



Financial Reporting Council

Annual Report
2008/09

May 2009

The Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. In pursuing this aim we contribute towards the achievement of the following outcomes:

Corporate governance – UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.

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

Auditing and related services – 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, and users of audit-related services can place an appropriate degree of reliance on the reports provided.

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

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.

The FRC has also made commitments about its own

Effectiveness – An effective, accountable and independent regulator, operating in the public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

The decision making bodies are the FRC Board and the Boards of the Operating Bodies:

- **The Accounting Standards Board** issues accounting standards for the UK and Ireland but, with the move to IFRS, is increasingly focussed on influencing the setting of standards by the IASB.
- **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 influences the setting of international standards on auditing by the 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 FRC Board and to the Operating Bodies.

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Abbreviations

In order to reduce the length and improve the readability of this report abbreviations are used extensively. A key to these abbreviations can be found in Annex F on page 68.

Notice of Annual Open Meeting

The Financial Reporting Council will hold its Annual Open Meeting on 16 July 2009 at 2.30 pm in the Council Chamber at The Institution of Engineering and Technology (IET), 2 **Savoy Place**, London WC2R OBL.

The meeting is open to the public, and we warmly 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 Annual Open Meeting, please fill in the response form on our website at <http://www.frc.org.uk>.

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 meeting.

Submissions should be made, either by email at 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

Development of the FRC

I believe that the FRC in 2008/09 has made great progress as an effective working organisation. We have now dealt with each element of the restructuring proposals which were put to our stakeholders in 2007 and warmly welcomed by them.

The new Board – a single governing body to replace the former Board and Council – was in operation by November 2007, with a full complement of eight non-executive members (including the Deputy Chair) joining the CEO and myself. Since then this nucleus of the new Board has, after due process, appointed or reappointed the Chairs of all six of the FRC’s Operating Bodies (OBs), who have thereby themselves become ex officio members of the new Board, which now comprises its full complement of sixteen members.

The new Board is complying with the relevant principles and provisions of the Combined Code and has well focussed and functioning committees which are described in more detail in the rest of this Report.

We have worked hard to realise the synergies afforded by the restructuring and have made real progress in making the most of the FRC’s interconnections, thanks to the Strategic Framework, which covers the whole of the FRC’s remit, and to careful handling of the agenda and proceedings of cross-FRC meetings.

The first FRC Board evaluation, carried out in October/November 2008 after the new Board had been in operation for a year, made valuable points about the remit and running of the Board itself. We are continuing to discuss the most effective means by which the Board can exercise proper oversight of the OBs, whilst preserving the ability of the OBs to make the regulatory decisions for which they are responsible. We are confident of resolving this as familiarity grows with the large number of issues generated by the FRC’s extensive remit, a significant number of which involve interconnections.

Review of the Combined Code on Corporate Governance

One of our most significant decisions during the year was to initiate a review of the Combined Code. While there is no assumption that the Code is fundamentally flawed or that a different regulatory framework for corporate governance could have alleviated the financial crisis, we were clear that the time was ripe for testing the Code’s content and application against the fresh thinking that the crisis must provoke.

The FRC’s Accountability

Given that much of the FRC’s remit is about improving the accountability of others, we are very keen to demonstrate that we pay proper attention to our own accountability. All the signs currently are that the restructuring will have a positive impact in this regard. Internally, it is undoubtedly exposing appropriately the work of the Executive to scrutiny and challenge. Externally, as I have emphasised throughout my tenure, the FRC by reason of its strong consultative ethos is open to views from all its stakeholders: companies, investors and the accountancy and actuarial professions. Liaison with the Government and the accountability associated with that is inherent in almost every aspect of our activities.

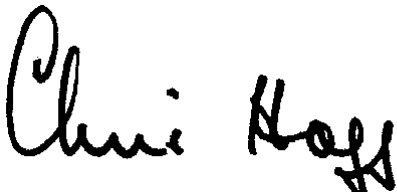
For this annual report, for the fifth year running, we have commissioned an independent survey of stakeholder opinion and are moderately encouraged by its results given the current tougher economic circumstances. We are clearly less well known to the investor community than we would like to be and I hope that we can remedy this materially in the course of the current Review of the Combined Code.

Those serving the FRC

The FRC is greatly indebted to its army of part-time contributors (who far outnumber its full-time executives) who so generously and effectively empower the FRC with their time, experience and judgement. The recruitment for the FRC Board, the OB Chairs and the OBs themselves, indicates that there is no lack of willing people of high calibre to work with the FRC. I take this as a heartening indication that on balance

we are doing the right sorts of things in the right sort of way. It is not always easy for a regulator to see that.

The FRC's Executive and supporting staff merit warm thanks for another year's good work. Their leader, Paul Boyle, has decided to stand down after five years as CEO, during which time the FRC has established its credibility and influence in the UK and internationally. We will all be sorry to lose his energetic and determined leadership and greatly appreciate the strong foundations he has laid for the FRC in its enlarged and restructured form. I am very confident that Stephen Haddrill, who will succeed Paul towards the end of 2009, will take full advantage of these foundations and will further develop the FRC's influence and effectiveness.

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

Sir Christopher Hogg
26 May 2009

Looking forward

We initiated an ambitious and long-term project to consider the complexity and relevance of requirements relating to corporate reporting. We established a Complexity Advisory Panel, comprising a range of practitioner and user interests, and issued a formal consultation paper inviting views on a number of proposals.

The global liquidity squeeze and the ensuing recession have increased the challenges and workloads in all parts of the FRC's remit. So far we are heartened but not complacent about the continuing appropriateness of most of our standards. However, we are very much aware that crises, particularly those with such a significant international dimension, can shed a different light on any aspect of standards hitherto considered effective. So our stance in all parts of our remit is to be open-minded to improvement and to play an active role in influencing and responding to international developments.

Two – Chief Executive’s Report

Introduction

This was a tough year for all those responsible for corporate reporting and governance in the UK, with significant challenges arising from domestic and international developments and an almost unprecedented degree of uncertainty about the impact of deteriorating economic conditions. These challenges are likely to continue into the medium term.

We recognise the challenges all those involved in corporate reporting and governance face at present. Over the course of the year we have issued updates for audit committees, preparers and users to help them focus on the key questions that they may need to address. And we have focused our monitoring and enforcement activities on what we have identified as the areas of greatest risk.

Responding to tougher economic conditions

The global liquidity squeeze and its impact on the wider economy increased the challenges for boards, preparers, auditors and actuaries. Directors and audit committees spent more time completing year-end activities, reviewing key assumptions and models used in financial reporting and reviewing significant accounting and disclosure judgements. The complexity and volume of risks arising from the tougher economic conditions were challenging for auditors to adequately address. And, although the headlines were not focused on actuarial work during 2008/09, the increased risks to confidence in corporate reporting and governance required additional diligence on the part of actuaries and the users of actuarial information and advice.

In the autumn of 2008, there was extensive discussion about the role of accounting standards in relation to the financial crisis. In October 2008, we issued a Statement on the Development of Accounting Standards which emphasised the importance of keeping responsibility for setting accounting standards with the relevant independent standard-setters. We submitted to the Treasury Select Committee written and oral evidence on international accounting standards in support of independent standard-setting and on the role of auditors and audit.

During the autumn of 2008, we published a number of documents to assist market participants in considering the heightened risks associated with the tougher economic conditions:

- challenges for audit committees arising from current market conditions
- an update for directors of listed companies: going concern and liquidity risk
- a study of companies’ disclosures on going concern and liquidity risk, with conclusions and recommendations for improvements
- a bulletin for auditors on going concern issues during the current economic conditions
- draft updated guidance on auditing complex financial instruments
- a list of questions for governing bodies of pension schemes and sponsoring employers, insurance companies and other entities which rely on actuarial work.

Our Plan for 2009/10 has been heavily influenced by the continuing tougher economic conditions which mean that the risks to confidence in corporate reporting and governance are heightened. We recognise that our work will necessarily interact with other regulatory initiatives, including the follow-up to the G20 reports, the Turner report, the work of the Treasury Select Committee and the Walker review.

We considered whether our Strategic Framework, which guides us in our regulatory role, remains fit for purpose. Following public consultation, we concluded that – subject to some necessary updating – the Framework continues to define the elements that need to be in place to support justified confidence in corporate reporting and governance in the UK. I report on the FRC’s work in the past year in the context of this updated Framework.

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

Overall Aim

Confidence in corporate reporting and governance.

The Ipsos MORI survey conducted in March 2009 indicates that levels of confidence in corporate reporting and governance in the UK have reduced from last year. Respondents recognise that reduced confidence in corporate governance in the financial services sector has contributed to this decline.

The results of the survey are not surprising, given the issues that have arisen in the financial service sector and the impact of tougher economic conditions. They are consistent with the responses we received in relation to our Draft Plan 2009/10, which broadly supported our view that the most significant risks to confidence in corporate reporting and governance at present relate to the implementation of high standards of reporting and governance by boards, preparers, auditors, accountants and actuaries during a period when they are under particular pressure. We will continue to monitor developments and issue material to help those involved in corporate reporting and governance respond to these challenges.

Overall, based on an assessment of the responses to our Draft Plan 2009/10, we believe that there is justified confidence in corporate reporting and governance in the UK. This is primarily based, as explained below, on our assessment of the Strategic Outcomes. However, the impact of tougher economic conditions means that the risks to confidence in corporate reporting and governance are higher than they have been for some years.

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. We promote high standards of corporate governance through the Combined Code, but do not monitor or enforce its implementation by individual boards. Under the UK “comply or explain” system, the responsibility for monitoring and enforcement of corporate governance rests with institutional shareholders which is why we attach considerable importance to the effectiveness of shareholder engagement with boards.

We did not include any major projects in relation to corporate governance in our 2008/09 Plan but we published an updated version of the Combined Code.

Recent months have seen an increased interest in corporate governance, particularly in the banking sector. The deterioration in the economy has resulted in the effectiveness of the Combined Code on Corporate Governance, and the ‘comply or explain’ mechanism that underpins it, being challenged to a greater extent than at any point since it was introduced in 1992.

As a result the Committee on Corporate Governance, chaired by Baroness Hogg, decided that it would be appropriate to bring forward the latest in the FRC’s series of regular reviews of the Code, which had originally been scheduled for 2010.

The review was launched in March 2009 with a call for evidence and the findings will be published before the end of the year. If any changes to the Code are proposed they will be subject to further consultation.

The FRC will work closely with Sir David Walker's review of the governance of banks, which is also due to report later in the year.

The results of our survey indicate that reduced confidence in corporate governance in the financial services sector has contributed to an overall decline in confidence in corporate governance. We have identified significant risks that, during a period of volatility and increased uncertainty, boards may find the assessment and management of risk particularly difficult and it may be more challenging for boards to provide adequate information about governance practices. Our assessment is that there are significant concerns about the achievement of this Strategic Outcome.

Outcome Two – Corporate reporting

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

The primary responsibility for high quality corporate reporting is with reporting organisations themselves. Responsibility is also shared among a wide range of organisations and agencies, including the accountancy professional bodies and the ASB and FRRP. The activities of the ASB and the FRRP in 2008/09 are reviewed in their reports, on pages 11 and 19 respectively.

Accounting standards

There has been extensive discussion of the role of accounting standards in the current financial crisis. There are a wide range of sincerely held views about the merits of different accounting methods, in particular the use of fair value for certain debt securities and loans. Judgements have to be

made as to which methods best meet the needs of the investor and other constituencies. In October 2008, we issued a Statement on the Development of Accounting Standards which emphasised the importance of keeping responsibility for the setting of accounting standards with the relevant independent standard setters. We also submitted to the Treasury Select Committee written and oral evidence on international accounting standards in support of independent standard-setting. We note with concern the recent increase in political pressure on both the IASB and FASB. Whilst we remain open to identifying improvements in how fair value accounting is applied, we are of the view that, in those limited areas to which it applies, it is more appropriate than any alternative so far identified.

In view of the importance of the IASB for accounting in the UK, we continued to follow its work carefully, in particular its Memorandum of Understanding with the US FASB. The ASB continued to look for opportunities to promote the merits of reassessing the advantages of further convergence between IFRS and US GAAP. It assessed the accounting implications of current market conditions and the IASB projects related to the global liquidity squeeze, in particular consolidation and the issues around fair value measurements in illiquid markets.

