



Financial Reporting Council

Financial Reporting Council Annual Report and Financial Statements for the Year Ended

31 March 2023
HC 1450





Financial Reporting Council

Annual Report and Accounts 2022/23

For the period 1 April 2022 to 31 March 2023

Presented to Parliament by the Secretary of State for Business and
Trade by Command of His Majesty

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Strategic Report



1. Our Purpose

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

Objectives



Set high standards in corporate governance and stewardship, corporate reporting, auditing, and actuarial work and assess the effectiveness of the application of those standards, enforcing them proportionately where it is in the public interest.



Promote improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders.



Influence international standards and share best practice through membership of a range of global and regional bodies, and incorporate appropriate standards into the UK regulatory framework.



Create a more resilient audit market through greater competition and choice.



Transform the organisation into a new, high-performing, robust and independent regulator, acting in the public interest.

Our remit

We regulate:



Publicly listed companies by providing standards, best practice guidance, corporate reporting and the UK Corporate Governance Code.



Institutional investors through the Stewardship Code.



Auditors, actuaries and accountants' compliance with professional standards and UK Generally Accepted Accounting Practice (UK GAAP).



Relevant professional bodies by supervising, for example, the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Chartered Certified Accountants (ACCA), the Institute and Faculty of Actuaries (IFoA), Chartered Global Management Accountant (CGMA) and the Institute of Chartered Accountants of Scotland (ICAS).

Acting in the public interest includes considering how our regulatory activities impact on retail shareholders, suppliers, workers, customers, communities, pensioners and savers, and financial institutions, all of whom have an interest in the health of companies.

2. 2022/23 highlights

April

- Publication of the FRC 3-Year Plan 2022-25
- Publication of the Audit Firm Governance Code



June

- Guidance on the Strategic Report
- Responses to the International Sustainability Standards Board (ISSB) on International Financial Reporting Standards (IFRS) S1 and S2 exposure drafts
- Guidance on professional judgement
- Joint Forum on Actuarial Regulation (JFAR) report, The Science of Climate Change



August

- FRC Lab reports on digital security risk disclosure and Environmental, Social and Governance (ESG) data production
- Key facts and trends in the Accountancy profession
- Auditor reporting: a review of current practice



May

- Thematic Review of Discount Rates



July

- Research study on the influence of the Stewardship Code on practice and reporting
- Our Position Paper following the Government Response to the 2021 White Paper
- Annual Audit Quality Inspection (AQI) results
- Annual Report and Accounts 2021/22
- Annual Enforcement Review (AER)





September

- Stewardship Code signatory list update
- FRC Lab report on structured digital reporting
- Research on navigating barriers to senior leadership for people from minority ethnic groups in FTSE 100 and FTSE 250 companies

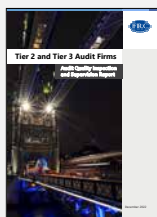
October

- FRC Lab report on net zero disclosures
- Annual review of corporate reporting 2021/22
- AQI results of major local audits



December

- AQI and Supervision report of Tier 2 and 3 audit firms
- JFAR risk perspective
- What Makes a Good... Annual Report and Accounts



February

- Stewardship Code signatory list update
- Thematic Review: IFRS 9 Banking Audit Methodology and its Application



November

- Review of Corporate Governance Reporting 2022
- Professional oversight report 2022
- What Makes a Good... Environment for Auditor Scepticism and Challenge



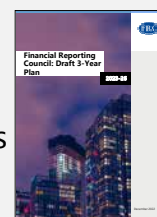
January

- ESG Statement of Intent: What's Next?



March

- Technical Actuarial Standards (TAS) 100 final standard
- Draft 3-Year Plan 2023-26
- Our Approach to Audit Supervision



3. Statement by the Chair of the FRC

I am pleased to present the Financial Reporting Council's 2022/23 Annual Report and Accounts. Over the course of the year, we have made significant progress both in our governance as an organisation and in our continued work to raise standards of audit quality, corporate reporting and governance to the benefit of all of our stakeholders.

When taking on the role of Chair in February 2022, four new Non-Executive Directors (NEDs) also joined us, making a significant contribution to a revitalised, expert Board. That allowed us to restructure our five Board committees, and with the insights and experience we have all gained over the last year, I am pleased to report that the governance of the FRC is today in good and settled hands.

Our Transformation Programme, in preparation for the long-awaited legislation to create the Audit, Reporting and Governance Authority (ARGA), continues at pace, and we have reached a significant number of new milestones during the year. Like many of our stakeholders, we too are frustrated at the number of delays to the required legislation being tabled in Parliament and hope that this will happen as expected later this year. The FRC is a vastly different regulator to that of four years ago, and it has been pleasing to hear from our stakeholders that our role as an assertive regulator is having the impact and influence that we consistently aim for. There's a lot for us to be proud of as an organisation. But there's still a lot to be done.

Since our last Annual Report and Accounts, we have seen the publication of the Government Response by the Department for Business, Energy and Industrial Strategy (BEIS), now the Department for Business and Trade (DBT). This marked a key milestone in our journey towards ARGA and provided us with a clear roadmap from which we outlined an extensive workplan in response to the proposals taken forward from the 2021 White Paper, Restoring trust in audit and corporate governance. As we await the legislation to create ARGA, the work outlined in our Position Paper published in July 2022 will continue to support financial stability and high standards in corporate Britain, helping to underpin the UK's position as a key investment destination.

After serving with distinction as a Director since 2015, John Coomber, our Senior Independent Director, will be standing down in July when his mandate expires. I want to thank him for his valuable contribution to the organisation over the last eight years, in particular recognising that during a time of tremendous change in the Board, he provided essential continuity and support to the Board and the wider organisation. John will be succeeded as Senior Independent Director by Clare Thompson, and as Chair of the Supervision Committee by Ruwan Weerasekera.



**Sir Jan
du Plessis**
Chair

**"The
Government
Response
marked
a key
milestone in
our journey
towards
ARGA"**

In February, we announced Sir Jonathan Thompson's resignation as Chief Executive Officer (CEO), in order to take on the role as Chair of HS2. I would like to express my sincere gratitude to him for all he has achieved at the FRC over his almost four years here. The organisation I chair today is unrecognisable compared to that which Jon joined in 2019, not least of all because of his leadership in transforming the FRC into a modern, more assertive regulator with impact and influence. We are all grateful for his work and achievements over the last four years. I am confident that the FRC is now well-placed to continue this work as we jump the remaining hurdles to become ARGA.

Jon is working out his notice period until 31 July 2023 on a part-time basis and, working with DBT, we are conducting an extensive search for his successor.

In order to provide further support to Jon and the wider organisation during this transition period, Sarah Rapson has taken on the role of Deputy Chief Executive, in addition to her ongoing role as Executive Director of Supervision. I am pleased to report that she has taken on these additional responsibilities with great energy and enthusiasm.

We must continue our whole system approach to reform to deliver the best results, and that includes legislation. We have seen significant progress on audit quality, but that needs to be universal across all audit firms to deliver the best outcomes. It is of utmost importance that we see the dedication to this work continue as we keep on holding firms to these high standards, encouraging them to do the best for their stakeholders.

Our work as an improvement regulator also continues across the board, recognised in our highlights from the last year, and continuing in the next with major consultations such as the Corporate Governance Code review, beginning in May. Our work will maintain the highest possible standards for audit and corporate governance.

Finally, I need to acknowledge the incredibly important work of our ever-growing workforce at the FRC. I wish to thank them all for their hard work, commitment and professionalism as we continue on our exciting and important journey towards ARGAs. I have no doubt that, as the FRC, we will continue to deliver on the expectations of our many stakeholders and that, when we become ARGAs, we will step up to the plate, confident in the knowledge that we are well qualified for the job at hand.



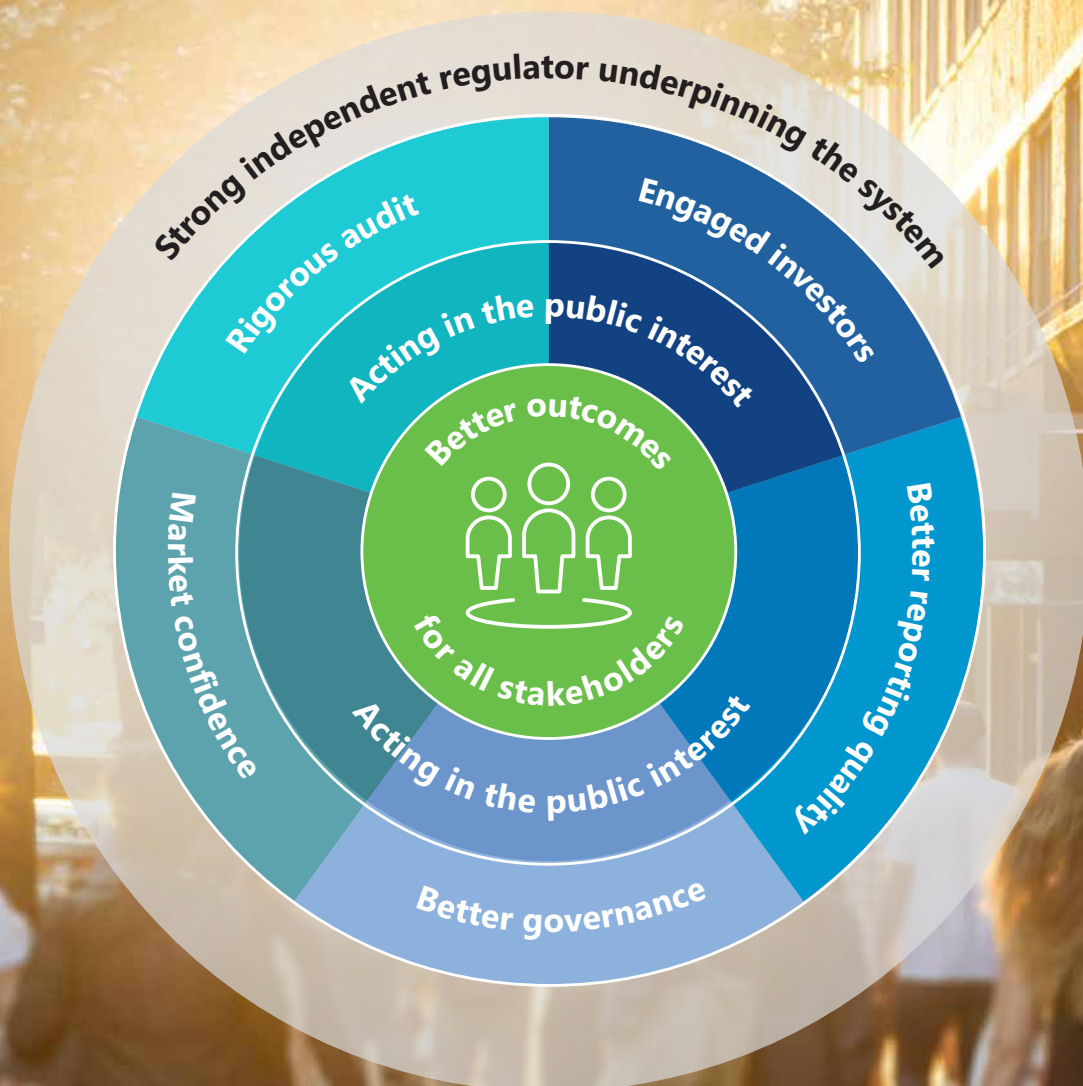
Sir Jan du Plessis
Chair

**"We will
continue
to deliver
on the
expectations
of our
stakeholders"**

4. The FRC at a glance

The FRC's Board and Executives believe strongly in the important contribution our activities make towards improved outcomes for all stakeholders in our ecosystem: greater transparency, increased trust in UK markets and an effective market that can lead to lower cost of capital for corporate companies. This is important for stakeholders, large and small, across the country, from workers and pension holders to institutional investors and large corporate organisations. For more about our stakeholders and how we engage with them, see page 52.

Building trust brings better outcomes for all stakeholders







5. Our business model

What kind of regulator is the FRC and will ARGA be in future?

The now integrated four faces of regulation, first introduced in our 2022-25 3-Year Plan, demonstrate how the FRC, and in the future ARGA, will regulate. As part of our work as an improvement regulator, the four faces provide a balanced yet assertive approach and allow us to maintain alignment with our core purpose: to serve the public interest by setting high standards of corporate governance, reporting and audit, and by holding to account those responsible for delivering them.



What we do

Regulatory Standards 	Supervision 
<ul style="list-style-type: none"> • Lead the development of public and technical policy, informed by influential stakeholder engagement. • Set Codes, standards and guidance that support high-quality corporate reporting, corporate governance, and stewardship, audit, and actuarial work. • Drive innovation in the public interest for our stakeholders. • Influence international standard setting and collaborate with other regulators. 	<ul style="list-style-type: none"> • Deliver our statutory responsibilities for corporate reporting review and act as the Competent Authority in respect of statutory auditors and the audit market. • Monitor the application of corporate reporting and audit standards, and hold to account those that fail to meet these standards. • Promote improvement and innovation in corporate reporting and audit. • Promote a more resilient audit market.
Enforcement 	Corporate Services 
<ul style="list-style-type: none"> • Drive the application of high standards in corporate reporting, audit and actuarial work through proportionate and risk-focused enforcement action where it is in the public interest. • Promote improvements and innovation in these areas by communicating clear and impactful messages through enforcement cases and publications, and through the setting and monitoring of effective non-financial sanctions. 	<ul style="list-style-type: none"> • Support the regulatory divisions by providing a robust and resilient framework and expert support for the delivery of the FRC's wider objectives. • Support the FRC's ongoing work as an improvement regulator by acting as a trusted partner and adviser to the business, and through our ongoing partnership with DBT.

Our Values

Influential

Through **technical** expertise and **thought leadership**, our people **innovate** to drive change. They **develop** themselves and others, **speak up**, value diversity and support others to do the right thing.

Fair

Our people act in a **professional, proportionate, consistent** manner to ensure robust standards of decision-making and delivery, both internally and externally.

