</b>	94	6	88	12	70	30

	2008			2007			2006		
	Favourable	Neutral/ no view	Unfavourable	Favourable	Neutral/ no view	Unfavourable	Favourable	Neutral/ no view	Unfavourable
	%	%	%	%	%	%	%	%	%
<b>Overall view of the FRC</b>									
<b>Directors</b>	50	40	10	40	49	11	37	52	11
<b>Investors</b>	17	79	4	32	66	2	30	68	2
<b>Auditors</b>	58	40	2	65	25	10	56	42	2

## **Annex E – Supporting material published on the FRC website**

This Annual Report 2007/08 is supported by the following material which is available on the 'About the FRC' section of the FRC website:

Supplementary Report on Major Activities and Projects 2007/08 at <http://www.frc.org.uk/about/>

Plan & Budget 2008/09 at <http://www.frc.org.uk/about/plans.cfm>

The 'About the FRC' section of the website also gives details of:

### **Our organisation**

Regulatory Strategy (Version 3)  
Membership and activities of our Operating Bodies  
Funding arrangements

### **Our annual planning cycle**

Annual Plans  
Quarterly Strategic Progress & Planning Reports  
Annual Reports

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

Standards and related guidance

Press Notices  
Consultation and discussion papers  
Reports

## Annex F – 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
BERR	Department for Business, Enterprise and Regulatory Reform (formerly DTI)
CCAB	Consultative Committee of Accountancy Bodies
CIMA	Chartered Institute of Management Accountants
CESR	Committee of European Securities Regulators
CGU	Corporate Governance Unit
DWP	Department for Work and Pensions
EECS	European Enforcers Co-ordination Sessions
EFRAG	European Financial Reporting Advisory Group
EGAOB	European Group of Auditors' Oversight Bodies
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
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
IESBA	International Ethics Standards Board for 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
PCAOB	Public Company Accounting Oversight Board
POB	Professional Oversight Board
PAAinE	Proactive Accounting Activities in Europe
SAD	Statutory Audit Directive
SEC	Securities and Exchange Commission
SIR	Standard for Investment Reporting
SME	Small and Medium sized Enterprises
SSAP	Statement of Standard Accounting Practice
UITF	Urgent Issues Task Force
UK GAAP	UK Generally Accepted Accounting Practice

## Annex G – Contact Details

Questions about the Annual Report should be sent to:

Enquiries  
Financial Reporting Council  
5th Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

e-mail: [enquiries@frc.org.uk](mailto:enquiries@frc.org.uk)

Telephone: +44 (0) 20 7492 2300

Fax: +44 (0) 20 7492 2301

For general information about the work of the FRC, please see our website at: [www.frc.org.uk](http://www.frc.org.uk)

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

© The Financial Reporting Council Limited 2008

ISBN: 987-12-84798-079-3  
SAP code: UP/FRC-BI8017

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368.  
Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.



**FINANCIAL REPORTING COUNCIL**

**5TH FLOOR**

**ALDWYCH HOUSE**

**71-91 ALDWYCH**

**LONDON WC2B 4HN**

**TEL: +44 (0)20 7492 2300**

**FAX: +44 (0)20 7492 2301**

**WEBSITE: [www.frc.org.uk](http://www.frc.org.uk)**