We continue to have significant concerns that the EU might adopt its own version of IFRS rather than the standards as published by the IASB. In November 2008, an ASB co-ordinated letter, signed by UK constituents representing a range of interests, was published in the Financial Times, stressing the importance of the EU not adopting its own version of IFRS.

We remain committed in principle to a future UK GAAP which is further converged with IFRS, but the strategy for achieving this remains under consideration. The ASB continued its efforts to ensure that UK converged standards remain in line with their IFRS equivalents, responding to circumstances arising from the current crisis as appropriate.

We also initiated an ambitious and long-term project to consider the complexity and relevance of corporate reporting. We established a Complexity Advisory Panel, comprising a range of practitioner and user interests.

Reviewing company reports

The FRRP reviewed the reports of 300 companies in 2008/09. In our published report, we concluded that there was a good level of compliance but there were a number of issues requiring improvement. The specific issues which we raised most frequently with companies related to the disclosure of the principal risks and uncertainties which they face.

Our monitoring activity will continue to focus on the risk that current economic conditions will make it more difficult for directors to prepare financial statements which comply fully with the requirements of accounting standards and show a true and fair view.

Overall we believe that the available evidence suggests that this Strategic Outcome is largely achieved. However, the Ipsos MORI survey conducted in March 2009 indicates that confidence has reduced over the last year. We believe that there is a significant risk that current economic conditions will increase the likelihood and impact of error or omission in preparing financial statements, which may make it more challenging for directors to prepare financial statements which comply fully with the requirements of accounting standards and show a true and fair view. The challenges for directors to disclose adequate information regarding companies' business models and business risks are also likely to increase.

Outcome Three – Auditing and related services

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, and users of audit-related services can place an appropriate degree of reliance on the reports provided.

The primary responsibility for maintaining and improving confidence in the integrity of the audit opinion is with the

auditors themselves and with company audit committees.

Our contributions are made by the POB (through the annual inspection of audit firms by the AIU and by its oversight of the recognised supervisory and qualifying bodies) and the auditing standard-making and standard influencing roles of the APB.

The reports of the APB and POB can be found on pages 13 and 17 respectively.

Choice in the audit market

We have remained concerned about the structure of the audit market and, in particular, the possibility that one or more of the Big Four audit firms might leave the audit market, voluntarily or involuntarily. The market share of each of the Big Four firms is so large that it is not clear how the loss of any one of them could be readily absorbed by the market.

We have monitored the progress of the implementation of the recommendations of the Market Participants' Group designed to help mitigate the risks associated with the audit market, including responses to the ICAEW exposure draft of the Combined Code style Best Practice Guide for auditors of public interest entities and the exposure draft by the CCAB of a draft Voluntary Code of Practice on Governance Disclosure of Audit Profitability. In October 2008, we published updated Guidance on Audit Committees. The revised guidance encourages audit committees to consider the risks associated with their external auditor leaving the market and to disclose more information about the process by which the auditor was selected in the company's annual report. It provides guidance on the factors to be considered if a group is considering engaging firms from more than one network to work on the audit.

Our 2009/10 Plan explains that the potentially significant risks arising from the high concentration in the audit market are likely to persist over the medium term and that we will continue to work to reduce these risks to the extent that we have the powers to do so.

International standards on auditing

We made a significant contribution to the IAASB's now completed project to improve the clarity of the existing

requirements of the ISAs and strengthen the standards. We consulted stakeholders on our proposal that UK auditing standards should be updated for the new ISAs. The responses contained very strong support for updating the standards and we will implement our proposal.

Statutory Audit Directive

We continued to work closely with BERR on the detailed UK implementation of the Statutory Audit Directive and also with the European Commission and other Member States with the aim of ensuring that additional measures at EU level allow a proportionate implementation of the third country auditor regime. In November 2008, the POB published requirements to give practical effect in the UK to EU requirements for the regulation of auditors of companies from outside Europe that have issued securities on regulated markets within the EU. Although the transitional measures adopted by the European Commission were very welcome, there remain substantial implementation challenges for us.

Monitoring audit quality

The AIU completed its 2008/09 programme of inspections, including visits to all the Big 4 firms.

In December 2008, the POB published reports on the AIU's inspections for 2007/08 of seven major audit firms. The report supported the POB's view that the quality of auditing in the UK remains fundamentally sound, but indicated that there were areas where further improvements were required.

We believe that the new reporting arrangements make the UK's auditor oversight regime the most transparent in the world.

IFIAR

During the year I served as Chair of IFIAR. IFIAR is a forum of independent audit regulatory organisations from around the world who aim to share knowledge, collaborate and provide a focus for contacts with other international organisations (information is available at: <http://www.ifiar.org/>). It now has thirty-one members.

IFIAR made good progress in 2008/09. It adopted a formal charter and is considering the merits of different options for

its funding arrangements. I and my colleagues met the CEOs of the six largest international audit networks to discuss current issues and the relationship between IFIAR and their firms. And we shared experiences on audit inspection and the interaction between audit standards and audit inspections and the drivers of audit quality.

I believe that IFIAR will continue to evolve in response to the immediate need for national audit regulators to work together to address an increasingly international – but highly concentrated - audit market.

We believe that the complexity and volume of risks arising from the tougher economic conditions may be challenging for auditors to address adequately. If they do not respond to these challenges this Outcome may not be achieved. We believe that there is a continuing serious risk to the achievement of this Outcome arising from the current high level of concentration in the audit market. Our assessment is, however, that this Strategic Outcome is largely achieved at present.

Outcome Four – Actuarial practice

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

The primary responsibility for maintaining and improving confidence in actuarial information is with actuaries and actuarial firms themselves. Responsibility is also shared with the actuarial professional bodies and the BAS and POB, whose reports can be found on pages 15 and 17 respectively.

Significant progress was made during 2008/09 in the reform of technical actuarial standards recommended by the Morris Review of the Actuarial Profession.

Technical actuarial standards

In July 2008, the BAS published, following consultation, a conceptual framework for technical actuarial standards. The framework addressed three issues: striking the right balance between regulating the content of actuarial information and allowing the necessary degree of flexibility; describing and explaining the different components of an actuarial calculation; and emphasising the importance of professional judgement in applying the individual actuarial standards, which will be principles-based.

We believe that this is a major achievement. The BAS is the world's first independent actuarial standard -setter, and this is the first time that a conceptual framework has been developed to guide actuarial standards.

The next step for the BAS is to implement the proposed new suite of actuarial standards by the end of 2010. It made good progress in 2008/09: including consulting on data and modelling and actuarial mortality assumptions and issuing a draft standard on reporting actuarial information.

Arrangements for monitoring the quality of actuarial advice

Following consultation, the FRC published statements, including recommendations, on the drivers of actuarial quality and the monitoring and scrutiny of actuarial work.

We believe that the reform of technical actuarial standards currently in hand, and the work to establish an appropriate framework for monitoring the quality of actuarial advice, are making a significant contribution to the achievement of this Outcome. Our assessment is, however, that this Strategic Outcome is not achieved at present.

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.

The primary responsibility for maintaining and improving confidence in professional accountants and actuaries is with accountants and actuaries themselves. 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 17 and 21 respectively.

Oversight of the professional bodies

In general, our oversight activity suggested that the accountancy and actuarial professional bodies continue to take their responsibilities seriously; although POB have identified areas for improvement.

Independent disciplinary arrangements

In November 2008, the AADB launched its first investigation into a major public interest case involving members of the actuarial profession, relating to Equitable Life. It took forward a number of cases in relation to members of the accountancy professional bodies. In January 2009, it announced that the independent disciplinary tribunal had upheld the complaints it brought following its investigation into Emerging Business Trust.

The AADB will publish a feedback statement on the consultation to change its Accountancy Scheme. It will continue its preparations for implementing the revised scheme.

We have identified issues which both the accountancy and actuarial professions will need to address in order for them to maintain the highest professional standards. We are also conscious that the effectiveness of the AADB in enforcing professional and ethical standards may be affected by legal challenges or costs awards, though we believe that the changes to the disciplinary arrangements we are introducing will reduce this risk. In addition, in 2009/10 we will begin a review of the effectiveness of the regulatory framework for professional discipline and enforcement of standards, including the FRC's role within the framework. Our assessment is that this Strategic Outcome is largely achieved at present.

Outcome Six – FRC Effectiveness

The FRC is an effective, accountable and independent regulator, operating in the public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

Our people

Our effectiveness as a regulatory authority crucially depends on the quality of the people who serve on the boards of our Operating Bodies and their committees and in the FRC Executive. The changes we made to our governance and senior management structure in 2007/08 have proved their value in dealing with the range of issues arising from the tougher economic conditions in 2008/09. Attracting, retaining and making best use of the skills of all those who contribute to the work of the FRC will remain a high priority in 2009/10.

Meeting the principles of good regulation

We are committed to operating in accordance with the principles of good regulation established by the Better Regulation Executive - proportionality, accountability, consistency, transparency and targeting - and I set out below

seven ways in which we adapt them to our situation. Our updated Regulatory Strategy 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 but we have been given significant powers and we do not hesitate to use them where appropriate.
- 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 published procedures 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.

During 2008/09, we asked our stakeholders whether the regulatory arrangements we operate are cost-effective from the point of view of those we regulate and whether, as a regulatory authority, we are adequately applying the principles of good regulation.

In December 2008, the FRC published a feedback statement on our cost-effectiveness consultation. We noted that we had implemented measures to address some of the issues which were raised, including an updated policy for publishing an overview of current consultations and consultation responses

on our website. The responses to the consultation also helped us to further develop our planning process. We will continue to implement the actions identified as a result of the cost-effectiveness consultation.

Managing our finances effectively

In section four of this report, we report on the way we have managed our finances in 2008/09. Our core operating costs in 2008/09 in relation to our responsibilities for accounting, auditing and corporate governance were £11.8m 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 £2.2m. When these costs are considered against the range and significance of our responsibilities I believe that we are a very cost-effective organisation.

In November 2008, following consultation, we announced the new arrangements for funding our core operating activities in relation to accounting, auditing and corporate governance which were required following the Government's decision to withdraw its current contribution. The new arrangements came into effect from April 2009. The main change is that large private entities and public sector organisations now come within the scope of the FRC's levy on organisations which prepare financial statements ("the preparers levy").

Like other regulators we will need to consider carefully the impact of current tougher economic conditions, and the events that led up to them, on our own role and approach. In particular we will continue to review in 2009/10 the adequacy of our arrangements for monitoring emerging events and appropriately prioritising our activities.

Our Plan for 2009/10, which we published in April, contains a range of activities and projects which are intended to reinforce confidence in corporate reporting and governance, and to reduce risks to confidence.

Our assessment is that this Strategic Outcome is being largely achieved at present.

Looking ahead to 2009/10

The key themes of our work in 2009/10 are to:

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

This will be my last report, after five years as Chief Executive of the FRC. It has been a privilege to have held this role. The scope of the FRC's responsibilities is unusually wide amongst its international peers but I believe that we have been able to demonstrate the merits of bringing together the regulatory responsibilities for corporate governance, accounting, auditing and actuarial practice. The FRC is now well-established with a clear strategy and strong team and I expect that it will continue to play a leading role in promoting confidence in corporate reporting and governance in the UK.



Paul Boyle
26 May 2009

Three – Reports of the Operating Bodies

Accounting Standards Board (ASB)

Our role

The ASB's main role is to contribute to the establishment and improvement of standards for financial reporting, in particular through influencing the setting of standards by the IASB. The ASB also continues to set UK accounting standards.

People

There was one change in the membership of the ASB during the year. I would like to welcome Ken Lever, who has joined the Board.

Accounting standards and the financial crisis

The crisis has dominated the international accounting standard-setting agenda for much of the year, with a great deal of pressure being placed on the IASB to react swiftly. The ASB has monitored developments closely and co-ordinated efforts to support the IASB's work to achieve globally accepted accounting standards as an independent standard-setter following proper due process.

Influencing

During the year, the ASB has submitted substantial responses on a number of major IASB consultations, including financial instruments with characteristics of equity contracts, reducing complexity in reporting financial instruments and a number of phases of the conceptual framework project. 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 (a partnership between the EFRAG and European accounting standard-setters). The ASB has also worked closely with EFRAG on its enhancement proposals in order to strengthen the European contribution to standard-setting.