Effective

Our people are **decisive, accountable** and **collaborative** when working with others to share information and experiences to improve outcomes.

Independent

Our people **challenge** ideas, make **evidence-based** decisions and always act with **integrity**.



6. Chief Executive's report

I am pleased to report that this year has seen further momentum on delivery of all aspects of the FRC's strategy and remit. As an organisation, we have continued to focus on delivering our purpose while being an improvement regulator, modelled on the four faces approach to regulation we first introduced in our 2022-25 3-Year Plan.

Our journey to become ARGA has continued as we have progressed well beyond the recommendations of the three independent reviews and implemented many without legislative backing. It has been somewhat frustrating that legislation has not yet been passed more than four years after Kingman, and we continue to work with Government on preparing the legislation for when parliamentary time allows. The work laid out as part of the Government's response to the White Paper, Restoring trust in audit and corporate governance, continues at pace as many of the Transformation Programme workstreams become part of the FRC's business as usual on a voluntary or negotiated basis.

The ongoing Corporate Governance Code consultation, the introduction of our Scalebox and Audit Sandbox initiatives, and our work on actuarial policy and local audit demonstrate our ongoing drive to changes we can make using our existing powers and remit while we wait for the crucial legislation needed to fully implement reform. These have built on our new approach to supervising audit firms and a stream of 'What Makes a Good...' publications to help those we regulate to learn from each other and best practice.

Our work over the last year has seen some essential next steps to protect and advance the interests of our stakeholders, including:

- The Corporate Governance Code consultation starting in May, looking at how we can best improve the Code and incorporate elements of the Government Response of May 2022, particularly around internal controls and assurance frameworks.
- 'Audit Committees and the External Audit: Minimum Standard', designed to increase performance across Audit Committees in the FTSE 350, ensuring a consistent approach and supporting a well-functioning audit market.
- The introduction of a Memorandum of Understanding (MoU) with the Department for Levelling Up, Housing and Communities (DLUHC), allowing us to take on the role of shadow system leader for local audit until ARGA is introduced via legislation.

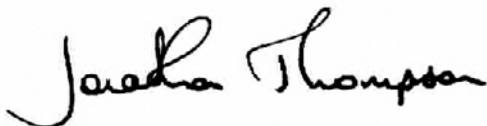


Sir Jonathan Thompson
Chief Executive Officer and Accounting Officer

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- The ARGA funding model, considering how the new regulator will be funded on a statutory basis to allow it to continue to play a crucial role in the UK framework for corporate governance, corporate reporting, audit, accountancy and actuarial work.

As well as this, we have also been working with Government to consider our next steps as an organisation in relation to location. When the decision was made to create ARGA, the Government outlined that its headquarters should sit outside of London and the South-East, in accordance with Government policy on levelling up and providing opportunity across the UK. The location for our future headquarters has been identified as Birmingham. Decision-making around timing is ongoing and we will update stakeholders of the outcomes of these discussions. At the same time, we have also been reviewing the location of our London office as our lease at 125 London Wall comes towards its end in 2024. Regardless of a second location, it is critical that we retain a London presence given the location of a majority of our stakeholders.

While I am now moving on to a new challenge and leaving the FRC, I have every confidence in the effective, impactful regulator I leave behind. With the leadership of Sarah Rapson as Deputy Chief Executive in the interim, and the dedication of the nearly 450-strong workforce the organisation has in place, I know that the creation and evolution of ARGA will be inevitable once legislation is in place. I am proud of the work I have done as part of the FRC, and look forward to seeing its every success in the future.



Sir Jonathan Thompson
Chief Executive Officer and
Accounting Officer

"I have every confidence in the effective, impactful regulator I leave behind."

A note from Sarah Rapson, Deputy Chief Executive

When taking on the role of Deputy Chief Executive in February 2023, as well as my existing duties as Executive Director of Supervision, I did so knowing that we were well on our way to ARGA via the transformation journey that Jon has overseen in his more than three years at the FRC. While DBT undertakes the search for a new, permanent Chief Executive, I am proud to take on this important role. I will lead the FRC in its work as an assertive, proportionate regulator, seeking to raise the quality of audit and corporate governance and reporting in corporate Britain. Assertive yet proportionate regulation is vital for the UK to maintain and develop its position as a world-leading international finance centre.

I want to thank Jon for the work he has done and overseen during his tenure here and look forward to the future of the FRC and ARGAs. This year, we will continue to push for the much needed legislation to be implemented, allowing us to fulfil our duties as the new regulator and continue our work on the four faces of regulation. While we have had to reprioritise some work while we await the legislation from Government, we will enhance our existing regulatory functions to deliver the best possible outcomes, deliver on the reform programme wherever possible under our existing powers, and maintain the high standards that stakeholders around the world have come to expect in the UK market. Smarter, better regulation supports growth.

Under the strategic and experienced leadership of Sir Jan du Plessis as Chair, and with our new CEO expected in place in the course of the next year, I am confident that we will continue to deliver in the best interests of stakeholders this year and beyond.



Sarah Rapson
Executive Director of Supervision
and Deputy Chief Executive



Sarah Rapson
Executive
Director of
Supervision
and Deputy
Chief Executive

Highlights from 2022/23



STEWARDSHIP
CODE

254

confirmed successful signatories to the Stewardship Code as of February 2023



263

reviews opened by CRR



139

live FRC projects in 2022/23



150

Audit Quality Review inspections completed



443

members of staff, up 52 since 2021/22



81%

of staff proud to work for the FRC



38

open investigations



100%

of complaints received and dealt with by the Central Complaints function met the service level agreement



80

podcasts and webinars produced

Regulatory Standards



The Regulatory Standards division develops Codes, standards and guidance to support the delivery of high-quality work and innovation. This is done through direct policy work in the UK, and influencing the development of international standards. This is supported by thought leadership, bringing insight into the teams and making optimal use of the feedback loop that comes from monitoring and regulatory activities undertaken by the Supervision and Enforcement divisions. Our work is also informed by the work undertaken by the FRC's Stakeholder Engagement and Corporate Affairs team in their ongoing work with our broad spectrum of stakeholders in the UK and globally, in addition to divisional-specific work on consultations, roundtables and educational workshops.

Case study: supporting better pensions information through our actuarial policy work



The Government Response set out a foundation on which we have worked to promote high-quality and reliable actuarial information in the UK.

In early 2022, we consulted on proposed changes to Actuarial Standard Technical Memorandum (AS TM) 1. After carefully considering the feedback received, we published a revised standard in October 2022, which supports reliable projections for pensions and increases consistency between pension providers. These necessary changes reflect the new environment that will exist once pensions dashboards display Estimated Retirement Income illustrations, and continues to support the Government's work on the pensions dashboard initiative.

Information about the new AS TM1, effective October 2023, can be found on the FRC [website](#).

A number of areas of our work stemming from the Government's response to the White Paper, issued in May 2022, have seen significant progress over the last year. Our review of the Corporate Governance Code, launching via consultation in May, will establish a UK regime for reporting on the effectiveness of internal controls, and also look at interactions with the new resilience statement, audit and assurance policy, wider ESG reporting obligations on Boards and the Audit Committee standards on which we have consulted.

The division is at the heart of our development of regulatory policy which, when done properly, means better outcomes for stakeholders – that includes workers, suppliers, investors, pensioners and society as

"A number of areas of our work have seen significant progress over the last year"

a whole. We want to emphasise our role as an improvement regulator, and concepts such as the Audit and Assurance Sandbox give a collaborative and innovative approach to developing solutions for the audit sector. Our Competition policy paper also set out our approach to meeting the responsibilities we expect to be assigned through legislation. Stakeholders are able to use our examples of best practice work around stewardship, corporate governance, and via the FRC Lab, and we continue to push to the forefront of emerging topics around data and technology, as well as our ongoing work on ESG.

Case study: FRC Technology and Digital Steering Group



Technology and its use in the areas for which we have regulatory responsibility is increasingly at the forefront of discussions between regulators, standard setters and practitioners. As a result, we created the FRC Technology and Digital Steering Group with members from across the organisation, which:

- Builds upon our position as a leading, improvement regulator that understands and can effectively respond to the impact of technology on our regulatory activities.
- Identifies opportunities where technology is likely to lead to significant quality improvements in the areas for which we have regulatory responsibility.
- Ensures that technology-related activities undertaken across the FRC link to and support our overall strategy.
- Identifies areas of concern early, responds appropriately and equips us for future reviews and potential enforcement action.
- Ensures that any guidance we produce is stakeholder focused and addresses real issues emerging in practice.

Aligned with this, we are also making better use of the FRC Lab to address bigger thematic matters. Over the last year, the Lab has undertaken policy-driven research looking at materiality in practice, net zero disclosures, digital security risk disclosure, structured digital reporting and ESG data production, distribution, and consumption by preparers. A better understanding of materiality is critical to ensure that companies can report better information to support decision-making and not just more information that does not meet stakeholder needs.

The FRC's ESG and Climate Group continues to play a key role in ensuring that all climate-related activities we undertake link directly to our overall strategy. We continue to ensure messaging for all

"We want to emphasise our role as an improvement regulator"

stakeholders is clear and consistent, building our position as a leader in the important debate about how our stakeholders should respond to the various disclosure and reporting requirements on sustainability and ESG. We have also continued to engage closely with the ISSB as it develops global reporting and disclosure standards, and the FRC is a member of the Board's Sustainability Standards Advisory Forum.

In January 2023, we published an updated ESG Statement of Intent that was very well-received by our stakeholders. FRC staff are also playing leading roles in the development of global standards for the assurance of ESG information and the ethics and independence standards that are necessary to underpin high-quality and consistent work that underpins public trust.

Case study: ESG Statement of Intent 2023



The 2023 ESG Statement of Intent serves as a development and update of our original 2021 publication. The 2021 ESG Statement of Intent looked at issues with the production, audit and assurance, distribution, consumption, supervision and regulation of ESG information. Our 2023 update provided a timely review of areas where there remain ongoing challenges in reporting, suggesting actions for preparers to produce decision-relevant information, and set out our plans to engage with the market to ensure that stakeholder needs are met.

Since the publication of the original statement, we have produced a range of helpful tools, information and guidance that reflects the fast-evolving landscape of ESG, as well as the breadth of our remit. We continue our work to improve transparency on climate and wider ESG risks, and this year we are considering a number of areas in our projects and thematics, including materiality disclosures, support for Financial Reporting Standard (FRS) 102 preparers, ESG reporting requirements of the Corporate Governance Code, and the link between investors and ESG reporting.

Our ongoing international work looks at how we can influence the development of international auditing and assurance standards through our direct involvement in the International Audit and Assurance Standards Board (IAASB), responding to international consultations, and through our engagement with other international standard setters and regulatory bodies such as the International Ethics Standards Board for Accountants (IESBA).

We remain a part of the International Forum of Independent Audit Regulators (IFIAR) and contribute to all of its working groups, Josephine Jackson (Director of International Audit Policy) sits as an IAASB Board member providing leadership and direct input into standard development, and Mark Babington (Executive Director of Regulatory Standards) took on the role of IESBA Board member in January 2022.

"The FRC plays a leading role in the development of global standards"

Supervision



The Supervision division delivers the FRC's supervision and monitoring obligations in respect of audit, accounting, corporate reporting and actuarial work. As the supervision function of an improvement regulator, it promotes innovation and improvement by exploring good practice to raise the quality of audit and corporate reporting for all of our stakeholders.

Our four faces regulatory model emphasises our 'Supervisor' role in monitoring not only requirements but challenge, culture, and behaviours as well. We have continued our assertive approach to audit firm supervision, and although much of our work focuses on audit, this does not happen in a vacuum. While audit supports the production of high-quality, decision-useful information for stakeholders, we ensure that all aspects of the sector maintain the high standards the FRC expects.

This year, we have continued our highly regarded and well-received 'What Makes a Good...' series, with the publication of 'What Makes a Good Environment for Auditor Scepticism and Challenge' in November 2022, and 'What Makes a Good Annual Report and Accounts' in December 2022.

"We have continued our assertive approach to audit firm supervision"

Case study: What Makes a Good... Annual Report and Accounts



As an improvement regulator, we use a principles-based framework that identifies corporate reporting principles and effective communications characteristics. We recognise the Annual Report and Accounts as the cornerstone of corporate reporting, which should provide investors with clear and relevant information on a company's performance and prospects to help them make informed investment decisions and to promote effective stewardship.

'What Makes a Good... Annual Report and Accounts' provides good practice examples we identified as part of our ongoing supervision work and sets out our view of the characteristics associated with a high-quality Annual Report and Accounts.

Our underpinning assumption is that a good Annual Report and Accounts must comply with the relevant legal, regulatory, financial reporting and code requirements. However, as every business is different, preparing a high-quality Annual Report and Accounts must be more than a compliance exercise and will vary between entities.

This publication sets out opportunities for improvement and illustrates better practice, looking at ways that different aspects of the Annual Report and Accounts can represent:

- Good quality application that we encourage other companies to consider when preparing their Annual Report and Accounts
- Issues we have identified in our role as an improvement regulator
- Ways in which a company may improve the quality of its reporting

Through our Annual Corporate Reporting Review for 2022, we saw that despite a continued challenging external environment, the high quality of corporate reporting has been maintained, particularly in respect of the FTSE 350.

The annual Tier 1 firm supervision and inspection reports, published in 2022, showed that audit quality continues to improve at the largest audit firms and on the largest audits, but still more improvement is required to deliver consistent audit quality. It is clear that a combination of the FRC's increasingly assertive supervision approach, alongside investment from the firms in their systems, people and capabilities to improve audit quality, is starting to have a positive impact.

And while the first Tier 2 and 3 firms supervision and inspection report found significant shortcomings in audit quality, the resulting Audit Firm Scalebox, announced in December 2022, looks at bespoke measures to help smaller firms meet the high quality standards expected of Public Interest Entity (PIE) audit firms and to develop robust quality control systems as they grow both their capability and capacity.