UK GAAP

The ASB has continued to discuss its strategy for the future of UK GAAP and its convergence with IFRS. It plans to launch a major consultation when the IASB issues its IFRS for Non-Publicly Accountable Entities to assess whether 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.

Research

The ASB has been considering the many responses to its January 2008 Discussion Paper 'The Financial Reporting of Pensions', issued as part of the PAAinE initiative. The ASB is preparing a report setting out final recommendations which will be issued for submission to the IASB and FASB.

The ASB, jointly with the German Accounting Standards Board, has started work on another major research project, this time on accounting for corporate income tax.



Ian Mackintosh (Chair)

26 May 2009

Looking ahead

The ASB faces three major challenges:

- 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.
- To work for the timely adoption of IFRS as developed by the IASB for adoption in the EU. Financial reporting has become increasingly political and we work hard with our European counterparts and EFRAG to maintain the policy of using IFRS in Europe.
- The development of an appropriate strategy for the future of UK GAAP.

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.

People

I would like to thank the four members of APB who left the Board at the end of the year, each of whom made a distinctive contribution to our work: Lew Hughes, who has been a stalwart member of APB and its predecessor bodies since 1990; Will Rainey, who represented APB on IAASB for three years; Keith Nicholson, who has made an enormous contribution in relation to financial services, an area that has been especially important over the past years and Andrew Chambers. I am pleased to welcome our new members: Alyson Coates, Russell Frith, John Hughes, Ian Pickering and Allister Wilson.

Auditing during the recession

The combined effects of the global liquidity squeeze and the ensuing recession add to the challenges facing companies in preparing financial statements and auditors in confirming that those financial statements present a true and fair view. A particular issue for both companies and their auditors to consider is whether the company is a going concern. To assist auditors the APB issued guidance on going concern issues relevant to the current economic circumstances. The APB hopes that this guidance will help auditors evaluate whether audit reports need to include 'emphasis of matter' paragraphs and help users understand the nature and intention of such paragraphs.

Auditing standards

There is growing momentum for auditing standards to be set on an international basis. Recognising the likelihood that European legislation will, in due course, require UK and Irish audits to be conducted in accordance with ISAs, the APB and its sub-committees have invested many hours in preparing responses to draft ISAs. This exercise has been very beneficial and most of our recommendations for improvement have been accepted. Because the APB is of the view that the new ISAs are more rigorous and clearer than the existing ISAs (upon which our current standards are based) it has decided that they should apply to UK and Irish audits for accounting periods ending on, or after, 15 December 2010.

One aspect of the ISAs where the APB's suggestions were not adopted relates to the auditor's report. UK investor groups and others believe that the existing auditor's report contains too much of the 'wrong' and not enough of the 'right' sort of information. The APB believes there are opportunities to shorten existing reports and be innovative in how certain information is provided. To facilitate this APB has decided not to adopt the ISA on auditor reports but rather to make changes to the existing ISA (UK and Ireland) 700. The APB intends to monitor the extent to which audit firms take advantage of the flexibility this provides and how investors react to it. The APB will also undertake research to explore further the information needs of investors and the practicality of including this in the auditor's report.

Ethical standards

The APB has continued to contribute to improvements in the International Code of Ethics for auditors issued by IFAC and hopes that, at some stage in the future, this will be sufficiently rigorous for it to apply in the UK and Ireland. Until that time, the APB continues to require its own Ethical Standards for Auditors (ESs) to apply domestically.

The APB issued revised ESs in March 2008. There remained a small number of issues that the APB needed to give further consideration to. These included considering securitisation services provided by auditors to some of their banking clients, dealing with the threats to independence from restructuring services and the thorny topic of what is the appropriate period for rotation of the audit engagement partner on listed company audits. The APB has discussed these issues in depth and taken further soundings on them. As a result, in March 2009, a consultation paper containing a small number of further proposed changes to the ESs was published. As part of this exercise the APB is exploring whether audit committees should be able, in limited circumstances, to extend the normal rotation period for engagement partners on listed company audits to seven years, provided this is disclosed to shareholders.



Richard Fleck (Chair)
26 May 2009

Looking ahead

While the setting of auditing standards is increasingly undertaken on an international basis, less progress has been made towards the international harmonisation of standards for other areas within the APB's remit. In particular, ethical standards for auditors and standards for investment reporting are likely to remain national for the foreseeable future. In addition to maintaining the high quality of these standards, the APB's priorities for the coming year include:

- Leading further improvements in international auditing standards and contributing to other aspects of IAASB's future work programme.
- Supporting the adoption of the ISAs within Europe.
- Keeping auditing guidance current.
- Contributing to aspects of the FRC's future work programme including work on the financial reporting and assurance framework for companies which are not publicly accountable.

Board for Actuarial Standards (BAS)

Our role

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

People

As the Board reached its third anniversary, I decided to stand down as Chair, and I am delighted that the FRC has appointed Jim Sutcliffe as my successor.

I am also delighted to welcome to the Board Louise Pryor, who was appointed as Director of Actuarial Standards in June 2008.

Conceptual Framework

In July 2008, the BAS published its Conceptual Framework for Technical Actuarial Standards and its Scope & Authority of Technical Standards. Both documents were preceded by consultation papers and exposure drafts.

The Conceptual Framework sets out how we intend to go about developing our standards, describing some principles that hold across a wide range of actuarial work and that will help us to ensure that our standards are consistent and coherent. The BAS is the world's first independent setter of actuarial standards, and this is the first time that such a conceptual framework has been constructed in the actuarial field. The work has attracted interest from a wide community, both from inside the profession and from elsewhere.

The Scope & Authority explains the basis for compliance with BAS standards. It sets out the distinction between the two types of standards (generic and specific) that we will develop. Generic TASs will apply across a broad range of actuarial work, as specified in the Scope & Authority, while Specific TASs will apply to narrower range of work, to be specified in each TAS.

During 2008, we also consulted on the structure of our new suite of standards, proposing that we would develop three Generic TASs (on data, modelling and reporting) and five or six Specific TASs (see below).

Generic Standards

During the year, the BAS published consultation papers on its proposed standards on data and modelling, and exposure drafts of its reporting standard. We received many useful and well argued responses from a variety of stakeholders. In the coming year we plan to publish exposure drafts of the data and modelling standards, and the final standards in all three areas.

Specific Standards

We have started work on developing Specific TASs in the areas of Long Term Insurance Business, General Insurance and Pensions, and plan to publish consultation papers in the middle of 2009, followed by exposure drafts around the end

of the year. We are facing up to the challenge of producing standards that are principles-based and consistent with each other, in spite of the different legal and regulatory constraints that operate in the different fields.

Other matters

In March 2008, we published a discussion paper on Actuarial Mortality Assumptions, together with an associated research paper. The two papers sparked a great deal of interest. Following an analysis of the responses, we decided to address mortality assumptions, along with other assumptions, in our Specific TASs on Long Term Insurance Business and Pensions.

At the beginning of 2009, after a short consultation, we amended Technical Memorandum 1: Statutory Money Purchase Illustrations (TM1). The amendments reflected recent changes to contracting-out regulations. We will be starting a wider ranging review of TM1, which is not an actuarial standard, in the coming year.

We responded to an issues paper from CEIOPS on *Implementing Measures on a System of Governance* in January 2009. In our response we discussed the interrelationship of some aspects of the proposed risk management and actuarial functions under Solvency II.

During the year we contributed to the FRC's discussion paper on *Promoting Actuarial Quality* and the resulting *Actuarial Quality Framework*. We also contributed to the FRC's statement on the challenges for users of actuarial information arising from current market conditions.

Over the year we recruited further full-time actuaries, increasing the number of professional staff to five.



Paul Seymour (Chair)

26 May 2009

Looking ahead

We will continue to work on developing our new suite of TASs, replacing the existing Guidance Notes that we adopted from the Actuarial Profession. As we do so we will build on the *Conceptual Framework for Technical Actuarial Standards* that we published in 2008, ensuring that our standards are primarily addressed to meeting the needs of the users of actuarial information. A major challenge is that of ensuring that our new standards are consistent with Europe's Solvency II regime for insurers. We will also continue to involve our stakeholders in the development of our standards.

Professional Oversight Board (POB)

Our role

The POB provides statutory oversight of the regulation of the auditing profession and independent oversight of the regulation of accountants and actuaries by their respective professional bodies. Through the AIU, it also monitors the quality of the auditing function in relation to economically significant entities.

People

Sir John Bourn, KCB, retired as Chair at the end of September 2008. Sir John had chaired the Board since it was formed in 2004. On behalf of the Board I want to express our appreciation of his enormous contribution through a period of great change and development.

I would also like to thank Tim Barker and Michael Jones, who stood down at the end of March, for their valuable contributions to the Board's work. I am pleased to welcome four new members to the Board: Lillian Boyle, Iain Cheyne, John Kellas and Mick McAteer.

Audit Inspection

In December 2008, the POB published for the first time individual reports on seven audit firms, alongside an overview report on the results of the audit quality inspection programme carried out in 2007/08. The AIU also now issues reports on individual audits to the audit firms concerned, with a view to the firms making these available to the directors of the relevant audit clients. The POB's decision to publish these reports marks an important development in the transparency of our work. The reports support our view that the quality of auditing in the UK remains fundamentally sound although further improvements are required in certain areas.

The AIU has carried out full scope inspections, involving reviews of both firm-wide procedures and a sample of individual audits, at eight of the nine firms currently subject to such inspections. It has paid particular attention to monitoring how the firms have responded to the auditing challenges arising from the financial crisis. The results of this work will be available later in the year.

Oversight of Audit Regulation

The POB has focused this year on specific aspects of audit regulation undertaken by recognised supervisory and qualifying bodies. In the case of the supervision of statutory auditors we have focused on the competence of smaller audit firms and sole practitioners, and the processes the bodies use to monitor the competence of audit firms. On audit qualifications, we reviewed the basis of the audit qualification for each of the recognised bodies. We report publicly on the results of this work later in the year.

In November 2008, we published the results of a review of the practical training of auditors, raising issues in particular as to how auditors gain and maintain appropriate competence against a background of higher thresholds for mandatory audit and fewer opportunities for gaining audit experience.

In Europe we have worked closely with the European Commission and other Member States to give practical effect to the requirements of the Statutory Audit Directive, in particular in relation to the registration and regulation of the

auditors of companies from outside the EU that issue securities traded on EU capital markets. Our aim is to reach a position of mutual reliance on regulatory systems between the EU and third countries where on both sides there is well developed independent oversight of auditors.

Oversight of Actuarial Regulation

In May 2008, we initiated a major consultation on the monitoring and scrutiny of actuarial work. We published a feedback statement in January 2009 and have now made recommendations to the Actuarial Profession for enhancing professional quality assurance arrangements for actuaries and their firms.

We have continued to encourage the Actuarial Profession to focus on the outcomes it is looking to achieve for regulating its members and the quality of its processes in education and training, ethical and conduct standards, CPD, compliance and discipline. A particular priority has been the development by the Actuarial Profession of a principles-based ethical Code which adequately addresses conflicts of interest and the public interest.

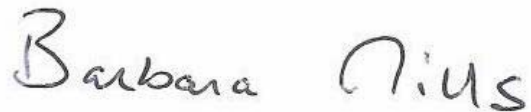
In May 2008, we sponsored a consultation on actuarial quality, which led to the development of the FRC's Actuarial Quality Framework, published in January 2009. The aim is to assist all stakeholders, and particularly users of actuarial work, in communication and assessment of actuarial quality.

Oversight of the Regulation of Accountants

Much of our oversight of the regulation of auditors is relevant also to the regulation of accountants more generally. In addition, we have followed up previous work on the quality of the accounts of small and medium-sized entities (SMEs) and on how accountants support the needs of SMEs. We have also recently started a project to review the assurance schemes of the principal accountancy bodies for members and firms in public practice.

Contributing to the Wider FRC Auditing Agenda

We continued to work closely with other parts of the FRC on key projects relating to audit, in particular to take forward recommendations in the Final Report of the Market Participants' Group on Choice in the UK Audit Market and the development of FRC guidance on going concern.



Dame Barbara Mills (Chair)

26 May 2009

Looking ahead

I see three particular challenges in the coming year.

- To ensure that accountants and actuaries respond effectively to the challenges they each face in the difficult economic climate. The AIU's inspection programme is an important part of this, for auditors.
- To ensure that our systems for registering and regulating auditors of third country issuers on UK capital markets are fully operational and effective.
- To assist the Actuarial Profession in developing effective professional quality assurance requirements in response to the recommendations we made in May 2009.

Financial Reporting Review Panel (FRRP)

Our Role

The aim of the FRRP is to improve the quality of financial and corporate reporting. The FRRP reviews the reports of publicly traded and private companies for compliance with the law and other reporting requirements and, where appropriate, seeks corrective action from directors.

People

I would like to thank Ian Brindle, who stood down as Deputy Chair of the Panel in June 2008, for his major contribution to our work, and to welcome David Lindsell as his successor.

I would also like to thank George Rose, Stephen Hodge, Steven Box, Michael Brindle and John Grieves, who stood down from the Panel during the year, for their valuable contribution to our work.

Reviewing company accounts

During the year, the FRRP reviewed 300 sets of accounts chosen in accordance with its risk-based selection approach. The selection was drawn from half-yearly and annual accounts and from both UK and overseas companies.

Drawing on the results of our reviews for the 2007/08 financial year the FRRP published a report in October 2008 on the challenges to corporate reporting arising from the emerging crisis in financial markets. From those reviews the FRRP concluded that the current standard of reporting was good. The areas of reporting that prompted most questions were those dealing with more complex accounting issues and those where the exercise of judgement by management was most critical. The report highlighted the areas on which management would need to focus when preparing accounts covering the economic downturn.

In the past year, there has been increased focus by other regulators on the capital adequacy of the UK's financial institutions. The FRRP's contribution in this area is to review a selection of published financial information for compliance with the relevant accounting requirements of the law and to approach companies where there is, or may be, a question of non-compliance with those requirements.

The FRRP also announced its approach to the review of accounts whose audit report is qualified for breach of accounting requirements, indicating that the financial statements may not be properly prepared in accordance with the law. The FRRP wrote to more than 50 such companies in the period, drawing attention to the directors' reporting responsibilities. Directors were informed that the FRRP would not open an enquiry into their current accounts but would review their next set of accounts and take appropriate action in accordance with its operating procedures if the qualification remained in the next accounting period.

This approach was intended to encourage directors who presently prepare accounts on which the audit report is qualified to address areas of non-compliance so that neither the audit qualification nor an FRRP enquiry is necessary in future. Results so far are promising.

Other actions

Following public consultation, the FRRP revised its operating procedures during the year. There were no substantive changes but improvements were made to increase the transparency of the processes through which the FRRP conducts its enquiries and to clarify current practices.



Bill Knight (Chair)
26 May 2009

Looking ahead

Impairment disclosures are of particular interest to users of accounts prepared during an economic downturn. The FRRP has announced a key focus on this area of reporting and notified some 30 companies that their accounts are the subject of a targeted review. The FRRP will also consider impairment information disclosed in other accounts that it reviews as part of its usual monitoring regime.

In 2009, the FRRP will start to monitor company compliance with the FSA's Listing Rules relating to corporate governance and will notify FSA of the outcomes. The FRRP review of directors' reports will also be extended during the year to include the additional disclosures now required of listed companies relating to the main trends and factors affecting the likely development, performance and position of their business and other disclosures.

The FRRP will be approaching companies where there is, or may be, a question about whether their reports or accounts comply with the relevant requirements.

Accountancy and Actuarial Discipline Board (AADB)

This is my first Chair's report, having taken up the position upon the retirement of my predecessor, Mike Fogden, who guided the AADB from its inception until late May 2008. On behalf of the Board I want to express our appreciation of Mike's skill and determination in carrying out this demanding role.

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 and Member Firms of the following accountancy professional bodies: ACCA, CIMA, CIPFA, ICAI, ICAS and ICAEW. The Actuarial Scheme covers Members of the Faculty of Actuaries and the Institute of Actuaries.

People

I would like to thank the three Board members who stood down during the year, Chris Lainé, Elizabeth Llewellyn-Smith and Laurence Shurman, for their contribution to our work. I would also like to welcome the three new Board members, James Kellock, Neil Lerner and Paul Smith, who have chosen to contribute their valuable experience and knowledge to our work.

Investigations

During 2008/09 the AADB considered a total of 24 potential matters of which 12 were considered by the Board.

In October 2008, the AADB announced that it had decided to investigate the conduct of Members and a Member Firm in relation to events at Worthington Nicholls Group plc and also that it would investigate the conduct of the auditors of XL Leisure Group plc, the tour operator which collapsed in September 2008. In November 2008, it announced that it had taken on its first investigation under the Actuarial Scheme, into the conduct of Members working for the Government Actuary's Department in relation to the Equitable Life Assurance Society.

In December 2008, a disciplinary tribunal appointed by the AADB upheld complaints in respect of the audits of Emerging Business Trust Ltd. and Emerging Business Trust Venture Fund Ltd., two bodies responsible for providing loan and equity capital for businesses in Northern Ireland. The complaints were agreed with the respondents and the sanctions were recommended to the Tribunal using what is known as the "Carecraft" procedure. The Tribunal endorsed this approach and the agreed complaints and sanctions. It ordered that the audit partner be fined and reprimanded, that the audit firm be fined, and a payment of costs in favour of the AADB.

Accountancy Scheme Review

The AADB published proposals for changes to its Accountancy Scheme in January 2008. The public consultation on the proposals closed in April 2008. The AADB received twenty-eight responses to the consultation. Following consideration of the responses, the AADB revised its proposals and conducted discussions with the Accountancy Scheme Participants, whose agreement is required before the Scheme can be amended. Those proposals were the subject of detailed discussions with the Participants throughout the second half of 2008 and early 2009.

The AADB hoped by now to have published a consultation in respect of its Accountancy Scheme Review. The AADB is still seeking agreement with the relevant professional bodies over

changes to the Accountancy Scheme. This has led to a delay in issuing a public response. The AADB will publish a feedback statement as soon as practicable.

The AADB has taken steps to ensure that it is appropriately resourced in the challenging economic environment in which we are all now operating and at a time when its workload is increasing. During 2008/09 the AADB recruited three additional regulatory lawyers to its team.



Timothy Walker (Chair)
26 May 2009

Looking ahead

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

- It will continue to progress ongoing investigations, hold disciplinary hearings as appropriate and bring potential matters to the attention of the Board.
- The AADB will focus on finalising and implementing the changes to the Accountancy Scheme. Once this has been achieved, the AADB will consult with the actuarial profession on similar proposals in relation to the Actuarial Scheme.
- 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.

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

	Actual 2008/09 £m	Budget 2008/09 £m	Actual 2007/08 £m
Accounting, auditing and corporate governance			
Core operating costs	11.8	11.9	10.7
Audit inspection costs	2.2	2.5	2.1
Accountancy disciplinary case costs	1.4	1.3	1.1
Review Panel case costs	-	-	-
Total	15.4	15.7	13.9
Actuarial standards and regulation			
Core operating costs	2.2	2.2	1.8
Actuarial disciplinary case costs	-	-	-
Total	2.2	2.2	1.8
Total	17.6	17.9	15.7

Our audited financial statements are in Annex A on pages 36 to 55. The expenditure as reported above can be reconciled to the audited financial statements as follows:

	£m
Total expenditure in the table above	17.6
Deduct: Purchase of property, plant and equipment included in core operating costs	(0.4)
Deduct: Tax on bank interest included in core operating costs	(0.1)
Add: Depreciation not included in core operating costs	0.2
Net operating expenditure per audited financial statements (page 36)	17.3

Accounting, auditing and corporate governance

Core operating costs

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

	Actual 2008/09 £m	Budget 2008/09 £m	Actual 2007/08 £m
Staff costs	9.2	9.3	8.3
Accommodation costs	0.9	0.8	0.8
Professional fees	0.5	0.6	0.6
IT costs	0.5	0.5	0.5
Other costs	0.9	1.0	1.0
Contingency	-	0.3	-
	12.0	12.5	11.2
Sundry income	(0.6)	(0.7)	(0.7)
Purchase of property, plant and equipment	0.4	0.1	0.2
Total	11.8	11.9	10.7
Staff numbers	59	64	58

We incurred additional expenditure on property, plant and equipment to upgrade a key IT business application. We received less sundry income than expected because of lower sales of publications. We did not fully utilise our contingency.

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

	Actual 2008/09		Budget 2008/09		Actual 2007/08	
	£m	Staff	£m	Staff	£m	Staff
ASB	2.7	13	2.5	13	2.3	13
APB	1.0	5	1.0	6	1.0	6
FRRP	2.0	10	2.1	12	1.8	10
POB	1.3	6	1.5	8	1.3	6
AADB	1.3	5	1.3	6	1.0	5
CGU	0.1	1	0.1	1	0.1	1
Planning & Resources	2.0	13	2.1	12	1.9	12
Corporate	1.4	6	1.3	6	1.3	5
Total	11.8	59	11.9	64	10.7	58

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.

ASB costs were higher than expected due to lower publication income and additional contribution made towards the funding of EFRAG.

POB costs were lower than expected because a number of vacancies remained unfilled during the financial period.

Audit Inspection Unit

The costs of the AIU represent the costs of the programme of independent audit inspections. The costs in 2008/09 were £2.2m compared to a budget of £2.5m and £2.1m in 2007/08. Costs were lower than budgeted because it took longer than expected to fill vacancies. The average number of AIU staff remained at 17. For 2008/09, total costs are reduced by £0.2m (£0.1m in 2007/08) 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 £1.4m 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.

Funding

Funding primarily meets our expenditure requirement and maintains our reserves at an appropriate level.

Our funding was as set out below:

	Actual 2008/09 £m	Budget 2008/09 £m	Actual 2007/08 £m
Total expenditure	15.4	15.7	13.9
Movement in general reserves	—	—	—
Total	15.4	15.7	13.9

Funding analysed by category of funding group was:

Funding groups	Actual 2008/09		Budget 2008/09		Actual 2007/08	
	£m	%	£m	%	£m	%
Preparers of financial statements						
Publicly traded companies	<u>4.1</u>	<u>26</u>	<u>4.2</u>	<u>26</u>	<u>3.6</u>	<u>26</u>
Accountancy profession						
Professional bodies						
- Core operating costs	4.2	27	4.2	26	3.6	26
- Inspection costs	2.2	15	2.5	17	2.1	15
- Disciplinary case costs	<u>1.4</u>	<u>9</u>	<u>1.3</u>	<u>8</u>	<u>1.1</u>	<u>8</u>
Total	7.8	51	8.0	51	6.8	49
Government	3.5	23	3.5	23	3.5	25
Total	15.4	100	15.7	100	13.9	100

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 2008/09). The average number of staff working on actuarial standards and regulation in 2008/09 remained at 6.

Actuarial disciplinary case costs

During the year the AADB incurred costs of £29,000 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.

Funding

Funding primarily meets our expenditure requirement and maintains our reserves at an appropriate level.

Our funding was as set out below:

	Actual 2008/09 £m	Budget 2008/09 £m	Actual 2007/08 £m
Core operating costs	2.2	2.2	1.8
Actuarial disciplinary case costs fund	0.2	0.2	0.3
Recovery of set-up costs	-	-	0.1
Movement in general reserves	0.1	-	-
Total	2.5	2.4	2.2

Our work on actuarial standards and regulation is funded by 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 2009 our General Fund showed a surplus of £1.0m of which £0.1m relates to actuarial standards and regulation. The Directors have decided to aim to increase the level of reserves during 2009/10.

Directors' Report and Accounts for the year ended 31 March 2009

The Financial Reporting Council Limited - Company number 2486368

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Directors' Report

The Directors have pleasure in presenting their report and financial statements for the year ended 31 March 2009.

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 Operating Bodies and the Board 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>.

Directors

The Chair and the Deputy Chair are appointed by the Secretary of State for Business, Enterprise and Regulatory Reform. All the other Directors, both executive and non-executive, are appointed by the Board.