Our role as system partner was demonstrated in the publication of 11 firm-level audit quality indicators to provide users of audit services with greater insight into many of the indicators that drive audit quality. Firms will provide these indicators to the FRC, and the publication of comparable data will provide users of audit services with an additional source of information, enabling detailed and robust conversations about audit quality with firms during individual engagements and when considering auditor appointments.

2022 also saw the completion of our first transformation project in Supervision, with the launch of the PIE Auditor Register in December. This further bolsters our supervisory toolkit and helps us to hold firms to account. This year also saw the appointment of Neil Harris as our first Director of Local Audit, and in March 2023 our MoU with DLUHC was published, enabling us to clearly set out our role as shadow system leader in this space until the creation of ARGA allows us to take on the role fully.

As set out in our 2023-26 3-Year Plan, we continue to focus on activities to deliver further aspirations of the reform programme, while maintaining or enhancing our existing regulatory functions to ensure that they are delivering the best possible outcomes. We have therefore begun to develop our supervisory oversight strategy for the professional bodies. The supervision model for the professional bodies will seek to mirror the model that has worked so well with the largest audit firms.

We will have a supervisor who will pull together a more holistic view of regulatory activities at the professional bodies. This view will consider all elements of the membership journey from student to full member, including continuous professional development, authorisation of the individuals and firms, and the overall governance and leadership of the organisation. Additionally, following the UK's exit from the EU and UK auditors' loss of automatic statutory audit rights in EU member states, we are seeking to secure several mutual recognition agreements concerning audit qualifications with key countries around the world. We are currently in negotiations with Australia and New Zealand, with a view to reaching agreement later this year.

"The PIE Auditor Register bolsters our supervisory toolkit"

Enforcement



The Enforcement division protects the public interest, maintains confidence in the regulatory regime, and deters breaches of relevant requirements by holding to account auditors, accountants, accountancy firms and actuaries to support high standards in audit, accounting, corporate reporting and actuarial work. The division:

- Conducts investigations and takes appropriate, risk-focused enforcement action where it is in the public interest.
- Promotes improvements by communicating clear messages through enforcement outcomes and publications such as the Annual Enforcement Review.
- Sets and monitors effective non-financial sanctions designed to improve quality.

A strong feedback loop within the FRC ensures that the Regulatory Standards, Supervision and Enforcement divisions work hand in hand to ensure better outcomes for all stakeholders. This in turn feeds into our four faces approach to regulation, with Enforcement naturally taking on the 'Enforcer' role while still making valuable contributions to other faces.

This year, we have seen a reduction in the size of the case portfolio as fewer new cases have been opened, and our hard work to conclude legacy cases has continued. We remain mindful of the current challenging environment for all in the financial reporting space, which we recognise may give rise to an increase in instances where we consider opening an investigation. That's why it is as important as ever that the FRC sets out its expectations and guidance to help preparers and accounting, audit and actuarial professionals manage the challenges as much as possible. But, while we may see more cases, you won't see a change in our approach – we will continue to uphold standards and take appropriate action when necessary, holding those who do not meet these standards to account.

Our enforcement work, published outcomes and non-financial sanctions play a vital part in our role as an improvement regulator, and we believe that they are effective in encouraging better behaviours, judgements and quality. Compared to the many thousands of audits conducted annually, and the hundreds of AQR inspections completed, we have only seen it necessary to take action in relatively few instances.

"We will continue to uphold standards and take appropriate action when necessary"

This year, we have:

- Resolved 16 cases through constructive engagement.
- Met our established Key Performance Indicator (KPI)¹ in 75% of investigations.
- Published 19 outcomes, 1 Tribunal Report and our fourth Annual Enforcement Review.
- Grown the team in strength and depth of capacity and capability from 64 to 69.
- Opened 10 investigations.
- Resolved 11 cases through settlement.
- Closed 2 audit cases with no action.
- Closed 4 cases against members in business.
- Reduced the case portfolio from a high of 52 in Autumn 2021 to 38 at 31 March 2023.

1 A period of two years between commencement of an investigation opened in the year to 31 March 2021 and service of either the Proposed Formal Complaint or Investigation Report (IR) (or closure or settlement if sooner).

Common questions

Who falls under the FRC's remit for enforcement? Is it just the biggest audit firms that you enforce against?

No. The FRC conducts investigations and can bring enforcement action in the public interest against auditors and audit firms, accountants, accountancy firms and actuaries. However, we currently have no powers to investigate, take enforcement action or impose sanctions on individuals including Directors, other than those who were at the relevant time members of the professional accountancy bodies or members of the IFoA. Further details of our powers, which are subject to legislative change, appear on [our website](#).

Are sanctions imposed simply to punish do they actually improve behaviours or standards?

The purpose of sanctions is to protect the public interest, uphold standards and confidence in the regulatory regime, and deter breaches. Sanctions are not imposed to punish. The significant growth in non-financial sanctions in recent years is directly targeted at improving quality, standards and behaviours.

Shouldn't these sanctions be reserved for only the most serious cases, involving dishonesty or ethical failings?

Our sanctions policy sets out that decision-makers should have regard to the principles of proportionality when applying sanctions. However, it is crucial to note that failures in financial reporting and audit more typically arise through lack of skill and competence than dishonesty. All failures, however caused, can directly damage the interests of a broad range of members of society including employees, creditors and pensioners, as well as damage the trust that investors and organisations have in the UK as a good place to do business, hence the importance of holding relevant parties to account and through published outcomes of the breaches found, demonstrating behaviours to be avoided.

Why apply enforcement action against individuals? Shouldn't the FRC focus on the firms?

Improvements to firms' behaviours and cultures are always a key objective of the FRC; however, it must be recognised that firms act through individuals. It is these individuals who are personally accountable for compliance with ethical, accounting and auditing standards, material breaches of which are so damaging to the confidence in the reliance that can be placed on financial reporting.

Once an investigation has started, is it a foregone conclusion that breaches of duty will be sanctioned?

No. Sanctions are based on an objective, evidence-based assessment of whether breaches that are serious or significant individually or collectively have occurred. The FRC has seen an average of 11 cases where sanctions were imposed in each of the four years to 31 March 2023, as compared with an average of four cases over the same period where they were not. As identified in the 2022 AER, of our 17 concluded cases in 2021/22, three were closed with no further action, 13 were settled by agreement with findings of misconduct/breaches of duty, and one case resulted in proceedings before the Independent Tribunal.

Why do enforcement cases take such a significant period of time to be resolved?

Cases vary in the number of years in scope and in the number and complexity of issues under consideration. Investigations need to be fair and thorough, and are subject to factors outside our control, including the responsiveness of firms, and availability of materials and third parties. Efforts to improve timeliness are ongoing and this year resulted in 75% of cases meeting their KPI.

Couldn't constructive engagement help resolve issues faster if applied to all cases?

Constructive engagement is a helpful means of resolving cases where the audit quality concerns can be appropriately and satisfactorily addressed without full investigation, enforcement action, sanction or published outcome. In 2021/22, we saw 39% of our cases resolved through constructive engagement with ten separate audit firms, typically where the errors appeared unlikely to have had a real impact on the decisions taken by users of the financial statements. This may have been because the errors were only marginally material in a quantitative sense, were in highly technical areas of the financial statements, or were in areas that were not of fundamental importance to the measurement of the underlying financial performance of the entity. However, constructive engagement is not suitable for all cases. The current lack of published outcomes in such cases inhibits our ability to act as an improvement regulator for the wider marketplace and complex cases involving serious breaches that impact the public interest require imposition of sanctions.

Does the FRC have access to the technical specialists whose expertise would support the timely completion of cases?

Specialist audit advice is available within the Enforcement division, and teams are also able to draw on technical expertise from across the FRC, including from members of the FRC's extensive Advisory Panel and Senior Advisers. An independent expert is instructed in all cases, save a handful where evidence from an external expert is not required. The majority of our cases are resolved through settlement or successful hearings before an Independent Tribunal, evidencing our well-developed understanding of the cases we investigate.

Corporate Services



The Corporate Services division supports the work of the FRC by providing professional HR, finance, risk, legal, IT, economic advice and research, and data and analytics services to ensure that the organisation is well run and complies with all relevant laws and duties. It has been pleasing to see year-on-year improvements across all performance indicators and the organisation continues to grow, with the support of the division.

This year, the division has continued to embed new systems and procedures across the organisation in our budgeting, learning and development, general counsel, HR, diversity and inclusion, and finance teams. The team supports the day-to-day demands and deliveries of the FRC across all divisions. Our work to deliver better organisational behaviours and build business resilience underpins our four faces model and our work as an improvement regulator, all while building a platform for the future.

This year, we have:

- Implemented operational effectiveness and enhanced reporting to facilitate the four faces approach to regulation.
- Developed how we use and maintain data and information to support our regulatory work to help make better decisions, and refreshed the approach to information management, security and data privacy.
- Enhanced our data and analytical capability and improved intelligence to support supervisory decision-making.
- Engaged with Government on impact assessments for regulatory initiatives, working with colleagues across the wider organisation.
- Continued good quality recruitment, with an increased headcount of 443 as of 31 March 2023, and invested in the learning and development of our people.
- Progressed our commitment to diversity and inclusion across characteristics, and further improved gender pay gap reporting.
- Conducted our annual people survey which saw improvements across key performance indicators (see page 49) and recognises the role of our now embedded Values and Behaviours.
- Implemented our long-term hybrid working procedures as we maintain a hybrid approach to business as usual.

"We have seen year-on-year improvements across all performance indicators"

-
- Improved our operational and IT resilience and embedding of our risk and control framework, and contingency planning including testing our responses to unplanned events.
 - Updated the complaints handling processes against external benchmarking.
 - Collaborated closely with the Transformation Programme via the legal team.
 - Set out our approach to the statutory funding of ARGA.
 - Commenced the planning for new offices for the FRC and ARGA.

Strategy and Change

The Strategy and Change team is the engine for transformation across the organisation, through delivery of project and programme management that embeds sustainable change. The team is also responsible for the development of the FRC's strategy and 3-year plan in collaboration with the Board, Executive and Finance teams. The Strategy and Change function sits in the newly established CEO division, is cross-functional, and focuses on managing change and continuous improvement across the entire organisation.

Work this year focused particularly on adapting to align with our four faces of regulation as we further develop the balance between assertiveness and being an improvement regulator. The team has continued to integrate a more mature Transformation Programme into the ongoing work of the organisation, including re-prioritisation of some areas due to the further delay in introducing legislation to create ARGA.

The 2023-26 3-Year Plan, published on 27 March 2023, sets out the next steps for the organisation, ensuring that we continue to design and deliver effective regulation to the benefit of all stakeholders. The Strategy and Change team spearheads the work of facilitation, joining up work across many of our strategic initiatives.

The work of the Transformation Programme team has focused on maximising the impact of non-legislative approaches, such as developing our view on defining the use of public interest test criteria and planned future reporting on our regulatory perimeter, as published in November 2022. Most projects within the programme have objectives and desired outcomes that span both transformation and 'business as usual', and these projects use cross-FRC steering groups to make effective use of colleagues' time. Throughout the year, we have also continued to work closely with our counterparts at DBT on legislative proposals.

Our Project Management Office (PMO) has been working hard to provide all teams with standardised tools, templates and training, aligning our projects to our strategic objectives to support organisational decisions and priorities. During this year, the PMO has further embedded the use of our Projects and Programmes Assurance Board as a forum for the challenge and oversight of our most important projects. It has also expanded the FRC's Project Community as a place for project professionals to share knowledge and expertise together, as part of our overall project management learning and development strategy.

"The Strategy and Change function focuses on managing change and continuous improvement"

What we said we'd do

What we said we'd do in our 3-Year Plan 2022-25

Regulatory Standards



Action

- Development and maintenance of standards and codes, including the periodic review of FRS 102, adoption of International Standard on Auditing (ISA) (UK) 500 and ISA (UK) 600, and post-implementation review and revision of technical actuarial standards.
- Alignment of our Corporate Governance and Stewardship monitoring and evaluation programme.
- International influencing of auditing and ethical standards, and significant contribution to non-financial reporting developments in the UK and internationally.
- Preparation for ARGA's local audit systems leader role.
- Activities focused on improvements and innovation to support high quality reporting and audit quality including establishment of a new 'Audit Sandbox'.
- Promoting the use of technology throughout our policy areas.
- Supporting FRC's objectives and activities through increased stakeholder engagement with impact and influence, including an overhaul of planned publications focused on collective impact.

Completed?



Supervision



Action

- Deliver a full programme of high-quality AQR inspections, Corporate Reporting Reviews (CRR) and professional oversight visits, and publish associated reporting, including thematic reviews.
- Carry out International Standard on Quality Control (ISQC) inspection work and prepare for International Standards of Quality Management (ISQM) 1.
- Increase supervision of audit firm culture.
- Assess audit firms' adoption of operational separation principles.
- Implement PIE audit registration decision-making.
- Increase intensity of forward-looking supervision of audit firms, with more 'joined up' regulation of firms' actions on quality.
- Negotiate mutual recognition agreements resulting from EU Exit.
- Perform equivalence and adequacy assessments.

Completed?



Enforcement



Action

- Fair, robust and timely case closures or conclusion through focus of investigations, prioritisation, training and recruitment.
- Upskilling and training to respond to changes in the Audit Enforcement Procedure (AEP) from January 2022 and implement future powers arising from regulatory reform.
- Publication of the AER, driving improved behaviours through messaging case outcomes.

Completed?



Corporate Services



Action

- Develop a statutory funding model for ARGAs.
- Develop and implement an integrated information management strategy, including a medium-term IT strategy and enhanced data analytics and reporting.
- Enhance cybersecurity risk management.
- Appropriate workforce planning, aligned with our business planning cycle and designed to incentivise, reward and retain key skills.
- Strengthen our support infrastructure, including in finance and procurement systems, internal controls and IT.
- Legal support for regulatory reform and legal and operational support for the UK Endorsement Board (UKEB).