Sir Christopher Hogg	CN	Chair
Baroness Hogg	CNR	Deputy Chair
Paul Boyle	C	Chief Executive
Eric Anstee	NA	Former Chief Executive of The ICAEW
Peter Chambers	CR	Chief Executive Officer at Legal & General Investment Management
Richard Fleck		Chair, APB – <i>from 7 October 2008</i>
Bill Knight		Chair, FRRP
Ian Mackintosh		Chair, ASB
Rudy Markham	CA	Former Financial Director, Unilever
Dame Barbara Mills		Chair, POB – <i>from 1 October 2008</i>
Sir Michael Rake		Chairman, BT Group plc
Sir Steve Robson CB	CN	Former Second Permanent Secretary, HM Treasury
Paul Seymour		Chair, BAS – <i>from 22 April 2008</i>

Sir John Sunderland	CNR	Former Chairman, Cadbury Schweppes
Lindsay Tomlinson	CA	Vice Chairman, Barclays Global Investors Europe
Timothy Walker		Chair, AADB - <i>from 27 May 2008</i>

Key to symbols:

C	member of the Committee on Corporate Governance;
N	member of the Nominations Committee;
R	member of the Remuneration Committee;
A	member of the Audit Committee.

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

Attendance was as shown below:

Sir Christopher Hogg	6/6
Baroness Hogg	6/6
Paul Boyle	6/6
Eric Anstee	6/6
Peter Chambers	5/6
Richard Fleck	2/2
Bill Knight	6/6
Ian Mackintosh	6/6
Rudy Markham	6/6
Dame Barbara Mills	3/3
Sir Michael Rake	5/6
Sir Steve Robson CB	5/6
Paul Seymour	4/5
Sir John Sunderland	6/6
Lindsay Tomlinson	6/6
Timothy Walker	4/4

Committees of the Board

Committee on Corporate Governance

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

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

Baroness Hogg (Chair)	3/3
Sir Christopher Hogg	3/3
Paul Boyle	3/3
Peter Chambers	3/3
Rudy Markham	2/3
Sir Steve Robson CB	3/3
Sir John Sunderland	3/3
Lindsay Tomlinson	3/3

During the year the Committee reviewed the FRC's objectives and strategic outcomes in relation to corporate governance and concluded that they, and the Committee's terms of reference, remained appropriate.

The Committee approved the proposed changes to the Combined Code on which the FRC had consulted following its 2007 review. These changes took effect from June 2008. At its meeting in March 2009 the Committee recommended that the review planned for 2009/10 should be brought forward in the light of the changed economic conditions and other developments. The first phase of this review began in March.

Nominations Committee

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

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

Baroness Hogg (Chair)	2/2
Sir Christopher Hogg	2/2
Eric Anstee	2/2
Sir Steve Robson CB	1/2
Sir John Sunderland	2/2

During the year the Committee adopted terms of reference as approved by the Board. It led the selection process for the new Chair of the BAS and made recommendations to the Board and approved and monitored the selection process for the recruitment of various members to several of the FRC's operating bodies. The Committee approved 19 appointments and reappointments to the operating bodies.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing the remuneration policy for the FRC. It sets the remuneration of the Chief Executive and 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
Peter Chambers	1/2
Baroness Hogg	2/2

During the year the Committee approved the budgetary limits for the salary review and bonus pool in relation to all FRC staff, reviewed and set the remuneration of the Chief Executive and approved salary and bonus recommendations in relation to the Senior Management Team. It reviewed the remuneration of the Chair and made recommendations to the Board and reviewed the fees of the Operating Body Chairs and members.

Audit Committee

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

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

Rudy Markham (Chair)	3/3
Eric Anstee	3/3
Lindsay Tomlinson	3/3

During the year the Committee reviewed the qualifications and performance of the firm engaged as the independent auditor. It assessed whether the objectivity and independence of the auditor had been safeguarded; this included reviewing the nature and extent of the non-audit services provided throughout the year. The Committee agreed that the objectivity of the audit engagement partner and audit staff had not been impaired and recommended that the independent auditor should be reappointed.

The Committee considered whether the FRC should adopt IFRS with first time adoption in the 2008/09 Annual Report and recommended adoption to the Board.

The Committee reviewed the FRC's treasury policy following which the policy was updated.

The Committee reviewed the procedures relating to senior management expenses.

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

Business and Financial Review

Business review

The activities of the FRC during 2008/09 and the expected developments in 2009/10 are summarised on pages 1 to 22.

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 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 23.

Financial review

Total operating expenditure was £18,459,000 (2007/08 £17,040,000). We did not incur any investigation costs to be charged to the Legal Costs Fund during the year (2007/08 £nil). 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 £721,000 (2007/08 £764,000). Interest has been used to offset general operating costs, and amounted to £273,000 before taxation (2007/08 £369,000). The AIU received £175,000 of income from the Audit Commission during the year (2007/08 £127,000).

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

- BERR
- CCAB
- Publicly listed companies
- Actuarial Profession
- Insurance companies
- Pension schemes

Revenue received towards operating costs and the purchase of property, plant and equipment for accounting, auditing and corporate governance amounted to £11,810,000 (2007/08 £10,756,000). In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assets) £376,000 (2007/08 £192,000) of the income relating to property, plant and equipment, was deferred. £237,000 of the deferred income has been released in the year (2007/08 £275,000).

Audit inspection costs and accounting, auditing and corporate governance discipline case costs were funded entirely by the relevant CCAB bodies. Revenue received towards operating

costs and the purchase of property, plant and equipment for actuarial standards and regulation amounted to £2,207,000 (2007/08 £1,831,000).

£279,000 (2007/08 £250,000) was received during the year towards actuarial case costs. Actuarial case cost expenditure of £29,000 (2007/08 nil) was incurred during the year, leaving £250,000 (2007/08 £250,000) earmarked for the actuarial case cost fund.

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

There was a surplus for the year on general activities of £76,000 (2007/08 £29,000). The accumulated general surplus as at 31 March 2009 was £1,024,000 (2007/08 £948,000).

Staff

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

The FRC 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 FRC strives towards best practice in its HR policies and tries to ensure a reasonable work-life balance.

The FRC 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 FRC regards it as a fundamental right for everyone to be able to work in an environment which is free of harassment and discrimination.

Impact on the environment

Steps were taken to reduce our environmental impact through procurement policies which favour sustainable products and services.

Principal risks and uncertainties

In the current tougher economic conditions there are heightened risks to confidence in corporate reporting and governance. A loss of confidence in corporate reporting and governance is potentially damaging to all of our stakeholders. If this were to occur there would be a reputational risk to the FRC. We might be exposed to criticism for failing to meet our responsibilities, resulting in a reduction in our functions or powers.

In finalising our Plan 2009/10 (available at: <http://www.frc.org.uk/about/plans.cfm>), we have revised our assessment of the risks to the achievement of our Strategic Outcomes to take account of the impact of tougher economic conditions. The Plan makes clear that the responsibility for maintaining confidence is shared among a wide range of market participants and other agencies and is beyond the sole responsibility of the FRC. It describes how we will work with market participants and other agencies to address the risks.

A significant risk to our effectiveness in terms of our credibility and influence is that we may not be sufficiently alert to, or be made aware of, relevant developments in the markets or that we may fail to respond appropriately to those developments.

A significant risk to the adequacy of our resources would arise if there was an award of substantial costs against the FRC in relation to our enforcement activities. There is also a risk that we may be unable to collect sufficient funds to meet our funding requirement, particularly during a period when we are implementing new funding arrangements. In 2009 large private entities and public sector organisations will, for the first time, fall within the scope of the FRC's levy on organisations which prepare financial statements ("the preparers levy").

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 3 to 10).

Future developments

We do not foresee any significant changes to the structure of the organisation or the scope of its activities.

We recognise that current tougher economic conditions have significantly increased the corporate reporting and governance challenges for boards, preparers of accounts, auditors and actuaries, and that we are operating during a period of volatility in the markets and increased uncertainty in the economy. During this period, we believe that the risk of failure is likely to be higher for organisations which do not implement high standards of governance, do not apply strong internal controls and do not keep the market adequately informed about business activities, risks and uncertainties. We will continue to keep under review the impact of tougher economic conditions when carrying out our responsibilities.

Directors' Emoluments

The remuneration of Directors, including the Chair and Deputy Chair, is determined and reviewed by the Board. The total remuneration and benefits, excluding pension contributions, received is shown in the following table, which has been subject to audit.

	2008/09	2007/08
	£	£
Sir Christopher Hogg	142,512	130,000
Baroness Hogg (<i>from 1 Nov 2007</i>)	30,000	12,500
Paul Boyle	364,778	339,909
Eric Anstee (<i>from 1 Nov 2007</i>)	20,000	8,333
Peter Chambers (<i>from 1 Nov 2007</i>)	20,000	8,333
Richard Fleck (<i>from 7 Oct 2008</i>)	-	-
Bill Knight (<i>from 13 Feb 2008</i>)	70,000	9,154
Ian Mackintosh (<i>from 13 Feb 2008</i>)	308,750	39,231
Rudy Markham (<i>from 1 Nov 2007</i>)	20,000	8,333
Dame Barbara Mills (<i>from 1 Oct 2008</i>)	35,000	-
Sir Michael Rake (<i>from 1 Nov 2007</i>)	20,000	8,333
Sir Steve Robson CB (<i>from 1 Nov 2007</i>)	20,000	8,333
Paul Seymour (<i>from 22 April 2008</i>)	99,167	-
Sir John Sunderland	20,000	17,083
Lindsay Tomlinson (<i>from 1 Nov 2007</i>)	20,000	8,333
Timothy Walker (<i>from 27 May 2008</i>)	50,000	-
Tim Breedon (to 6 Nov 2007)	-	8,750
The Hon Barbara Thomas Judge (<i>to 6 Nov 2007</i>)	-	11,667
Paul Druckman (<i>to 6 Nov 2007</i>)	-	8,750
Total	1,240,207	627,042

If the Directors were appointed during the year the amounts payable are for the period from the date of their appointment. The amounts payable to Bill Knight, Ian Mackintosh, Dame Barbara Mills, Paul Seymour and Timothy Walker include the remuneration payable in respect of their roles as Chairs of Operating Bodies. Richard Fleck waived both his Director's fee and Operating Body Chair remuneration of £58,333 (2007/08 £50,000).

The only Director who is entitled to receive pension benefits is the Chief Executive, in respect of whom contributions of £31,225 (2007/08 £29,575) were paid to a personal pension arrangement.

Disclosure to auditors

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

BY ORDER OF THE BOARD

Anne McArthur
Company Secretary
26 May 2009

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 International Financial Reporting 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 of the surplus or deficit of income over expenditure of the company for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting 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 company 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 company'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 company financial statements ("the financial statements") of The Financial Reporting Council Limited for the year ended 31 March 2009 which comprise the income statement, the company balance sheet, the cash flow statement, the statement of changes in equity and the related notes numbered 1 to 25. 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 International Financial Reporting Standards.

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, 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 International Financial Reporting Standards, of the state of the company's affairs as at 31 March 2009 and of the company'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

26 May 2009

The Financial Reporting Council Limited
Income Statement
Year ended 31 March 2009

	Notes	2008/09			2007/08		
		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	3	16,261	2,198	18,459	15,240	1,800	17,040
Other operating income	7	(896)	-	(896)	(891)	-	(891)
Interest income	8	(256)	(17)	(273)	(364)	(5)	(369)
NET OPERATING EXPENDITURE		15,109	2,181	17,290	13,985	1,795	15,780
REVENUE	9	15,198	2,486	17,684	14,101	2,081	16,182
Surplus before taxation		89	305	394	116	286	402
Taxation	10	(64)	(4)	(68)	(108)	(1)	(109)
SURPLUS AFTER TAXATION		25	301	326	8	285	293

The notes on pages 40 to 55 form part of these financial statements.

All gains & losses resulting from transition to IFRS are shown in the Statement of Changes in Equity on page 38.

All operations are continuing.