Completed?



7. Strategic priorities for 2023/24



7. Strategic priorities for 2023/24

Our priorities in 2023/24 will focus on how each division intends to organise its work and the associated deliverables in the coming year, particularly given the re-prioritisation exercise carried out by the organisation as a result of the delay to legislation to create ARGA.

Regulatory Standards



Priorities in 2023/24 include:

- Development and maintenance of standards and codes, including completion of the periodic review of FRS 102, adoption of a revised ISA (UK) 500 Audit Evidence, post-implementation reviews of UK auditing standards, in particular ISA (UK) 540 Accounting Estimates and Related Disclosures, review of the UK Corporate Governance Code, and post-implementation review and revision of TAS.
- International influencing of auditing, assurance and ethical standards, and significant contribution to non-financial reporting developments in the UK and internationally (especially sustainability reporting).
- Policy support for ARGA's local audit system leader role.
- Activities focused on improvements and innovation to support high-quality reporting and audit including FRC Lab publications and use of the new Audit Sandbox.
- Promoting the use of technology throughout our policy areas through digital reporting and the implications for data and data governance, and commencing the Company and Organisational Data Explorer (CODEx) project.
- Supporting the FRC's objectives and activities through increased stakeholder engagement with impact and influence, including website improvements, connected and systematic development of publications, webinars and podcasts, focused on collective impact.



Priorities in 2023/24 include:

- Delivering a full programme of high-quality AQR inspections, CRR reviews and the FRC's statutory professional oversight functions, and publish associated reporting including thematic reviews.
- Increasing activities focused on improvements and innovation to support improved audit quality and resilience in the market, including implementation of the FRC Scalebox.
- Approval and registration of audit firms and responsible individuals who undertake PIE audit work.
- Assessing the effectiveness of firms' implementation of new auditing and quality management standards.
- Developing a supervisory approach for audit committees.
- Developing the supervisory oversight strategy for the professional bodies.
- Developing the local audit system leader role and team in shadow form, ahead of ARGA implementation.
- Reporting on implementation of operational separation.
- Developing the market monitoring function.
- Delivering projects on developing AQR and improving the quality of auditor education and training.



Priorities in 2023/24 include:

- Fair, robust and timely case closures, or conclusion through focus of investigations, prioritisation, training and recruitment.
- Upskilling and training to respond to changes in the AEP from January 2022 and to intended changes to procedural published guidance.
- Collaboration with DBT on planned legislative change to reach the best achievable outcomes as they pertain to enforcement and the FRC's stated purpose and objectives.
- Upskilling to enable full implementation of future powers arising from proposed regulatory reform in 2024 onwards.
- Publication of the AER, delivering transparency and driving improved behaviours through messaging case outcomes.





Priorities in 2023/24 include:


- Developing a statutory funding model for ARGA.
- Developing and implementing an integrated information management strategy, including a medium-term IT strategy and enhanced cybersecurity risk management.
- Data analytics and reporting, economic advice and impact assessment – supporting enhanced market monitoring, the implementation of the FRC Position Paper, and transition to ARGAs.
- Appropriate workforce planning, aligned with our business planning cycle and designed to incentivise, reward and retain key skills and accommodate any relocation plans.
- Strengthening our support infrastructure, including in finance and procurement systems, internal controls and IT.
- Enhancing the level of assurance activity against internal policies and controls.
- Legal support for all FRC activities, and legal and operational support for the UKEB.
- Embedding our contingency planning processes and testing regime.

8. Key Performance Indicators

In measuring our performance, a series of targets are agreed and monitored during the year. The FRC's Executive Committee regularly receives detailed management information on performance against each of the published KPIs. Our 2022/23 performance against some of the key measures is shown below together with prior year performance.

Category	Measure	Target (FY)	2022/23 (FY)	2021/22 (FY)
Supervision and monitoring 	Number of reports completed by AQR	154	143	152
	Reviews opened by CRR	240-260	260	252
	Complaints against professional bodies for auditors, accountants and actuaries investigated and responded to within six weeks	75%	81%	79%
	Constructive engagement cases concluded within 12 months	100%	100%	100%
Enforcement 	Enforcement cases concluded, settled, or closed within two-year target ²	75%	75%	40%

² The Enforcement KPI is a period of two years between commencement of an investigation and service of either the Proposed Formal Complaint or Investigation Report (or closure or settlement if sooner). Please see the FRC's [Annual Enforcement Review](#) for further details on our enforcement activities and findings during 2021/22. In the AER, we noted that in the coming year we would review our target KPI with a view to identifying a metric that provides more meaningful and richer insight into our performance while maintaining our emphasis on security improvements to the timeliness of our investigations and enforcement action.

Category	Measure	Target (FY)	2022/23 (FY)	2021/22 (FY)
Financial and operational performance 	Operating costs against budget (excluding the UKEB)	£50.3m	£50.5m	£39.8m
	Recruitment (staff) against budget (excluding the UKEB)	457	443	374
	FRC complaints responded to within service level agreement timeframe	100%	100%	100%
	Research projects undertaken	14	13	12

Our 'What Makes a Good...' publication series helps us to define what we believe to be the primary characteristics of a well-functioning audit market with greater choice and resilience, as well as other topics relevant to the production of high quality, decision useful corporate reports. This work allows us to publish more informative, outcomes-based measures showing how our work has impacted on quality in each of the areas we regulate. Identifying appropriate measures, which may often be qualitative in nature, or proxies in the absence of clearly correlated quantitative measures forms part of the deliverables described above.

9. Environmental, Social and Governance (ESG)

Over the last year, we have produced a vast amount of helpful material and taken appropriate actions to support our continued commitment to issues relating to ESG. Some highlights include:

- Our updated ESG Statement of Intent: What's Next, which set out areas where there remain ongoing challenges in ESG reporting, suggested actions for preparers, and our ongoing plans to engage with the market.
- Our annual reviews of Corporate Governance and Stewardship Reporting, including an enhanced focus on ESG governance and reporting.
- Our ongoing development of codes, standards and guidance relating to ESG to build a system that is forward-looking and fit for purpose.



Environmental

Representing the UK on IESBA, the ISSB and IAASB

FRC Lab reports on improving ESG data production and net zero disclosures (see '2023 highlights')

Guidance on the Strategic Report, incorporating climate-related financial risks and opportunities



Social

81%

Our annual staff survey found 81% of staff were proud to work for the FRC (see 'Our people')

Introduction of flexible public holidays, allowing colleagues to switch standard paid public holidays to reflect events and festivities that are important to them

Continued embedding of positive culture via our Values and Behaviours with internal events and updates to colleagues (see culture in 'Our people')



Corporate governance

7

Recruitment of new members to the Advisory Panel, due to start in May 2023

12

Appointment of 12 new members to the independent Tribunal Panel

10. Our people

People are at the core of the FRC, and we are focused on offering a high-quality employment proposition to all FRC employees. For the FRC to succeed, it requires a workforce of experts to guide and develop the evolution of our regulated marketplace.

Over the last year, we have continued to expand the organisation in anticipation of ARGAs. We have grown to 443 employees, which is a 12% net increase on our 2022 year-end headcount (391). 353 members of staff were full-time, 72 of staff were part-time, and 18 were employed through secondment or contract.

Division	Number of new staff recruited in 2022/23
Corporate Services	25
Enforcement	9
Regulatory Standards	23
Supervision	24
UKEB	8
Grand total	89

Looking ahead to 2023/24, we will continue to grow our organisation as a highly regarded employee value proposition. As the marketplace continues to be more candidate-driven, we are focused on ensuring that we are able to fill new roles agreed in our annual budget. It is anticipated that we will add 90 new roles to the FRC in 2023/24.

Our hybrid working programme is now integrated across the organisation, allowing our people to combine the benefits of working from home with time in the office, which allows for collaboration and working together in person as needed.

A full legal review of all of our people policies was last undertaken in November 2021.

"For the FRC to succeed, it requires a workforce of experts"

Staff wellbeing

The FRC continues to prioritise the wellbeing of our staff. Our Employee Assistance provision provides access to GP online services, online physiotherapy, counselling and legal advice services, as well as hosting an extensive series of webinars and workshops aimed at improving the health and wellbeing of our employees.

We have continued to embrace a four-day fortnight in the office for all staff, with staff able to choose whether to work from home or the office for the remaining days.

Health and safety

At the FRC, we want to provide a healthy and safe working environment for all our staff and visitors. We have a dedicated team of fire marshals, first aiders and mental health first aiders, to support the staff and record any incidents.

Per employee, the average working days lost to absence for the 12 months to March 2023 was 4.0 days (2022: 3.2 days).

Talent development

We continue to invest in the development of our employees. Since the last Annual Report, over 55 staff (approximately one-ninth of the workforce) have secured places on structured programmes of leadership and management development. We have embedded a culture of learning and talent development across the organisation and continue to allocate six days per year to learning and development activities, with the potential for more with the agreement of an individual's manager.

Of 443 employees, 281 are members of professional bodies and 57 employees are working towards professional qualifications.

Corporate Social Responsibility

All FRC staff are entitled to two days of paid volunteering or Corporate Social Responsibility leave per year. We offer all employees the opportunity to make regular donations, tax free, straight from their pay to any UK registered charity via the Payroll Giving scheme.

**"We prioritise
the wellbeing
of our staff"**

Staff retention

Over the last year, attrition has remained low with a voluntary turnover of 7.9% and involuntary turnover of 2.2%. However, given the ongoing competitive employment market, we keep this under constant review. We have also had 11 members of staff return from maternity or parental leave this year.

Internal movements and promotions continue to provide an opportunity for our people to develop their career, and of the 119 vacancies filled in 2022/23, 56 of them were internal appointments. We also continue to review and adjust the shape of our organisation as we grow, further developing our workforce planning strategy.

The FRC was subject to the public sector pay pause in 2021/22. In 2022/23, we reviewed our annual compensation approach to respond to the market changes we had seen during the pay pause and to ensure that we could resource and retain the people required to enable the FRC to meet its ambitious goals. This included raising entry level pay, focusing on our competency pay approach and recognising the cost of living pressures on colleagues.

Diversity and inclusion

Diversity and inclusion (D&I) continues to be a strength of the FRC. Our three-year strategy of 2021/22 is now embedded across the organisation, with all staff required to have a D&I performance objective.

Our gender pay gap now sits at 0% (median figure. Mean 10.7%. 2022 median: 15.9%), which equates to a 15.9% improvement. This continued reduction in our gender pay gap reflects the increasing number of women at all job levels in the organisation.

Our D&I network groups continue to gain traction, and all have an allocated executive sponsor. We continue to celebrate events and hold educational sessions in relation to the groups throughout the year.

The FRC provides a range of learning and development opportunities on D&I including active bystander training which is mandatory training for all employees. In addition, we offer inclusive language and career development training to all staff and encourage disabled staff to blog about their own lived experiences. During this year, we have partnered with the Business Disability Forum to provide more support to managers, where they are faced with questions from disabled employees. In the new financial year, we will broaden our training offer to include learning on neurodiversity and deaf awareness.

The FRC is a signatory to the Women in Finance Charter. We also partner with LGBT Great, a global member platform that provides a safe space for LGBT+ people and their allies to network and learn.



Disability Confident

In 2020, the FRC created a working group on disability, which recently became the Enable Network. The remit of the Enable Network is to:

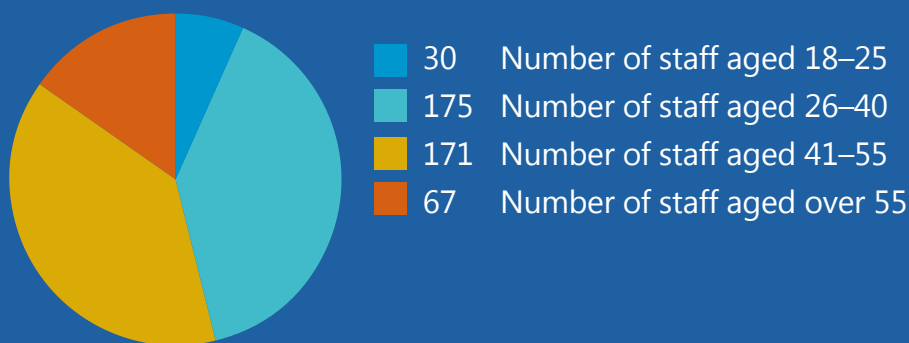
- Foster an environment of inclusion, candour and openness within the FRC regarding disability and how these intersect with colleagues' other interests and experiences.
- Emphasise how better awareness of disability issues helps the FRC fulfil its values of being influential, effective, fair and independent.

Inclusive recruitment

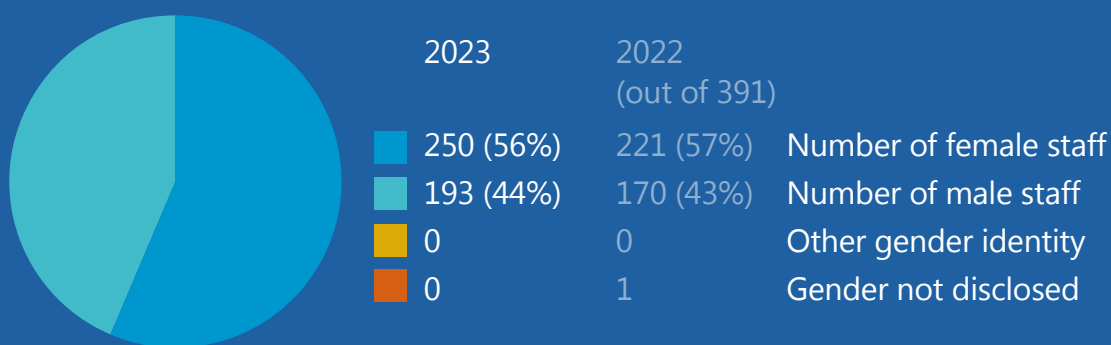
The FRC is a signatory to the Government's Disability Confident scheme and is committed to offering job applicants with a disability a guaranteed interview if they meet the minimum requirements in the job advert. In addition to this, reasonable adjustments requested by applicants are considered as a matter of routine and in the new financial year, we will introduce a new policy and process on anonymised recruitment to mitigate the impact of unconscious bias in the shortlisting process.



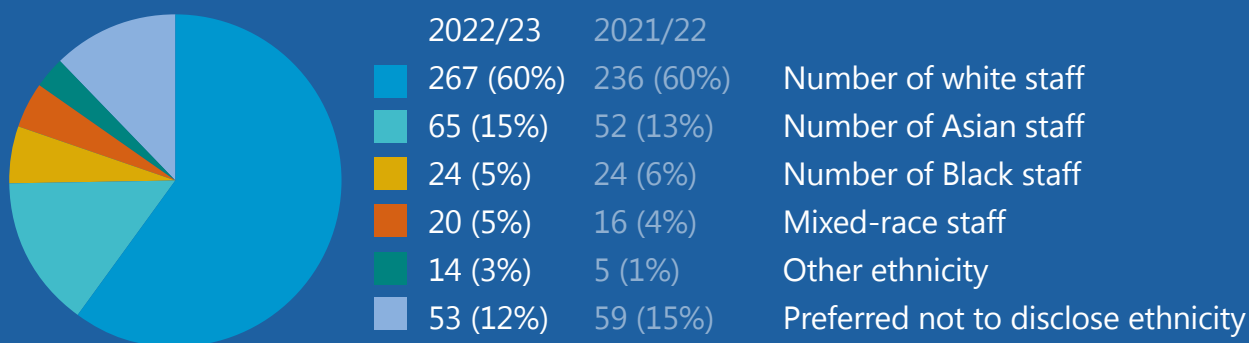
Age breakdown



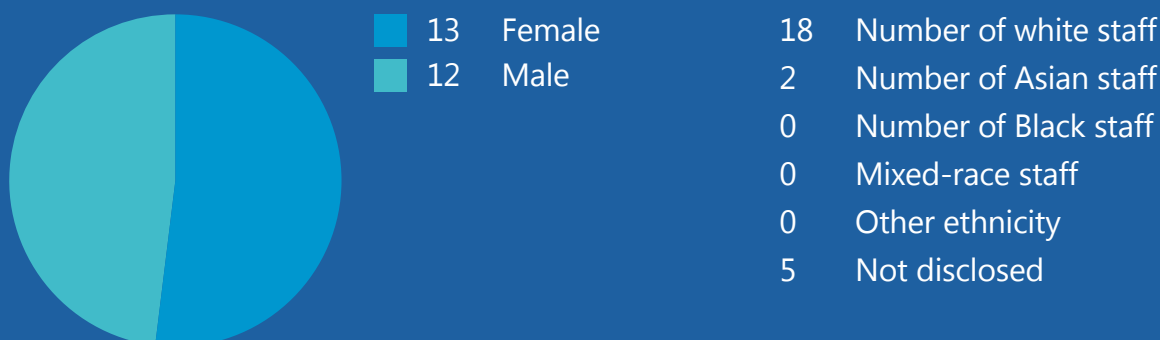
Gender breakdown



Ethnicity breakdown

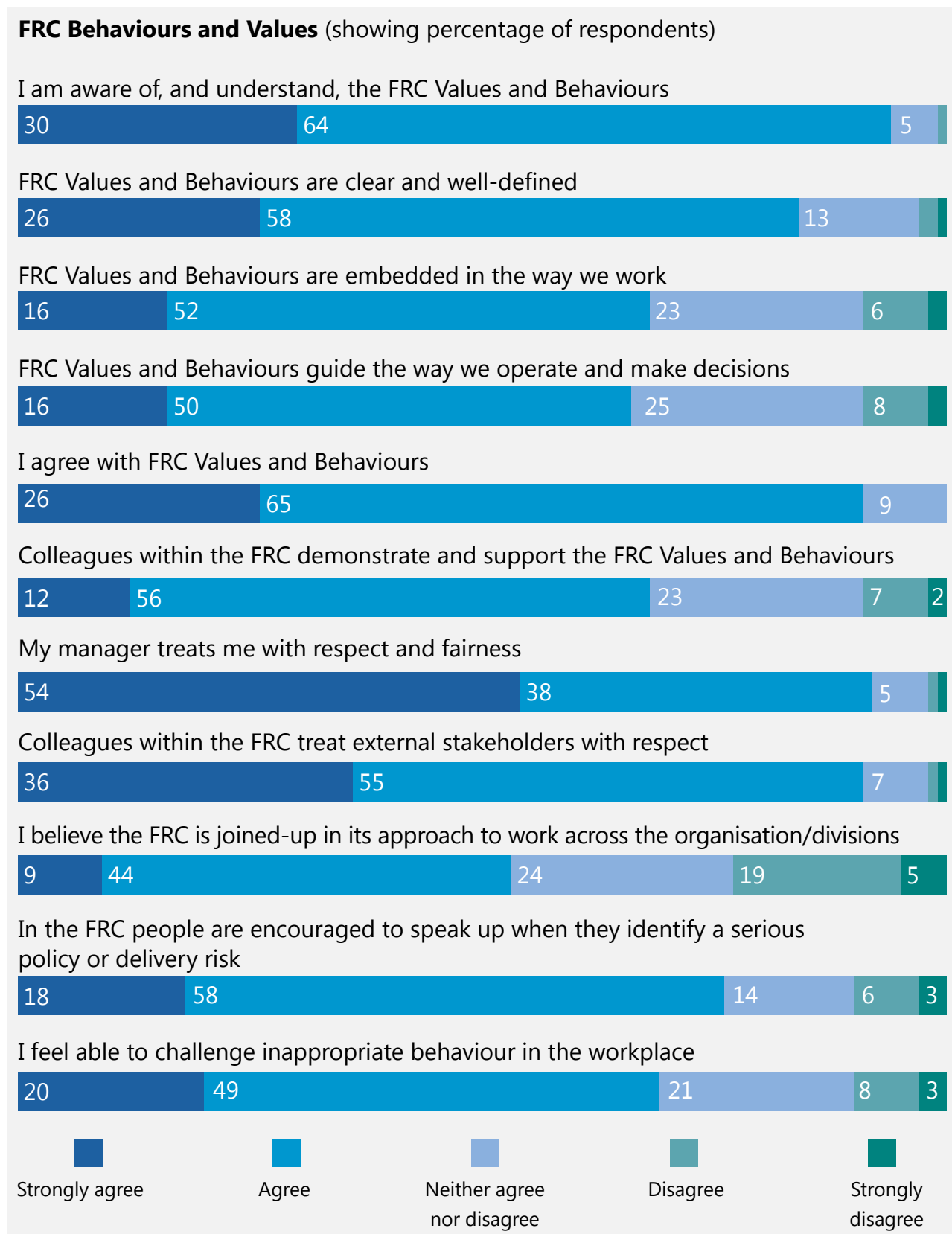


Diversity data for senior managers (Level 6+) out of 25



Culture

Our Values and Behaviours are now ingrained in the culture of the organisation, following the review of our values in 2021. Our values reflect the Regulators' Code. In our 2023 people survey, strong engagement with our Values and Behaviours was evidenced with strong scores for statements relating to Values and Behaviours:



Employee engagement

We have a number of active channels to engage with our colleagues, including monthly town halls and divisional team meetings, as well as internal communications activities such as newsletters and podcasts. These activities keep staff informed on the FRC Strategy, Plan and Budget, as well as any key external issues impacting the organisation or our regulated community, such as the reform agenda.

The FRC has an extensive network of staff committees that allow colleagues the opportunity to engage in issues of interest to them, including our D&I Committee, our Learning and Development Committee, and a wide range of peer-to-peer interest groups, including photography, music and a knitting circle.

Consultation with colleagues is exercised through our People Forum. Ruwan Weerasekera is our NED with responsibility for workforce engagement and reports to the Board and People Committee on employee views and areas of focus. Representatives from each division from across the FRC meet on a bimonthly basis to discuss key people issues. The agenda is broad but key topics this year have been hybrid working, learning and development provision and D&I.

The 2023 People Survey ran in January, and saw an excellent response rate of 82%, giving rich data on the current views of staff on a wide range of issues and demonstrating a good level of engagement among employees. The survey was facilitated by an external provider, Survey Solutions, appointed after a competitive procurement process.

"Our 2023 People Survey saw an excellent response rate of 82%"



The engagement score using the Civil Service Engagement Index calculation is 71 (2022: 70). Out of 5-scale questions, 4 is considered to be an 'excellent' or 'very good' results, with 1 'lukewarm' result and 0 'poor'. These results help us to identify areas of strength and development for the FRC.

	2023	2022
Percentage of staff who were proud to work for the FRC.	81%	80%
Percentage of staff who were aware of the FRC's Values and Behaviours.	94%	91%
Percentage of staff who felt management was considerate of their life outside work.	94%	89%

11. Section 172 and stakeholder engagement

Section 172 of the Companies Act 2006 (the Act) requires Directors to consider the interests of stakeholders in their decision-making. In particular, section 172(1) states that regard should be had to:

- The long-term consequences of decisions.
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.

Our direct stakeholders include companies, institutional investors, auditors, actuaries, accountants, and their respective professional bodies. Our indirect stakeholders include retail shareholders, suppliers, employees, customers, communities, pensioners and savers, and financial institutions. All of our stakeholders have an interest in the health of companies and other organisations within our existing and future regulatory scope, and in the success of the UK corporate sector as a whole.

The Directors are fully aware of their responsibilities to promote the success of the company in accordance with section 172. Consideration of stakeholders' interests has always been integral to the work of the FRC and in its decision-making. The FRC's Stakeholder Engagement and Corporate Affairs team continues to deliver high-quality engagement with our stakeholders and increase the reach, engagement and targeting of our communications and activity.

Our approach to stakeholder engagement

Our approach to stakeholder engagement focuses on:

- Creating a network of advocates.
- Soliciting senior level input.
- Positioning the FRC as a leader in key debates.
- Gathering input into policymaking and consultations.
- Driving awareness and engagement with our Codes and best practices.
- Ensuring that the FRC is a part of relevant decision-making bodies and groups.

We regularly use a variety of formal and informal engagement channels to reach our wide range of stakeholders. This year, we will continue our work on audit and corporate governance reform working towards the future of the FRC and ARGA, as well as a major consultation on the review of the Corporate Governance Code in addition to our business-as-usual work.

Board consideration of stakeholder matters

The Board and Executive Committee received regular briefings on stakeholder engagements, insights, and risk and reputation management during the year. The Board carefully considers the impact of its decisions on stakeholder groups and the Directors acknowledge that, as an independent regulator with a public interest remit, its decisions will not always be supported by all stakeholders. Major policy issues are subject to consultation and responses are carefully considered to inform decision-making, with due process on consultations relating to matters of public interest. Feedback statements are issued following consideration of consultation responses, and these are published on the FRC website.

The Board has a process in place for decision-making, taking into account the FRC's strategic objectives, to ensure it has confidence in the decisions it takes. Board paper templates require that papers on topics that may affect stakeholders set out the relevant issues and potential impact. The Board also works to ensure that its decisions are consistent. When making key decisions, the Directors also have regard to the need to foster the company's business relationship with suppliers, customers and all other stakeholders in our supply chain during the financial year.

The success of the FRC is dependent on strong engagement from all of our stakeholders and we recognise their valuable contribution to our work. Some particular highlights from this year include:

- Consulting with the actuarial community to support the launch of the Pensions Dashboard.
- The FRC strategy and plan, informed by significant stakeholder feedback via meetings between the CEO, Chair and stakeholders to gather views of the FRC and how we can progress on our transformation journey.
- An event for the FRC's Non-Executive Advisers, a vital component of the governance structure, to update them on current and ongoing developments.

12. Environmental impact



12. Environmental impact

Alongside mandatory Streamlined Energy and Carbon Reporting (SECR) disclosures, we have made voluntary disclosures aligned with Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) recommendations for Professional Commercial Services companies.

You can find our SASB disclosures on the following pages:

Data handling and data security	p60	Ethics and compliance	p60
Employee engagement	p50	Our people	p44
Professional Integrity	p61		

Governance

The FRC Board has ultimate responsibility for the FRC's consideration of, and response to, climate change and other environmental issues including the nature and extent of the principal risks to our strategic objectives. The Audit & Risk Committee has a delegated responsibility from the Board for reviewing the full risk register, looking at all current and emerging risks to our strategy and objectives.

The Audit & Risk Committee's Terms of Reference were amended this year to include explicit reference to the committee's oversight of identified climate-related risks, ensuring that climate related risks and opportunities remain at the forefront of its risk discussions. Our Board, committee and Executive Committee report templates were also updated this year to include a dedicated section and questions for report writers on ESG considerations.

As part of our annual Board Effectiveness Review, the Board considered the strength and effectiveness of its leadership on ESG matters, and developments in this area have been built into the Board's action plan. This includes additional training and regular updates from the ESG and Climate Group, and a planned strategy session on the international direction of travel on climate and sustainability standard-setting, current UK government policy objectives, the scope of the FRC's current and future powers and our crossover with other UK regulators, particularly the FCA.

Strategy

Since conducting our initial assessment of climate change risks in 2022 in line with TCFD, our central risk team have undertaken a series of workshops to identify any emerging climate change risks or opportunities for the FRC. Our assessment from these workshops is that the FRC is not materially exposed to the physical risks of climate change in the short and medium term and that climate change does not represent a threat to our viability or ability to operate.

In July 2022, we carried out a physical disruption exercise as part of our overall business continuity planning, based on an extreme summer heat scenario and its potential impact on our staff and operations. The exercise was carried out by the FRC's crisis management team and used to identify areas for improvement in the FRC's Business Continuity Plan, including the development of a specific plan to respond to significant disruptions to power supplies.

Sustainability credentials and resilience to climate change will inform our decisions regarding the establishment of new office buildings for the FRC in the coming years.