The Financial Reporting Council
Balance Sheet
31 March 2009

		2009	<i>2008</i>
	Notes	£'000	<i>£'000</i>
<u>ASSETS</u>			
NON-CURRENT ASSETS			
Property, plant and equipment	12	<u>1,092</u>	<u>933</u>
CURRENT ASSETS			
Trade and other receivables	13	1,066	<i>1,093</i>
Cash and cash equivalents	14	5,672	<i>5,337</i>
		<u>6,738</u>	<u>6,430</u>
TOTAL ASSETS		<u>7,830</u>	<u><i>7,363</i></u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Trade and other payables	15	(3,081)	<i>(2,782)</i>
Current tax liabilities	10	(68)	<i>(109)</i>
		<u>(3,149)</u>	<u><i>(2,891)</i></u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,681	<i>4,472</i>
NON-CURRENT LIABILITIES			
Trade and other payables	16	(934)	<i>(1,084)</i>
Long term provisions	17	(223)	<i>(190)</i>
		<u>(1,157)</u>	<u><i>(1,274)</i></u>
NET ASSETS		<u>3,524</u>	<u><i>3,198</i></u>
<u>EQUITY</u>			
RETAINED EARNINGS			
Accounting, auditing & corporate governance	18	2,938	<i>2,913</i>
Actuarial standards & regulation	18	586	<i>285</i>
		<u>3,524</u>	<u><i>3,198</i></u>

Approved by the Board of Directors on 26 May 2009 and signed on its behalf by:

Sir Christopher Hogg, Chair
Paul Boyle, Chief Executive

The notes on pages 40 to 55 form part of these financial statements.

The Financial Reporting Council Limited
Statement of Changes in Equity
Year Ended 31 March 2009

Statement of Changes in Equity for the year ended 31 March 2009

	Accounting, auditing and corporate governance		Actuarial standards and regulation		Total £'000
	General £'000	FRRP Legal Costs Fund £'000	General £'000	Actuarial Case Costs Fund £'000	
At 31 March 2008	913	2,000	35	250	3,198
Surplus for 2008/09	25	-	51	250	326
At 31 March 2009	938	2,000	86	500	3,524

Statement of Changes in Equity for the year ended 31 March 2008

	Accounting, auditing and corporate governance		Actuarial standards and 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
Changes arising from adoption of IFRS (Note 22)	(151)	-	-	-	(151)
(Deficit) / Surplus for 2007/08	(6)	14	35	250	293
At 31 March 2008	913	2,000	35	250	3,198

The notes on pages 40 to 55 form part of these financial statements.

The Financial Reporting Council Limited
Cash Flow Statement
Year Ended 31 March 2009

		2008/09	<i>2007/08</i>
	Notes	£'000	<i>£'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	20	57	222
Corporation tax paid	10	(109)	<i>(82)</i>
		<u>(52)</u>	<u><i>140</i></u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(262)	<i>(91)</i>
Contributions from funding groups towards property, plant and equipment		376	<i>192</i>
Interest received		273	<i>369</i>
		<u>387</u>	<u><i>470</i></u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		335	<i>610</i>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD		5,337	<i>4,727</i>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	14	<u>5,672</u>	<u><i>5,337</i></u>

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

The notes on pages 40 to 55 form part of these financial statements.

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the FRC's financial statements other than as a consequence of the adoption of IFRS.

a) Basis of Preparation

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

The FRC adopted IFRS for the first time in the financial year which ended 31 March 2009. The adoption of these standards and interpretations has resulted in changes to the FRC's accounting policies. The effects of the adoption of IFRS on the results for the year ended 31 March 2008, the comparative year, are set out in note 22 to the financial statements. Where necessary, the comparatives have been reclassified or extended from previously reported results to take into account presentational changes.

These financial statements are prepared on an historical cost basis except where otherwise stated.

As at the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IFRS 2 (amendment) Share-based payment (effective 1 January 2009)
- IFRS 3 (revised) Business Combinations (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (effective 1 January 2009)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets (effective 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective 1 July 2009)

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

b) Presentation of Financial Statements

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

c) Consolidation

The FRC has one subsidiary, The Accountancy and Actuarial Discipline Board Limited (AADB). AADB Limited has no surplus or deficit for the year and has no retained earnings or net assets. Consolidated financial statements have not been prepared because they would not be materially different to the accounts of the Financial Reporting Council Limited.

d) Revenue Recognition

The FRC 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 FRC.

Sources of revenue receivable in respect of financial years are:

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

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

- Revenue which contributes towards the purchase of property, plant and equipment is accounted for as deferred income and is credited to the Income Statement over the expected useful life of the relevant fixed assets on a basis consistent with the depreciation policy applied in respect of the related assets.
- 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 is set at a level which meets the costs incurred in the preceding financial year.

e) Property, Plant and Equipment

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

Office equipment includes cost of software that is an integral part of the asset function. Depreciation is provided on all 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	shorter of lease term and useful life	straight line basis

If events or changes in circumstances indicate the carrying value may not be recoverable then the carrying values of tangible fixed assets are reviewed for impairment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Income Statement.

f) Impairment of Tangible Assets

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

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

g) Leases

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

All other leases are treated as operating leases. Total rentals payable under operating leases are charged to the Income Statement over the term of the lease on a straight line basis.

The benefits from lease incentives including rent free periods are spread over the lease term on a straight line basis.

h) Taxation

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

i) 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.

j) Financial Instruments

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

Cash and cash equivalents

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

Trade receivables

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

Financial liabilities

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

Trade payables

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

k) Employee Benefits

Pension Costs

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

Holiday Pay

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

I) Provisions and contingencies

Provisions are recognised when the following three conditions are met:

- (i) the FRC has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

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

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

Dilapidations

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

Case costs

The legal and professional costs of AADB and FRRP cases 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.

2. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires the use of estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates and associated assumptions are based on historical experience and the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

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

Judgements and estimates have been made in the following areas:

Provision for dilapidations

Provision for dilapidations is calculated by estimating costs of removing leasehold improvements and related repairs which may arise at the end of the lease. This estimation is carried out by an independent chartered surveyor. See Note 17 for further details.

Corporation tax provision

Management believes that it has adequately provided for the corporation tax based on all of the information that is currently available. There were no material changes to the estimates made in the past two years. See note 10 for further details.

Litigation cost provision

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

3. OPERATIONAL EXPENDITURE

	2008/09			2007/08		
	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
Staff costs (note 4)	11,408	1,280	12,688	10,690	1,175	11,865
Other charges (note 5)	3,494	889	4,383	3,398	625	4,023
AADB case costs	1,359	29	1,388	1,152	-	1,152
	<u>16,261</u>	<u>2,198</u>	<u>18,459</u>	<u>15,240</u>	<u>1,800</u>	<u>17,040</u>

4. STAFF COSTS (INCLUDING DIRECTORS)

	2008/09 £'000	2007/08 £'000
Permanent staff:		
Salaries	8,386	7,646
Social security costs	1,033	957
Other pension costs	589	570
	<u>10,08</u>	<u>9,173</u>
Seconded staff and contractors	1,196	1,427
Fees to operating body and committee members	1,248	1,063
Other costs	236	202
	<u>12,688</u>	<u>11,865</u>

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

The average number of employees during the year was 82 (2007/08: 81).

DIRECTORS' EMOLUMENTS

	2008/09 £'000	2007/08 £'000
Fees (included in staff costs)	1,240	627

The only Director who is entitled to receive a pension benefit is the Chief Executive, in respect of whom contributions of £31,225 (2007/08 £29,575) were paid to a personal pension arrangement. Details of the emoluments of the directors are contained in the Directors' Report on page 32. A loan of £3,691 (2007/08 £799) was made to one Director (Ian Mackintosh) in regard to his health insurance. The amount was fully repaid during the year resulting in a £nil balance outstanding at the year-end (2007/08 £nil).

5. OTHER OPERATING CHARGES

	2008/09 £'000	2007/08 £'000
Other operating charges include:		
Depreciation (note 12)	254	286
Operating leases (note 1g)		
- land and buildings	500	500
- office equipment	7	7

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The auditor's remuneration is as follows:

	2008/09	<i>2007/08</i>
	£'000	<i>£'000</i>
Fees payable to the FRC's auditors for the audit of the FRC's annual accounts	29	<i>29</i>
Total audit fees	<u>29</u>	<i><u>29</u></i>
Other services:		
- Tax services	5	<i>5</i>
- Payroll services	9	<i>9</i>
- Expenses review	1	<i>-</i>
- IFRS transition	12	<i>-</i>
Total non-audit fees	<u>27</u>	<i><u>14</u></i>

6. 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 Standards, and to investigate departures from those standards and requirements. Those funds may be used only for this purpose and may not be used to meet other costs incurred by the FRC. The FRC may be liable to repay the balance on the Legal Costs Fund to the contributors if it ceases to be authorised by the Secretary of State for BERR 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.

	2009	2008
	£'000	£'000
The fund is represented by:		
Cash at bank and in hand	2,000	<i>1,996</i>
Debtor	-	<i>4</i>
At 31 March	<u>2,000</u>	<i><u>2,000</u></i>

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

Funding contributions	-	<i>14</i>
Costs of Review Panel investigations and legal advice	-	<i>-</i>
Surplus for year	<u>-</u>	<i><u>14</u></i>

7. OTHER OPERATING INCOME

	2008/09	<i>2007/08</i>
	£'000	<i>£'000</i>
Income from publications	721	<i>764</i>
AIU fee income	175	<i>127</i>
	<u>896</u>	<i><u>891</u></i>

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

8. INTEREST INCOME

Interest on the FRRP Legal Cost Fund and the Actuarial Case Cost Fund is used to offset core operating costs.

	2008/09 £'000	2007/08 £'000
Bank interest – Accounting, auditing and corporate governance	256	364
Bank interest – Actuarial standards and regulation	17	5
	<u>273</u>	<u>369</u>

9. REVENUE

Revenue analysed by category of cost is as follows:

	2008/09			2007/08		
	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	11,671	2,207	13,878	10,839	1,831	12,670
AIU inspection costs	2,168	-	2,168	2,096	-	2,096
AADB case costs	1,359	29	1,388	1,152	-	1,152
FRRP case costs	-	-	-	14	-	14
Actuarial case cost fund	-	250	250	-	250	250
	<u>15,198</u>	<u>2,486</u>	<u>17,684</u>	<u>14,101</u>	<u>2,081</u>	<u>16,182</u>

Revenue relating to core operating costs includes £237,000 (2007/08 £275,000) of deferred income released in accordance with note 1(d).

10. TAXATION

	2008/09 £'000	2007/08 £'000
Corporation Tax at an effective rate of 25% (2007/08: 30%) on general interest received	68	109
	<u>68</u>	<u>109</u>

Tax is payable only on interest and analogous income.

The total charge for the year reconciled to the accounting surplus as follows:

	2008/09 £'000	2007/08 £'000
Interest earned	<u>273</u>	<u>369</u>
Tax @ 28% (2007/08: 30%)	76	111
Marginal Relief	(8)	(2)
Current year tax charge as above (payable in the year following the charge)	<u>68</u>	<u>109</u>

11. FINANCIAL RISK MANAGEMENT

The FRC's operations expose it to some financial risks. The management continuously monitors these risks with a view to protecting the FRC against the potential adverse effects of these financial risks. There has been no significant change in these financial risks since the prior year.

Fair value of financial instruments

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

Credit Risk

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

The age analysis of trade receivables not impaired is:

	2009	<i>2008</i>
	£'000	<i>£'000</i>
Not past due date	201	<i>74</i>
Past due date by no more than three months	56	<i>3</i>
Past due date by more than three months but not more than six months	-	-
Past due date more than six months but not more than one year	74	<i>77</i>
	<u>331</u>	<i><u>154</u></i>

The average debtor receivable period is 35 days (2008: 49 days). The trade receivables that are neither impaired nor past due date are made up of two balances (2008: one). No trade receivables balances have been renegotiated during the year or in the prior year. The FRC does not hold any collateral or other credit enhancements as security for its trade receivables.

Interest rate risk

The FRC invests the majority of its surplus funds in highly liquid short term deposits with an original maturity no greater than three months. To reduce the risk of loss, these bank deposits are spread across a range of major UK Banks. The average interest rate on short term deposits is 3.9% (2008: 5.7%) and none of the deposits have an original maturity of more than three months.

For a change in interest rates of 1%, the gross interest earned would change by approximately £50,000.

Liquidity risk

The FRC maintains sufficient levels of cash and cash equivalents and manages its working capital by carefully reviewing forecasts on a regular basis to determine the requirements for its day-to-day operations.

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The age analysis of trade payables is as follows:

	2009 £'000	2008 £'000
Not past due date	521	487
Past due date by no more than three months	141	134
Past due date by more than three months but not more than six months	-	1
	662	622

The average creditor payment period is 22 days (2008: 18 days).