Risk

We operate a bottom-up approach to risk, considering risks and opportunities at all levels of our operations from individual project discussions through to divisional and organisational risk identification workshops. This information feeds into the risk register which is overseen by Executive Committee, the Audit & Risk Committee, and ultimately the Board for any risk assessed to be a principal risk.

The FRC recognises the growing demands for meaningful, assured and comparable sustainability reporting and significant implications that these demands will have for businesses and investors in the UK. Alongside other regulators, the FRC has been asked to support Government in developing the requirements and standards for high quality sustainability reporting in the UK. For more information on the FRC's ongoing work in this area please see page 22. A failure to meet stakeholder expectations on ESG reporting and related monitoring and enforcement activities have been identified as a principal risk for the FRC and is therefore overseen by the Board (please see page 83).

More information on the FRC's risk framework and processes can be found on page 75.

Metrics

The FRC occupies one floor of a multi-tenanted, externally managed building and as such, we are unable to make unilateral changes to the energy and water systems in the office, which makes it challenging for us to set attainable quantitative targets for the reduction of our own electricity, gas and water consumption.

We receive monthly electricity, gas and water consumption meter readings from the building's central facilities management team. We used this data to calculate and report our Scope 1 and 2 consumption levels this year and have applied this year's SECR conversion factors to calculate our emissions.

We also collect data on IT waste, single use plastics, paper and business travel which we provide to Government as part of the Greening Government Commitments. We have been collecting this data for the last two financial years, which has enabled us to identify and promote positive trends in our consumption and waste.

		2022/23	2021/22
Scope 1 consumption (kWh)	Natural gas	210,813	225,275
	Vehicle fleet fuels	0	0
Scope 2 consumption (kWh)	Purchased electricity	156,089	131,225
Total energy consumption (kWh)		366,902	356,500
Scope 1 emissions (tCO ₂ e in ktn)		42	46
Scope 2 emissions (tCO ₂ e in ktn)		30	28
Total carbon emissions (tCO₂e in ktn)		72	74
Intensity ratio			
(Total carbon emissions kg/number of staff)		163*	189**

*(72ktn/443 members of staff) **(74ktn/391 members of staff)

	2022/23	2021/22
Water consumption (m ³)	1,460	1,132
Paper consumption (A4 reams equivalent)	444	276
Single use plastic consumption (no. of items)	2,615	7,923
Business travel (km)	603,845	61,212

Intensity ratio

We have chosen to use an intensity ratio of carbon emissions (in kg) by number of employed staff given the intangibility of our output and the year-on-year changes in our staff numbers. As of 31 March 2023, the FRC had 443 employees (2021/22: 391 employees).

Energy consumption

There has been an increase in electricity and water consumption this year in comparison to the previous two years, which can be attributed to the year-on-year increase in staff working in our office as part of our increase in headcount and the operation of our hybrid working policy. However, we note that energy consumption levels remain below pre-pandemic (2019/20) levels and that the year-on-year downward trend in gas consumption has continued, with gas consumption levels now 9% lower than there were in 2019/20. While this is pleasing to see, we acknowledge that these figures exclude emissions from staff that now work from home for part of their working week. We are working to improve our measurement of Scope 3 emissions, including from commuting and home working, to help us develop a better understanding of our total emissions.

FRC business travel has increased significantly this year as invitations to meet with other regulators and speak at international events have returned post-pandemic. However, all business travel complied with the published travel policy and staff are actively asked to weigh the environmental impact of their travel against the potential benefits to the FRC before making their travel arrangements.

Waste management

The FRC has a policy on the disposal of IT equipment and this year, we have engaged with an external contractor to manage a large-scale assessment of our IT equipment, identifying items to sell, refurbish, recycle or send to landfill in line with the Waste Electrical and Electronic Equipment Regulations 2013.

Due to higher office occupancy, our paper consumption has increased this year against 2021/22 levels but is still well below pre-pandemic levels. Our single-use plastic consumption has fallen significantly but we continue to consider non plastic alternatives, particularly for our office stationery items, and have refreshed our communications to staff about the need to reduce paper and single-use plastics consumption.

In July 2022, we removed individual waste bins from under every desk and introduced full waste separation stations across the office. Food waste, recyclables and non-recyclables are now segregated for collection by the building's central waste contractors.

Energy efficiency measures

In making plans to reduce our consumption, we remain mindful that cloud computing is capable of significantly improving energy efficiency and reducing greenhouse gases compared to traditional local servers. We have therefore funded further moves from on-premises applications to more energy efficient cloud hosting.

Plans to install 50% LED lighting to the office by the end of 2022/23 were cancelled. Taking into account the short length of the FRC's remaining lease term at 125 London Wall and our plans to move to new offices in the near future, we determined that the disposal of the old fixtures and the installation of newly manufactured LED lighting was likely to lead to a negative net environmental impact, particularly if the new lighting was not retained by the next lease holder.

13. Ethics and compliance

Data handling

Information and data loss is recognised as one of the FRC's principal risks and as such, is included on the Principal Risk Register. Executive Committee and the Board, supported by the Audit & Risk Committee, keep those risks and controls in place to mitigate those risks under review on a regular basis. We keep a separate Record of Processing Activities (ROPA) and an Information Asset Register.

We operate an internal Information Governance Group (IGG) that meets quarterly to review, assess and improve operational oversight and coordination of information governance and controls. The remit of the IGG allows it to support the engagement of staff with and commitment to information handling, and to identify areas of concern at an early stage for escalation to Executive Committee or the Audit & Risk Committee if appropriate.

We understand the importance of privacy and maintaining trust and confidence in our data handling processes. Our General Counsel Team (GCT) maintains our privacy and data retention policies and procedures, working closely with the Data Protection Officer. GCT also oversees responses to all GDPR and Freedom of Information Act (FOIA) requests, and compliance with application legislation, including UK GDPR. All FRC staff and Board members have received mandatory training on relevant aspects of UK GDPR, online security risks and FOIA. Through our processes and procedures, we are able to provide assurance that personal data is handled and processed in line with the seven UK GDPR Principles. Information on our privacy policies can be found on [our website](#).

We ensure we have an up-to-date IT architecture in place to defend the FRC against data security and data loss threats that may occur when staff work in the office or at home. This is a continuous process. As a result of our reviews, numerous enhancements were made to anti-virus and malware configuration settings and patching processes. Threat managing features were enhanced and the ability to take action on discovered threats were also introduced. We also tested how we would respond to any malicious activity by carrying out extensive testing over a three-month period, including how our monitoring systems would notify us of suspicious activity. During 2022/23, 22 information incidents were reported. None of the incidents were reportable breaches.

Managing conflicts of interest

All FRC staff and non-executives must comply with the Code of Conduct and make up-to-date, full disclosures regarding their external interests, and any gifts and hospitality received, to ensure that our work remains free from bias. New staff must disclose their relevant interests prior to contract. Staff are not permitted to take part in work relating to an entity they have worked for in the last five years, unless an exemption request has been viewed and approved by a member of the Executive Committee. In accordance with the policy, the People Committee regularly reviews disclosures made by the Board members, Executive Committee, Senior Advisers and Advisory Panel Members. These are published on the FRC website.

Bribery policy

UK legislation on bribery applies to the FRC, its staff and members of the governance structure. The FRC Code of Conduct, which staff and members of the governance structure must follow, sets out that all must not:

- Bribe another person, which includes offering, promising or giving a financial or other advantage.
- Accept a bribe, which includes requesting, agreeing to receive, or accepting a financial or other advantage.
- Facilitate or condone an act of bribery.

Whistleblowing

The FRC maintains its own whistleblowing mechanisms and internal investigation procedures. The FRC's central complaints function conducts internal reviews into any external complaints received about the FRC itself and an Independent Complaints Reviewer may be appointed to review the FRC's processes should a complainant have any outstanding concerns.

Litigation

During 2022/23 the FRC suffered no monetary losses as a result of legal proceedings associated with the FRC's professional integrity, which would include negligence of duty, malpractice, breach of contract, fraud, corruption or bribery.

Gifts and hospitality

In accordance with the policy, the People Committee regular review disclosures made by Board members and Executive Committee. These are published on the FRC website quarterly.

Modern slavery

The FRC issued a Modern Slavery Act statement in November 2020 demonstrating its commitment to meeting section 54 of the Modern Slavery Act 2015. The statement, which was reviewed and updated in 2022, outlines activities taken to support our commitment and future activities. The FRC does not condone any activity that constitutes modern slavery or human trafficking under the Act. Our suppliers (and supply chain) should maintain the same approach and have policies and procedures in place to minimise the risk of modern slavery occurring.

Payment practices

The FRC complies with the public sector procurement rules as stipulated in the Public Contracts Regulations 2015. The FRC's supplier relationships seek to deliver successful, sustainable solutions. New and existing suppliers must continuously align their approach, processes and procedures to the core principles relating to minimising risk and compliance with regulations and legislation. In addition, suppliers should strive for good practice relating to information security, financial management and business continuity. It is FRC policy to pay suppliers when or before payments become due and we endeavour to pay suppliers within 21 days of the date of invoice (achieved in 2022/23: 21 days).

14. Managing complaints to the FRC

The FRC reviews complaints and referrals received from the public in line with its role in encouraging confidence in the integrity of accountants, actuaries, auditing and corporate reporting. The majority of the complaints we receive that are within our remit concern regulated activities. A small number of complaints are also received about the FRC. A number of complaints we receive are outside of our remit; these are passed on to the relevant authorities or bodies that may be able to assist wherever possible.

The FRC has a centralised complaints function to triage complaints and ensure that they are handled, responded to and resolved appropriately, promptly and consistently. All policies, processes and procedures are subject to continuous improvement reviews to ensure that they remain complainant-focused and accessible.

In the course of the year, we updated the website pages with quality standards, our complaint form and the complaint processes, as well as benchmarking the complaints process against external standards to ensure that we continue to handle complaints promptly and consistently.

Following receipt, complaints are triaged to determine whether they fall within our remit and, if they are, they are then referred for consideration to one of the below teams:

- **Corporate Reporting Review:** responsible for reviewing accounts of listed, UK AIM-quoted, and large private companies, as well as limited liability partnerships, to determine whether they have complied with relevant accounting and reporting requirements as set out in the Companies Act 2006.
- **Case Examiner:** responsible for identifying cases that may fall within the remit of one or more of the FRC's disciplinary or enforcement procedures (the AEP in relation to suspected breach by statutory auditors of Relevant Requirements and the Accountancy and Actuarial Schemes in relation to suspected professional misconduct by members of the chartered accountancy and actuarial bodies in public interest cases) for referral to the FRC's Conduct Committee for a decision as to whether to open an investigation by the Enforcement division under the applicable procedure.
- **Professional Oversight:** responsible for providing independent oversight of the professional accountancy and actuarial bodies, considering the way a body has handled a complaint that was made to it.

Our published policies and complaints forms include clear guidance on how complaints will be dealt with, including timelines.

Complaints in 2022/23

We received 541 complaints during 2022/23, summarised below.

Brought forward (within remit)	20
Incoming complaints	541
Outside remit	474
Closed/resolved complaints (within remit)	81
Carried forward (within remit)	6

The types of complaint received are broken down below.

Complaint nature	Number
Conduct or performance of accountant (regulated)	81
Conduct or performance of accountant (unregulated)	123
Conduct or performance of accountant (unknown)	105
Conduct or performance of auditor	37
Financial reporting	43
Actuarial work	1
Actions of professional body	74
Insolvency issue	8
FRC	1
Other/unknown	68

The handling timescales across all cases closed in the reporting period were an average of 1.2 working days to send an acknowledgement and an average of 3.6 working days for the outcome.

Of the 541 complaints received, 67 were referred to the relevant department within the FRC for further review, with 474 complaints being outside our remit. The actions taken in respect of the complaints considered by the FRC during 2022/23 are set out below. Where complainants raise issues outside of the FRC's remit, they are referred to other bodies as appropriate.

Corporate Reporting Review

The CRR team received 17 complaints related to corporate reporting matters during the year, of which nine related to matters in the accounts, Directors' report or strategic report, which we pursued with the relevant company or we are currently analysing.

Complaints received 2022/23

Not pursued	Number
Entity or matter not in scope	7
Insufficient merit	1
Financial statement related	
Open	4
Improvements secured notes or/and narrative	2
Improvements secured-primary financial statement restated	1
Financial statement related	
Improvements secured	2

The complaints came from a diverse range of parties including private individuals, investors, fund managers and other companies, and relate to companies ranging from private and small AIM to FTSE 100. Consistent with our usual practice, and subject to any relevant confidentiality restrictions, information relating to some complaints was shared with, or referred to, other relevant authorities including the FCA, the Prudential Regulation Authority (PRA) and AIM Regulation.

At the beginning of the year, there were 14 open cases relating to complaints about corporate reporting matters received in earlier years. The actions taken during 2022/23 in relation to these complaints are illustrated below.

Cases brought forward 1 April 2022

Financial statement related		Number
No breach		5
Improvements secured		4
Strategic report related		
Improvements secured		3
Open		1
Not pursued		
	Entity or matter not in scope	1

Case Examiner

Case Examination and Enquiries opened six complaint cases this year, of which one was a whistleblowing disclosure.

Eight complaint cases were closed by the team this year:

- One case, in relation to audit, was referred to the Conduct Committee which decided to open an investigation.
- One case, in relation to audit, where constructive engagement was undertaken with the audit firm.
- Six cases were closed with no further action taken as our enquiries found that there was no basis or information to support the complaint.

Professional Oversight

The Professional Oversight team received 44 complaints about the professional accountancy and actuarial bodies that we oversee and brought forward four complaints that were ongoing from the previous year. The team conducted a full review of the professional bodies' relevant process in ten of these cases, with one further matter still under review as of 31 March 2023. We made a recommendation for improvements to one of the bodies in relation to one of these complaints. The remaining 37 matters either fall outside the team's complaints handling full review remit, or the complainant has not first exhausted the professional accountancy body or actuarial body's complaints procedure. Professional Oversight responded to 81% of complaints within six weeks. Further information received by Professional Oversight, including trends, can be found in our report on our oversight responsibilities for 2022/23, due to be published later this year.

Whistleblowing to the FRC as a prescribed person

Public interest disclosures

Whistleblowing is the term used when an employee passes on information concerning suspected or known wrongdoing by their employer (also known as 'making a disclosure'). The Employment Rights Act 1996, as amended by the Public Interest Disclosure Act 1998, provides the legal framework for protecting workers from harm if they blow the whistle. The purpose of a prescribed person is to provide employees with a way of whistleblowing to an independent body that may be able to act on those concerns.

The FRC is a prescribed person and individuals working outside the FRC, but in the accounting, auditing or actuarial professions, may contact the FRC if they want to make a disclosure about their current or former employer in relation to matters that are within the scope of the FRC's regulatory remit.

During 2022/23, the FRC received 51 disclosures in its capacity as a prescribed person. As a result, we took the following action:

- 44 related to issues not within the remit of the FRC, so whistleblowers were signposted to the relevant bodies where appropriate.
- 7 were of direct relevance to the FRC's responsibilities and were addressed by the relevant teams.

Complaints about the FRC

During 2022/23, one new complaint was received about the FRC. No significant issues of wider concern were raised and the case was handled under the FRC Complaints Procedure. The concern raised was regarding dissatisfaction with the FRC's review of the handling of their complaint by the relevant professional body. The complaint was reviewed, investigated and responded to. The complainant exercised their right to have their complaint escalated to the Independent Complaints Reviewer, who rejected the complaint and confirmed that the FRC had acted in line with policy and procedure.

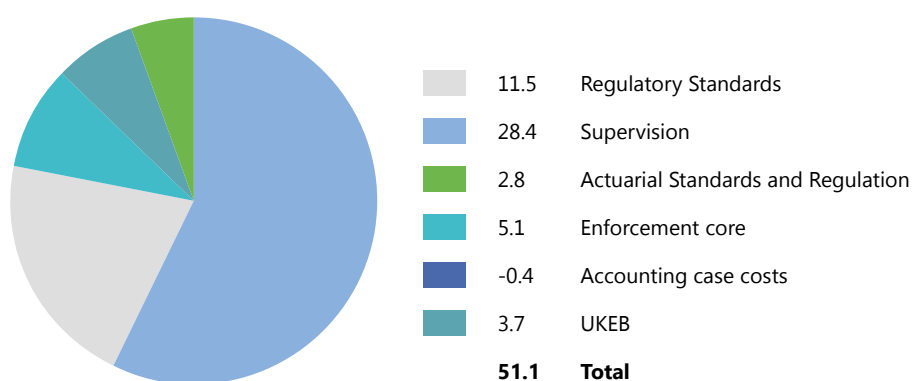
15. Financial review

The operating environment in the UK in 2022/23 was challenging from a political standpoint, where market confidence was severely affected. The cost of energy due to the Russian invasion of Ukraine and the aftermath of the global pandemic has made it difficult to predict costs. The FRC has, however, been able to deliver a resilient financial performance and this was only possible through the hard work and dedication of all FRC staff.

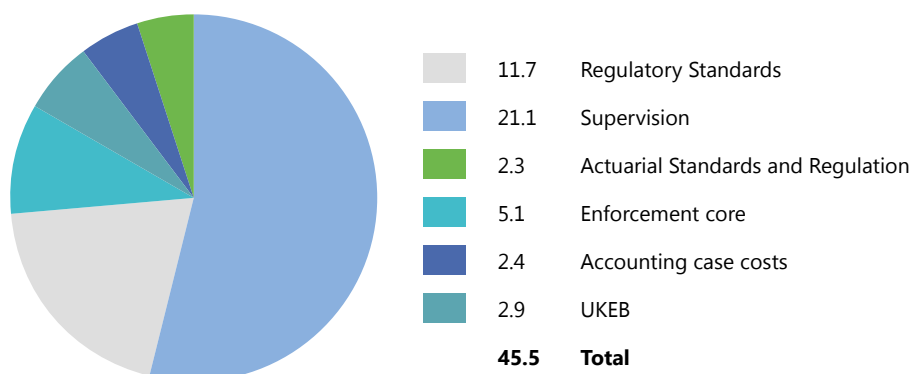
At the beginning of the financial year, the FRC Group, comprising the FRC and the UKEB, had set a budget to fund its regulatory activities, continue the transition to ARGA and implement new responsibilities following the UK's exit from the EU. The operating budget was £59.8m, of which £55.3m was for FRC regulatory activities (including £5.0m for case costs) and £4.5m for the UKEB.

Expenditure by business activity

Core cost 2022/23 actual (£m)



Core cost 2021/22 actual (£m)



Please note, case costs may vary significantly year-on-year depending on the size and number of cases concluded.

Managing our expenditure

FRC Group expenditure for the year shows an increase on the prior year of £5.6m, mainly driven by headcount changes. Travel costs have increased but with the growing awareness of the high environmental cost of travelling by air, we will keep this under consideration.

FRC investigation case costs of £6.7m (2021/22: £10.1m) were offset by case cost awards of £7.2m. In all cases, cost awards are paid to the Recognised Supervisory Bodies (RSBs) who funded the investigation (the relevant RSB). AEP fine awards were paid to DBT and scheme fine awards were paid to the sponsoring RSB.

Investing in future growth

In 2022/23, we have continued to make investments in the business to support our strategic objectives. Total spend in training has increased to £0.5m (2021/22: £0.3m). We spent a significant proportion of the learning and development budget this year on premium leadership and management development programmes, courses linked to personal and continuous professional development, and health and wellbeing events, as well as events to promote greater diversity, equity and inclusion at the FRC. As mentioned, we have reprioritised our recruitment programme and increased our headcount to 443 at the end of the financial year.

Managing our funding

The FRC Group receives funding from the audit profession through statutory arrangements and from the accountancy and actuarial professions, accounts preparers, insurance companies and pension schemes through non-statutory arrangements agreed with Government. There is also a small contribution from Government to fund specific projects.

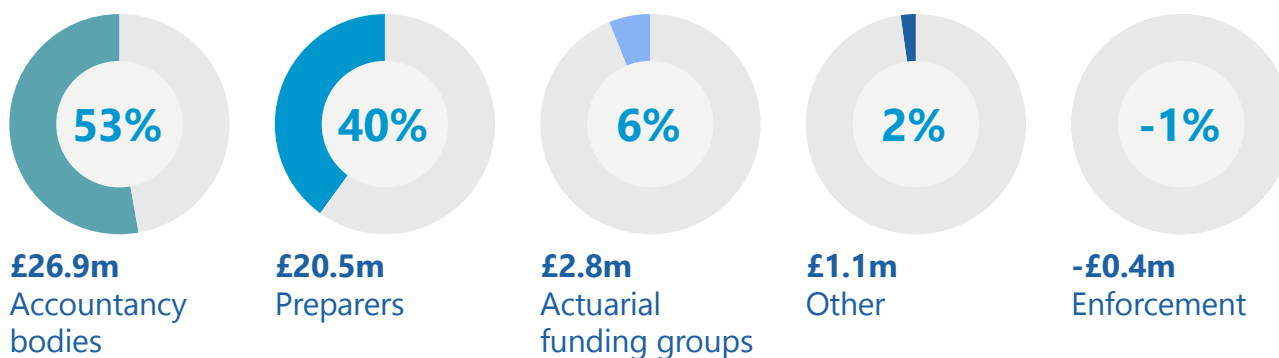
During 2022/23, the FRC has been successful in raising its funding requirement despite operating in a difficult economic climate. The audit profession contribution received was based on actual costs incurred. Total revenue from levies were above budgeted amounts by £0.5m due to several new companies that went public and listed on the London Stock Exchange.

The FRC consulted on ARGAs statutory funding in 2022 and found broad support to have funding arrangements that support regulatory independence where stakeholders are proportionately charged. We are planning to issue a further consultation on an ARGAs funding rulebook before finalising the details in legislation. Unfortunately, we may face some uncertainties where the timing will be affected. Delay in legislation could negatively impact our ability to collect the required funding needed to achieve our objectives, and thereby increase funding risk.

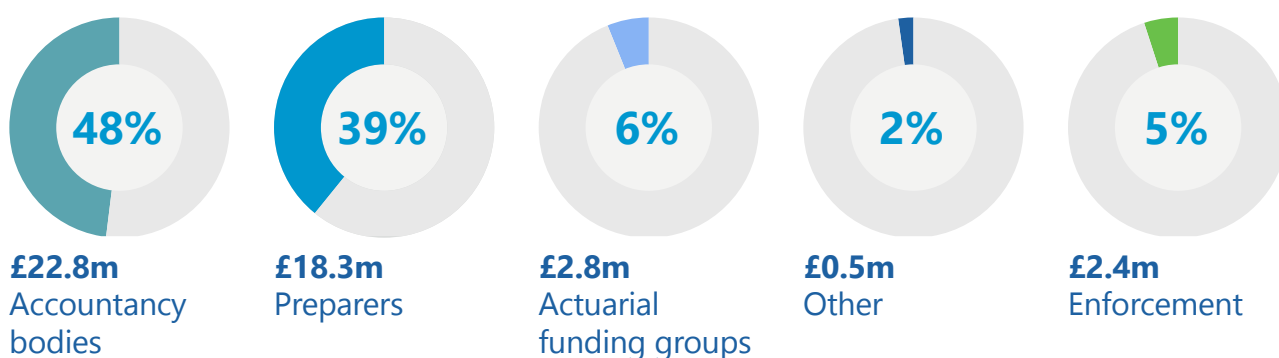
Funding

Funding by group

2022/2023 total £50.9m



2021/2022 total £46.8m



Other income includes income from publications and electronic rights, and registration fees from third-country auditors.

Reserves

The FRC currently holds £16.0m of reserves which, as set out in previous Annual Reports, were established to cover enforcement case costs that are not recovered from audit professional bodies, unforeseen costs arising from our regulatory activities, and the impact of any shortfall in our revenue, particularly from the voluntary elements of our funding.

As a public body operating under a remit letter from DBT, we work with DBT to ensure that any use of reserves is in line with HM Treasury and Cabinet Office requirements.

Value for money

We have acted in the public interest and attained value for money by using public resources in a way that creates and maximises public value. We have managed funds effectively and delivered within budget. Adoption of hybrid working allowed for cost savings in office rent as we remain with the same working floor space despite a large headcount increase. We have followed the appropriate procurement process when engaging with new suppliers and evaluating current supplier performance, thereby negotiating contracts that can provide value for money.

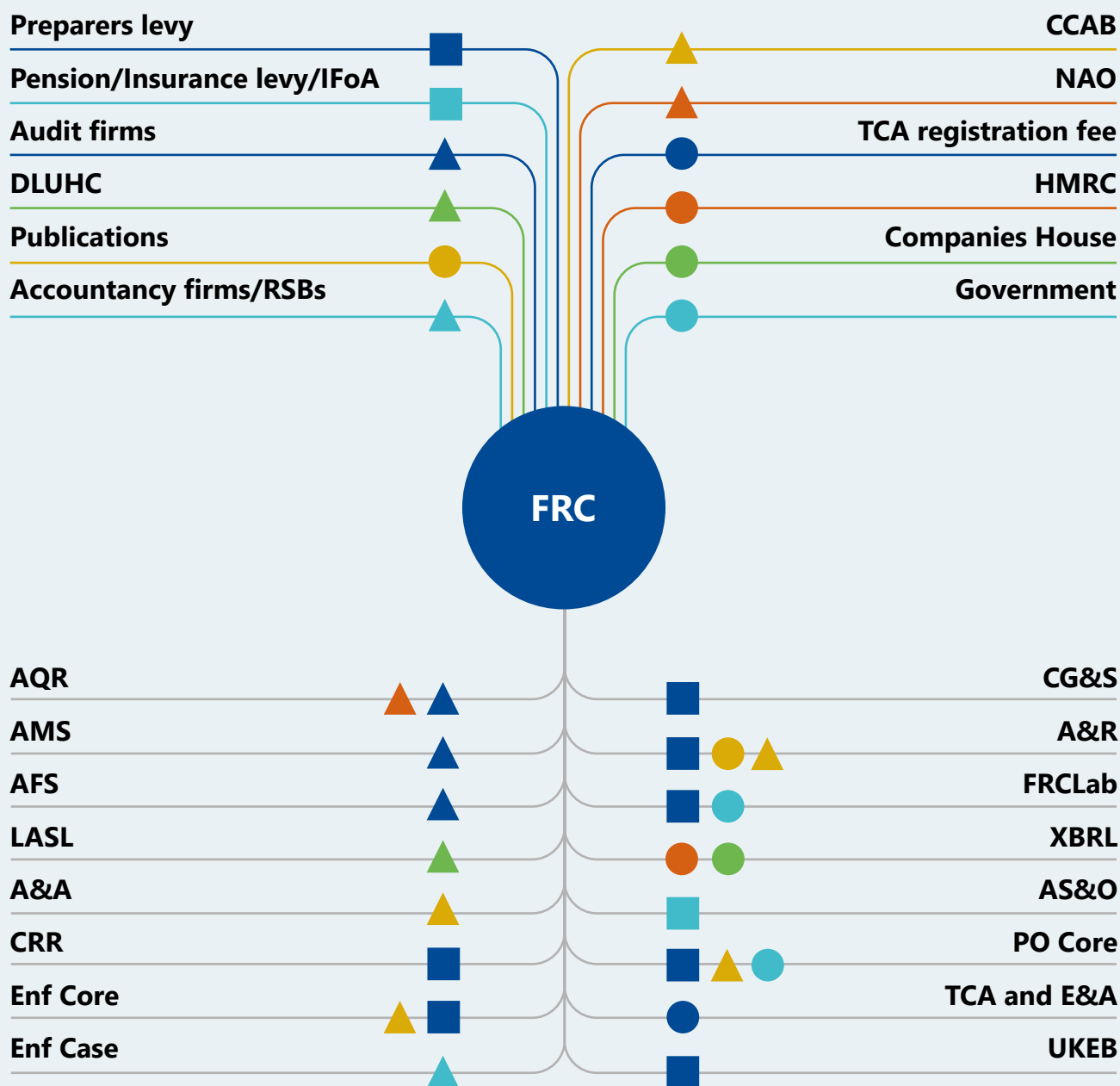
Functional standards

We have reviewed the newly introduced Government Functional Standards as applicable. We are comfortable that we are compliant with the relevant mandatory requirements and will continue to develop adherence as appropriate.