12. PROPERTY, PLANT AND EQUIPMENT

2009

	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings & furniture £'000	Total £'000
Cost at 1 April 2008	655	843	463	1,961
Additions	37	276	100	413
Disposals	-	(52)	-	(52)
Cost at 31 March 2009	692	1,067	563	2,322
Depreciation at 1 April 2008	239	565	224	1,028
Charge for year	72	142	40	254
Disposals	-	(52)	-	(52)
Depreciation at 31 March 2009	311	655	264	1,230
Net book value at 31 March 2009	381	412	299	1,092

2008

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

The FRC's leasehold improvements, office equipment and fixtures and fittings are recorded at historical cost. Residual values assessed under IFRS are not materially different and therefore require no adjustment upon conversion to IFRS.

13. TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000
Current:		
Net Trade receivables	331	154
Other receivables	340	594
Prepayments and accrued income	395	345
	<u>1,066</u>	<u>1,093</u>

14. CASH AND CASH EQUIVALENTS

	General Accounts £'000	Actuarial Case Cost Fund £'000	FRRP Legal Costs Fund Accounts £'000	Total £'000
At 31 March 2008	3,087	250	2,000	5,337
Net cash inflow for 2008/09	85	250	-	335
At 31 March 2009	<u>3,172</u>	<u>500</u>	<u>2,000</u>	<u>5,672</u>

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

15. TRADE AND OTHER PAYABLES: CURRENT

	2009 £'000	2008 £'000
Trade payables	662	622
Other taxation and social security	13	2
Accruals	1,683	1,462
Deferred income	377	329
Other payables	346	367
	<u>3,081</u>	<u>2,782</u>

16. TRADE AND OTHER PAYABLES: NON-CURRENT

	2009 £'000	2008 £'000
Accruals	236	460
Deferred income	698	624
	<u>934</u>	<u>1,084</u>

17. LONG TERM PROVISIONS

Leasehold Improvements and dilapidations	£'000
Balance at 31 March 2008	190
Amount capitalised	37
Credit to income statement	(4)
Balance at 31 March 2009	<u>223</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. This provision has not been discounted as the effect of discounting is not material.

18. RETAINED EARNINGS

Changes in 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 2008	913	2,000	35	250	3,198
Surplus for 2008/09	25	-	51	250	326
At 31 March 2009	<u>938</u>	<u>2,000</u>	<u>86</u>	<u>500</u>	<u>3,524</u>

Contributions from government in 2008/09 were £3,467,000 (2007/08: £3,471,000).

Differences between the actual and planned contribution receivable from each funding group are taken into account in planning the contribution receivable from each funding group in future years. As at 31 March 2009 the differences were: £63,000 (31 March 2008: £212,000) more than planned from publicly listed companies subject to FRC's levy in respect of accounting, auditing and corporate governance; £13,000 (31 March 2008: £55,000) more than planned from the insurance levy in respect of actuarial standards and regulation; and £64,000 (31 March 2008: £140,000) less than planned from the pension levy in respect of actuarial standards and regulation.

19. SIGNIFICANT TRANSACTIONS WITH OTHER STANDARD SETTERS

The FRC raises the UK contribution to the cost of the IASB by issuing invoices and collecting monies on its behalf. The FRC does not make a charge for providing this service. The amount of monies collected during the year was £699,000 (2008: £743,000), of which £12,000 (2008: £43,000) remained to be paid over by the FRC to IASB as at 31 March 2009.

20. CASH FLOW STATEMENT – CASH GENERATED FROM OPERATIONS

	2008/09	<i>2007/08</i>
	£'000	<i>£'000</i>
Surplus on ordinary activities before taxation	394	<i>402</i>
Adjustments for:		
- Interest income	(273)	<i>(369)</i>
- Depreciation	254	<i>286</i>
- Release of deferred income	(237)	<i>(275)</i>
- Provision for dilapidation	(4)	<i>25</i>
- Decrease in trade and other receivables	27	<i>517</i>
- (Decrease) in trade and other payables	(104)	<i>(364)</i>
Net cash inflow from operations	57	<i>222</i>

21. COMMITMENTS

There were no capital commitments outstanding at 31 March 2009 (2008: nil).

The total commitments for the FRC under operating leases relating to the leasehold property are as follows:

	2008/09	<i>2007/08</i>
	£'000	<i>£'000</i>
Leases which expire after more than five years	2,688	<i>3,188</i>

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

	2008/09	<i>2007/08</i>
	£'000	<i>£'000</i>
Leases which expire within one year	7	<i>7</i>

22. EXPLANATION OF TRANSITION TO IFRS

As stated in note 1, these are the FRC's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2009, the comparative information presented in these financial statements for the year ended 31 March 2008, and in preparation of an opening IFRS balance sheet at 1 April 2007 (the FRC's date of transition).

In preparing its opening IFRS balance sheet, the FRC has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the FRC's financial position and performance is set out below.

The application of IFRS has no impact on the cash flow statement for the year ended 31 March 2008 other than to change the headings under which amounts are reported.

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Reconciliation of Reserves as at 1 April 2007

	Note	UK GAAP £'000	Effect of IFRS £'000	IFRS £'000
<u>ASSETS</u>				
Non-current assets				
Property, plant and equipment		1,027	-	1,027
CURRENT ASSETS				
Trade and other receivables		1,610	-	1,610
Cash and cash equivalents		4,727	-	4,727
		<u>6,337</u>	<u>-</u>	<u>6,337</u>
TOTAL ASSETS		<u>7,364</u>	<u>-</u>	<u>7,364</u>
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Trade and other payables	a	(3,147)	56	(3,091)
Current tax liabilities		(81)	-	(81)
		<u>(3,228)</u>	<u>56</u>	<u>(3,172)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,136	56	4,192
Non-Current Liabilities				
Trade and other payables	a	(915)	(207)	(1,122)
Long term provisions		(165)	-	(165)
		<u>(1,080)</u>	<u>(207)</u>	<u>(1,287)</u>
NET ASSETS		<u>3,056</u>	<u>(151)</u>	<u>2,905</u>
<u>EQUITY</u>				
Retained earnings	a	3,056	(151)	2,905
		<u>3,056</u>	<u>(151)</u>	<u>2,905</u>

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Reconciliation of Reserves as at 31 March 2008

	Note	UK GAAP £'000	Effect of IFRS £'000	IFRS £'000
<u>ASSETS</u>				
Non-current assets				
Property, plant and equipment		933	-	933
CURRENT ASSETS				
Trade and other receivables		1,093	-	1,093
Cash and cash equivalents		5,337	-	5,337
		<u>6,430</u>	<u>-</u>	<u>6,430</u>
TOTAL ASSETS		<u>7,363</u>	<u>-</u>	<u>7,363</u>
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Trade and other payables	a	(2,836)	54	(2,782)
Current tax liabilities		(109)	-	(109)
		<u>(2,945)</u>	<u>54</u>	<u>(2,891)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,418	54	4,472
Non-Current Liabilities				
Trade and other payables	a	(825)	(259)	(1,084)
Long term provisions		(190)	-	(190)
		<u>(1,015)</u>	<u>(259)</u>	<u>(1,274)</u>
NET ASSETS		<u>3,403</u>	<u>(205)</u>	<u>3,198</u>
<u>EQUITY</u>				
Retained earnings	a	3,403	(205)	3,198
		<u>3,403</u>	<u>(205)</u>	<u>3,198</u>

Reconciliation of Surplus for the year ended 31 March 2008

	UK GAAP	Effect of IFRS	IFRS
Note	£'000	£'000	£'000
Operational expenditure	16,986	54	17,040
Other operating income	(891)	-	(891)
Net interest income	(369)	-	(369)
NET OPERATING EXPENDITURE	15,726	54	15,780
REVENUE	16,182	-	16,182
Surplus before taxation	456	(54)	402
Taxation	(109)	-	(109)
SURPLUS AFTER TAXATION	347	(54)	293

Note:

a Leases

Under UK GAAP, operating lease incentives including rent free periods were recognised in the profit and loss account over the period from commencement of the lease to the first rent review. Under IFRS (SIC-15 'Operating Leases – incentives'), the benefit of the incentives is spread over the full term of the lease. Accordingly, the adjustment is a credit to the balance sheet and a charge to the reserves at the transition date, as the income is deferred over a longer period, and a credit to operational costs in each subsequent accounting period as the deferred income is recognised in the Income Statement.

23. SUBSIDIARY UNDERTAKING

With effect from 6 April 2008, further to the amendments to the Memorandum and Articles of Association of the FRC, four of the operating bodies, the ASB, FRRP, APB and POB became boards of the FRC as apposed to boards of separate limited companies, and subsequently The Accounting Standards Board Limited, The Financial Reporting Review Panel Limited, The Auditing Practices Board Limited and the Professional Oversight Board Limited were all struck off.

The FRC now has only one wholly owned subsidiary, The Accountancy and Actuarial Discipline Board Limited (a company incorporated in England & Wales) which as explained in note 1(c) has not been consolidated. AADB Limited has no surplus or deficit for the year and has no retained earnings or net assets as at 31 March 2009.

24. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

Transactions with subsidiary entities

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

- Amounts receivable from AADB £2,516,000 (2007/08 : £1,986,000)
- Contributions made by FRC towards costs of the AADB £2,516,000 (2007/08 : £1,986,000)

At the year end, there were no amounts due from or to the AADB.

25. LIABILITY OF MEMBERS

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

Annex B – Membership of Operating Bodies

Accounting Standards Board

Chair

Ian Mackintosh

Members

Nick Anderson	Head of Equity Research, Insight Investment
Mike Ashley	Partner, KPMG
Edward Beale	Chief Executive, City Group plc
Marisa Cassoni	Group Finance Director, John Lewis Partnership
Peter Elwin	Head of Accounting and Valuation Research, Cazenove
Ken Lever	Chief Financial Officer and Senior Vice President Numonyx BV – <i>from 01 May 2008</i>
David Loweth	Technical Director ASB
Robert Overend	Technical Partner, Ernst & Young LLP
Andy Simmonds	Partner, Deloitte
Professor Geoffrey Whittington CBE	Emeritus Professor and Senior Associate of the Judge Business School, University of Cambridge

Observers

Ken Beeton	Director Financial Management & Reporting, HM Treasury
Geoffrey Dart	Director, Corporate Law & Governance, BERR
Ian Drennan	Chief Executive, The Irish Auditing and Accounting Supervisory Authority
Bob Garnett	IASB Board Member & IFRIC Chair

Secretary

Simon Peerless

Auditing Practices Board

Chair

Richard Fleck CBE Partner, Herbert Smith

Members

Professor Andrew Chambers Director of Management Audit LLP – *to 31 March 2009*
Jon Grant Executive Director
Lew Hughes CB Former Assistant Auditor General, UK National Audit Office – *to 31 March 2009*
Paul Lee Director of Hermes Equity Ownership Service
Keith Nicholson Partner, KPMG – *to 31 March 2009*
Ronan Nolan Partner, Deloitte Ireland
Graham Pimlott Chairman of Export Credits Guarantee Department
Minnow Powell Partner, Deloitte LLP
Will Rainey Partner, Ernst & Young LLP – *to 31 March 2009*
David Thomas Senior Vice President Business Risk, Invensys plc
Tom Troubridge Partner, PricewaterhouseCoopers LLP
Stuart Turley Professor of Accounting, Manchester Business School, University of Manchester
Martin Ward Partner, Dodd & Co

Observers

Ian Drennan Irish Auditing & Accounting Supervisory Authority
David Loweth Technical Director, Accounting Standards Board
Richard Thorpe Financial Services Authority
Jim Bellingham BERR

Board for Actuarial Standards

Chair

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

Members

Mike Arnold Principal in the London office of Milliman

David Blackwood Group 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 Director in the European Actuarial Services practice in Ernst & Young and a Non-executive Director of the Medical Defence Union

Christopher Daws Former Financial and Deputy Secretary, Church Commissioners; Trustee, Action for Children; Chairman, Action for Children Pension Fund

Steven Haberman Professor of Actuarial Science and Director and Deputy Dean of Cass Business School, City University

Dianne Hayter Chair of the Consumer Panel of the Bar Standards Board, and of the Property Standards Board; member, Insolvency Practices Council and Determinations Panel of the Pensions Regulator

Julian Lowe Independent General Insurance Consultant, former Aviva General Insurance Actuarial Director

Jerome Nollet Corporate Finance Advisor in Risk and Capital Management for the insurance industry

Louise Pryor Director, Actuarial Standards from 1 June 2008

Tom Ross Senior Independent Director, Royal London Mutual Ins. Society

Sir Derek Wanless Chairman, Northumbrian Water Group plc

Martin Weale Director, National Institute of Economic and Social Research

Observers

Valerie Christian Private Pensions Policy & Regulation Department, for Work and Pensions

Caroline Instance Chief Executive, The Actuarial Profession

Jim Kehoe Consulting Actuary – representing Groupe Consultatif Actuariel Européen

Will Price Pensions Regulator

Paul Sharma Director, Wholesale and Prudential Policy, FSA

James Templeton Head of Institutional Investment, HM Treasury

Secretary

Peter Dingwall

Professional Oversight Board

Chair

Sir John Bourn KCB	Comptroller and Auditor General, until his retirement at the end of January 2008 – to 30 September 2008
Dame Barbara Mills DBE QC	Adjudicator for HM Revenue and Customs and member of the Competition Commission. From 1990 to 1992, Director of the Serious Fraud Office and, from 1992 to 1997, Director of Public Prosecutions and Head of the Crown Prosecution Service – from 1 October 2008

Members

Richard Barfield	A director of a number of investment trusts and adviser to two pension funds. Formerly Chief Investment Manager of Standard Life in Edinburgh
Tim Barker	Senior Independent Director of Drax Group plc and of Electrocomponents plc. Formerly Vice Chairman, Dresdner Kleinwort Benson and of Kleinwort Benson Group plc – to 31 March 2009
Anthony Carus	Consulting Actuary in private practice and Director, Royal Liver Assurance Limited. Formerly Appointed Actuary, NFU Mutual Life Insurance Society
David Crowther	Member of the Board and Audit Committee Chair of TT Electronics plc and of the Treasury Solicitor's Department. Formerly a senior partner of PricewaterhouseCoopers LLP, responsible globally for quality assurance and risk management
Hilary Daniels	Board Member and Chair of Audit Committee, Olympic Lottery Distributor. Independent Member of the Professional Services Board of the Institute of Legal Executives. Formerly Chief Executive, West Norfolk Primary Care Trust
Roger Davis	Member of the Competition Commission. Formerly a partner and Head of Professional Affairs PricewaterhouseCoopers LLP
Stella Fearnley	Professor of Accounting, the Business School, University of Bournemouth
Paul George	Director of Auditing, FRC, and Director, Professional Oversight Board
Michael Jones	Head of Management Services & Administration, Trades Union Congress – to 31 March 2009
Anne Maher	Director, Allied Irish Banks plc and of Retirement Planning Council of Ireland. Formerly Chief Executive, The Pensions Board for Ireland

Secretary

John Grewe

Financial Reporting Review Panel

Chair

Bill Knight Former Senior Partner, Simmons & Simmons

Deputy Chairs

Ian Brindle Former Chairman, PricewaterhouseCoopers LLP – *to 30 June 2008*

David Lindsell Former Partner, Ernst & Young – *from 1 July 2008*

Ian Wright Director of Corporate Reporting, FRC

Members

Daniel Abrams Chief Financial Officer, Fiberweb plc

Charles Allen-Jones Former Senior Partner, Linklaters

Rupert Beaumont Former Partner, Slaughter and May

Stephen Box Former Finance Director, The National Grid Group plc – *to 31 October 2008*

Michael Brindle QC Barrister – *to 30 April 2008*

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

Anthony Carey Partner, Mazars LLP

Jim Coyle Divisional Finance Director, Lloyds Banking Group

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

Martin Eadon Partner, Deloitte & Touche LLP

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

John Grieves Former Senior Partner, Freshfields – *to 28 February 2009*

Gordon Hamilton Former Partner, Deloitte & Touche LLP

Stephen Hodge Deputy Chairman of the Franchise Board, Chairman of the Audit Committee, Lloyds of London & Chairman, Shell Pensions Trust – *to 31 December 2008*

Alun Jones Former Partner, PricewaterhouseCoopers LLP

Dame Mary Keegan Former Head of the Government Finance Profession, HM Treasury

Desmond McCann Former Risk & Quality Partner, PricewaterhouseCoopers LLP

Barbara Moorhouse Director General, Corporate Resources, Department for Transport

Chris Moulder Partner KPMG

Richard Murley Managing Director, NM Rothschild & Sons

Richard Pinckard Partner KPMG

Brian Pomeroy Management Consultant, former Senior Partner, Deloitte Consulting

John Reizenstein Managing Director, Corporate & Markets Division, Co-operative Financial Services

George Rose Finance Director, BAE Systems plc – *to 31 October 2008*

Colin Walklin Finance Director, Standard Life Investments

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 - <i>to 27 May 2008</i>
Timothy Walker	Third Church Estates Commissioner, a non executive director of the London Strategic Health Authority, a Trustee of the Prostate Cancer Charity and the De Morgan Foundation, and a member of the Scientific Council of the International Risk Governance Council - <i>from 28 May 2008</i>

Members

Graham Aslet	Fellow of the Institute of Actuaries
Jeremy Barnett	Barrister, St Pauls Chambers
Sarah Brown OBE	Lay member, Bar Standards Board and non-executive director of the Revenue and Customs Prosecutions Office
Dr Norval Bryson	Fellow of the Faculty of Actuaries and Non-Executive Director, Scottish Widows Group plc
Chris Lainé	Former President of ICAEW & former Chairman Allied Textile Companies plc - <i>to 31 March 2009</i>
Elizabeth Llewellyn-Smith CB	Former Department of Trade and Industry and Office of Fair Trading, then Principal of St Hilda's College, Oxford – <i>to 31 March 2009</i>
Stuart McKee	Corporate Finance Partner, PricewaterhouseCoopers LLP
James Miller	Member of the ICAS
Laurence Shurman	Former Managing Partner, Kingsley Napley and Banking Ombudsman – <i>to 31 March 2009</i>
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 the purchase of property, plant and equipment.
- The funds are provided by the our major funding groups:
 - Preparers of financial statements: publicly traded companies, large private entities and public sector organisations
 - The accountancy profession: the six major professional bodies.
 - The Government: At present the Government contributes towards the costs of the core operating activities through a grant-in-aid. However, it will substantially reduce the grant to the FRC over the next two years.
- 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 Bodies 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. Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases are returned to the participating bodies which met the related case costs.
- 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 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 levies 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 the purchase of property, plant and equipment.
- 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 is kept under review in the light of experience of the number and size of cases.
- The contribution that is required to maintain the fund at an appropriate level is reviewed each year.
- Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases are used to

replenish the fund. Should the fund exceed the target level, the excess is 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.

Separate reserves are maintained in relation to our responsibilities for accounting, auditing and corporate governance and our responsibilities for actuarial standards and regulation.

The Directors keep the level of the reserves under review and will consult on them each year.

Annex D – Ipsos MORI Stakeholder Survey Results

For the last five years, we have commissioned Ipsos MORI to conduct an annual survey of 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 in March 2009. Ipsos MORI conducted 301 telephone interviews, covering 125 company directors (100 quoted company directors and 25 insurance company directors), 50 auditors, 50 investors, 25 actuaries, 26 pension scheme managers and 25 pension scheme trustees.

Overall, the survey results indicated that levels of confidence in corporate governance, corporate reporting and auditing have reduced compared to last year, although not dramatically. The most significant change compared to the 2008 survey was the decrease in the proportion of respondents who were “very confident” rather than “fairly confident” in corporate governance and corporate reporting. Around half of those respondents reporting a decrease in confidence in corporate governance and corporate reporting cited problems in the financial sector as the reason.

Confidence in the accountancy and actuarial professions as a whole remained generally good.

The tables below show the latest Ipsos MORI results alongside, where applicable, those from the previous two years.

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

	2009			2008			2007		
	Overall confidence	Very confident	Fairly confident	Overall confidence	Very confident	Fairly confident	Overall confidence	Very confident	Fairly confident
	%	%	%	%	%	%	%	%	%
Levels of confidence in corporate governance									
Directors	80	13	67	93	21	72	95	36	59
Investors	86	2	84	86	24	62	95	29	66
Auditors	80	14	66	89	18	71	92	28	64
Levels of confidence in corporate reporting by UK companies									
Directors	87	20	67	96	28	68	94	52	42
Investors	86	18	68	92	24	68	94	36	58
Auditors	92	24	68	96	33	63	98	44	54
Levels of confidence in auditing									
Directors	90	26	64	92	32	60	95	53	42
Investors	84	12	72	88	16	72	94	27	67
Auditors	98	42	56	98	47	51	100	70	30
Levels of confidence in the reliability of actuarial information									
Insurance Directors	76	16	60	71	14	57	55	22	33
Pension trustees/managers	87	14	73	93	27	66	93	31	62
Actuaries	92	32	60	72	24	48	81	38	43
Levels of confidence in the integrity of the accountancy profession									
Directors	96	48	48	97	54	43	99	71	28
Investors	94	34	60	92	38	54	95	33	62
Auditors	100	72	28	98	65	33	100	90	10
Levels of confidence in the competence of the accountancy profession									
Directors	93	36	57	97	41	56	96	50	46
Investors	92	20	72	94	34	60	95	35	60
Auditors	96	62	34	100	49	51	100	72	28
Levels of confidence in the integrity of the actuarial profession									
Insurance Directors	92	56	36	100	71	29	96	50	46
Pension trustees/managers	98	53	45	100	54	46	95	35	60
Actuaries	100	68	32	92	64	28	100	72	28
Levels of confidence in the competence of the actuarial profession									
Insurance Directors	88	40	48	100	14	86	78	22	56
Pension trustees/managers	96	31	65	95	29	66	100	38	62
Actuaries	100	48	52	84	48	36	95	57	38

FRC effectiveness

	2009		2008		2007	
	Well understood	Not well understood	Well understood	Not well understood	Well understood	Not well understood
	%	%	%	%	%	%
Understanding of the FRC's role						
Directors	68	32	80	20	71	29
Investors	24	76	38	62	29	71
Auditors	94	6	94	6	88	12

	2009			2008			2007		
	Favourable	Neutral/ no view	Unfavourable	Favourable	Neutral/ no view	Unfavourable	Favourable	Neutral/ no view	Unfavourable
	%	%	%	%	%	%	%	%	%
Overall view of the FRC									
Directors	42	49	9	50	40	10	40	49	11
Investors	19	81	-	17	79	4	32	66	2
Auditors	80	20	-	58	40	2	65	25	10

Annex E – Supporting material published on the FRC website

This Annual Report 2008/09 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 2008/09 at <http://www.frc.org.uk/about>

Plan 2009/10 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 4)
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	OB	Operating Body
ACCA	Association of Chartered Certified Accountants	POB	Professional Oversight Board
AIU	Audit Inspection Unit	PAAinE	Proactive Accounting Activities in Europe
APB	Auditing Practices Board	SME	Small and Medium sized Enterprises
ASB	Accounting Standards Board	TAS	Technical Actuarial Standard
BAS	Board for Actuarial Standards	UK GAAP	UK Generally Accepted Accounting Practice
BERR	Department for Business, Enterprise and Regulatory Reform		
CCAB	Consultative Committee of Accountancy Bodies		
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors		
CGU	Corporate Governance Unit		
CIMA	Chartered Institute of Management Accountants		
CIPFA	Chartered Institute of Public Finance & Accountancy		
CPD	Continuing Professional Development		
EFRAG	European Financial Reporting Advisory Group		
ES	Ethical Standard		
EU	European Union		
FASB	Financial Accounting Standards Board		
FRC	Financial Reporting Council		
FRRP	Financial Reporting Review Panel		
FRS	Financial Reporting Standard		
FRSSE	Financial Reporting Standard for Smaller Entities		
FSA	Financial Services Authority		
GAAP	Generally Accepted Accounting Practice		
HMT	Her Majesty's Treasury		
IAASB	International Auditing and Assurance Standards Board		
IAS	International Accounting Standard		
IASB	International Accounting Standards Board		
ICAEW	Institute of Chartered Accountants in England and Wales		
ICAI	Institute of Chartered Accountants in Ireland		
ICAS	Institute of Chartered Accountants of Scotland		
IFAC	International Federation of Accountants		
IFRS	International Financial Reporting Standard		
IFRIC	International Financial Reporting Interpretations Committee		
IFIAR	International Forum of Independent Audit Regulators		
ISA	International Standard on Auditing		

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

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

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

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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