FRC funding sources

The following diagram shows how funding from various stakeholders funds the activities of the FRC.

Funding Sources



Sponsored Departments

Departments	Acronym	Departments	Acronym
Audit Quality Review	AQR	Corporate Governance and Stewardship	CG&S
Audit Market Supervision	AMS	Financial Reporting Lab	FRCLab
Audit Firm Supervision	AFS	FRC Taxonomies - XBRL	XBRL
Local Audit System Leader	LASL	Actuarial Standards and Oversight	AS&O
Audit and Assurance	A&A	Professional Oversight Core	PO Core
Corporate Reporting Review	CRR	TCA Registration and Equivalence and Adequacy	TCA and E&A
Enforcement Core	Enf Core	UK Endorsement Board	UKEB
Enforcement Case	Enf Case		
Accounting and Reporting	A&R		

16. Risk management

Managing the FRC's risks

The FRC's risk management framework ensures timely identification, assessment and management of existing and emerging risks. It focuses on promoting a mature risk culture, effective internal controls, and active cascading of information. The Board and Audit & Risk Committee focus on the key or principal risks. Additionally, the Audit & Risk Committee and Business Committees (Conduct, Supervision, Regulatory Standards and Codes) review the four divisional risk registers, progress with deep dive analysis and horizon scanning, and the risk linkage across the overall organisation.

Last year, we introduced a four faces approach to regulation that supports the delivery of our strategic objectives and ensures that our regulatory priorities and risk management approach are appropriately balanced. Consequently, as part of our 'Supervisor' and 'Enforcer' roles, we have adjusted our risk appetite and increased the intensity of our supervision and monitoring regime to challenge firms to improve audit quality. As a 'System Partner', we are willing to take on high risks, such as introducing the Audit and Assurance Sandbox and the Scalebox to encourage greater innovation.

The Audit & Risk Committee, on behalf of the Board, monitors the risk management and internal control system and has reviewed its effectiveness this year. It also carried out a robust assessment of the FRC's principal and emerging risks, with the outcome of these assessments reported to the Board. The committee agreed that the risk management framework is running effectively, with a culture for active risk discussions that are embedded across all levels, with most audits receiving a substantial or moderate rating that could be enhanced with more balancing of the high standards required as a regulator and ensuring risk management remains proportionate.

We have reviewed our risk appetite statement thresholds to understand what level will best enable our strategy and plan, where to focus our efforts, and where we can tolerate greater risk. Following this review, it was acknowledged that there are practical limitations involved with controlling or mitigating against information risks while continuing to operate efficiently. We have therefore adopted a low appetite for market sensitive or legally privileged risks to limit the potential damage from disclosure, for example, market instability, personal data or fines, and a medium stance, to accept a limited degree of risk, for internal data providing it supports business needs.

Risk is integrated during every step of our planning and budgeting processes so that all short-term and long-term risks are managed. This also acts as a basis for good corporate governance.

"Our four faces approach to regulation ensures that our regulatory priorities and risk management approach are appropriately balanced"

Our risk framework

Board	<ul style="list-style-type: none"> • Determines our overall risk strategy, management and culture. • Determines the nature and extent of the significant risks to be taken to achieve our strategic objectives (risk appetite).
Audit & Risk Committee	<ul style="list-style-type: none"> • Supports and advises the Accounting Officer and the Board in oversight of risk management and internal control systems. • Reviews effectiveness of risk management and controls. • Reviews the risk management in the Corporate Services division.
Supervision, Conduct, and Regulatory Standards and Codes Committees	<ul style="list-style-type: none"> • Supports the Board and Audit & Risk Committee in examining risks of particular relevance to the Supervision, Enforcement and Regulatory Standards divisions.
Executive Committee	<ul style="list-style-type: none"> • Sets the tone from the top. • Establishes a positive risk culture. • Conducts deep dives into principal risks. • Cascades risk and control information.
First line of defence	<ul style="list-style-type: none"> • Timely identification, assessment and management of existing and emerging risks to achieve strategic objectives.
Second line of defence – the Corporate Risk Management Team	<ul style="list-style-type: none"> • Timely and accurate reporting and escalating of risk and control information. • Building risk capability. • Providing assurance on risk management activity.
Third line of defence – the internal auditors	<ul style="list-style-type: none"> • Provides independent assurance on risk management and internal control systems.

Our ongoing work to enhance and improve our risk management framework continues to help identify and manage risks that may prevent us from delivering our strategy or serving the public interest. In terms of the risk management principles set out in HM Treasury's Orange Book, we have:

Governance and leadership

- Implemented good divisional adoption of the framework and consideration of risk-based decisions across teams following introduction of a medium-term plan to increase risk maturity across the organisation.
- Continued regular risk reviews at the Audit & Risk Committee with some discussions taking place within sub-committees, and periodic deep dives, sponsored by the Executive Directors, to consider current and developing risks and whether they are significant and should be included in our principal risks.
- Held discussions at the relevant committees to enable proportionate scrutiny, avoid duplication, and ensure compliance with the UK Corporate Governance Code.

Integration

- Conducted risk identification sessions with the Executive Committees and teams, in particular senior leaders, to identify emerging threats and ensure that risks remain relevant and managed at the appropriate level.
- Continued engaging with the Risk and Control Champions with quarterly network meetings to further support and embed risk at team level and develop a range of support materials, bitesize videos and one-pagers, and revamped our induction programme.
- Integrated horizon scanning across the organisation to enable timely and proportionate decision-making.

Collaboration and best information

- Increased the quality of risk reporting data and analysis, including developing control KPIs and key risk indicators, to better evaluate the impact of our actions and enable more agile risk management strategies.
- Encouraged top-down and bottom-up risk reviews at all levels to contribute to and support more informed risk management and decision-making. This has resulted in two new principal risks, reflected in the following table, and one principal risk being de-escalated.

Risk management processes

- Introduced new software to increase accessibility, collaboration and assurance, and support more informed decision-making.
- Conducted exercises to test our resilience to cyber threats and responses to market disruption.
- Conducted a corporate policy review and made recommendations to help strengthen and assure the effectiveness of our internal control environment.
- Raised the visibility of the risk function and principles with all staff.

Continual improvement

- Ensured our Internal Audit plan is aligned to the strategic business case, key risks and increased overall level of assurance.
- Developed updated training to build upon the skills, knowledge and tools available to staff and budget holders to manage risk in line with the FRC's risk appetite and Managing Public Money.

Principal risks as of 31 March 2023

The detailed principal risks are set out overleaf, mapped against our objectives.



Set high standards in corporate governance and stewardship, corporate reporting, auditing and actuarial work and assess the effectiveness of the application of those standards, enforcing them proportionately where it is in the public interest.



Promote improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders.



Influence international standards and share best practice through membership of a range of global and regional bodies, and incorporate appropriate standards into the UK regulatory framework.



Create a more resilient audit market through greater competition and choice.







Transform the organisation into a new, high-performing, robust and independent regulator, acting in the public interest.



FRC objectives



Principal risks



Objectives	Principal risk		
	<p>1. Due to political and other pressures, regulatory reforms are delayed or ineffective so fail to improve public confidence in the regulatory regime and the FRC/ARGA.</p>		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> • We have created a programme plan that provides for policy work with Government (at a pace outside of our control) simultaneous with progressing all non-legislative actions within our control. • We have ensured strong FRC representation on joint programme governance forums with DBT. • We have delivered a broad and balanced stakeholder outreach and engagement programme on the topic of reform. 	<p>This risk degraded slightly this year due to the continued lack of legislative certainty. We have again relied on a set of high-level assumptions for planning purposes, while accepting that many factors remain outside of our control. During the year, we took action on non-legislative elements of reform, as set out in our July 2022 Position Paper.</p>	<p>Within appetite</p> 	



Objectives	Principal risk		
	2. Regulatory Standards, Supervision and Enforcement fail to drive the necessary behaviours and outcomes to deliver consistently high standards.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> • We are represented on international standard setting boards for auditing, assurance and ethics. We also influence other standard setting boards by actively participating in consultations. This and feedback from our audit inspections, wider supervision and enforcement work provides us with a strong evidence base that our standards are fit for purpose and are updated to respond to new and emerging risks, alongside extensive stakeholder outreach. We carry out horizon scanning, informed by our engagement to identify and address emerging issues. • We work closely with other national standard setters and international standard setting bodies to ensure that stakeholder concerns are addressed. For example, we provided the ISSB with high quality comment letters that influence standards development and informed dialogue with other jurisdictions on areas of common interest. • Regulatory Standards receives feedback from Supervision and Enforcement to draw on lessons learned from their work, to identify potential issues arising from monitoring work and enforcement cases that need to be revised in standards, and to ensure feedback provided to international standard setting bodies reflects the needs of wider FRC regulatory responsibilities; similarly, Supervision and Enforcement draw on expertise from Regulatory Standards as required. Liaison between all three divisions is close and continuous. 	Stable. We continue to deliver a programme of work to influence the development of international standards, and make revisions to UK standards to drive behaviours and outcomes. These are informed by diverse feedback gathered from our work and stakeholder engagement.	Within appetite 	




Objectives	Principal risk		
 	3. Corporate reporting and audit quality remains inconsistent, resulting in reduced investor/stakeholder confidence and reputational damage to the FRC.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> We are increasing the intensity of our forward-looking supervision of major audit firms including assessment, and where applicable the work of our AQR and CRR teams. We have taken over decision-making on registration of PIE audit firms and auditors and are monitoring the implementation of ISQM1 at the audit firms (including non-PIE firms overseen by the bodies). We refer failures in standards for Enforcement action as appropriate. We are creating a joined-up regulatory approach across standard setting, supervision and enforcement priorities, and audit firms have an obligation to report breaches of ethical standards to the FRC. The FRC as the Competent Authority monitors the compliance of delegated agreements between the FRC and RSBs. We can require RSBs and Required Qualifying Bodies (RQBs) to take remedial action and have the power to inspect and gather evidence on RSB and RQB effectiveness. 	Improving. Early indications from AQR and Audit Market Supervision (AMS) suggest that audit quality at the major firms continues to improve. We are seeing indications of a trend of improving audit quality and we expect this to continue. Companies continue to respond constructively to CRR's interventions, demonstrating willingness to improve the quality of their corporate reporting and meet expectations of better practice.	Tolerated 	




Objectives	Principal risk		
	4. Audit market is severely disrupted by failure of, or partial withdrawal from, a segment of the market by a major audit firm.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> The 2021 BEIS White Paper and Government Response proposed a managed shared audit regime to reduce the market share of the Big Four in the FTSE 350, and proposed requirements to safeguard the resilience of major audit firms. We are supervising enhancements to recovery plans for major audit firms and audit firms notify us of any major risks or incidents arising elsewhere in their network. PIE auditor registration could potentially be used to set resilience requirements on audit firms. We are increasing supervision of all PIE audit firms to identify areas of poor audit quality and to hold them accountable for remediation. 	Stable. We are getting more assurance over the risk management processes in Tier 1 firms. Audit firms continue to be financially robust. We issued our Position Paper following the Government Response in July 2022.	Within appetite 	

Objectives	Principal risk		
	5. Failure to maintain data privacy/confidentiality due to un/intentional ex/internal release of data including through cyber attack, resulting in loss of sensitive data (personal/corporate), breach of law/ regulation, fines, censure and reputational damage to the FRC.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> A rolling programme of staff training and awareness around cyber risk and information loss. A suite of preventative applications and tools to deter unintended information sharing, and reporting tools. Renewal of the Cyber Essentials Plus certification and contingency planning testing. 	Steady progress. Cyber Essentials Plus certification has been renewed and a cyber test exercise has been undertaken. Good levels of training completed by all staff.	Tolerated 	

Objectives	Principal risk		
	6. As a result of limited information sharing within the FRC and lack of a holistic overview, we fail to proactively exploit data/information which reduces our effectiveness with potential reputational damage.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> Adoption of an information management strategy to improve document classification and the data and document glossary. Enhanced data and analytical capabilities and reporting. Governance and consultation around the use and publication of data to support decision-making. 	Improving. The adoption of document classification and a data glossary will facilitate access to and sharing of information. The development of an analytical tool is supporting business needs.	Outside appetite 	

Objectives	Principal risk		
	7. Due to lack of clarity on the FRC's role, we fail to meet stakeholder expectations on ESG reporting and related monitoring and enforcement activities.		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> We continue to engage with Government and with international standard setters over the development of reporting requirements and standards to support high quality reporting, and also work with other UK regulatory authorities to ensure that our objectives are aligned. We have developed impactful responses to international consultations, which have been widely referred to by UK and international stakeholders. We have continued to leverage the work of the FRC ESG and Climate Group to focus our work and set clear market expectations ahead of formal powers to monitor and enforce reporting. 	Improving. We have demonstrated our ability to be impactful and deliver work that meets the needs of UK stakeholders and brings clarity to a complex landscape. Formalising the UK legal and regulatory framework is a matter for ministers and will require legislation.	Within appetite 	

Objectives	Principal risk		
 	<p>8. Due to a lack of capacity, capability and inability to manage our conflicting roles, the FRC fails to deliver effective shadow system leadership. This leads to a lack of trust and confidence in our ability to drive a coherent system response to local audit challenges.</p>		
Top three mitigations	Trend	Position against appetite	
<ul style="list-style-type: none"> • The MoU is in place with DLUHC which provides clarity on the FRC's role and responsibilities as shadow system leader ahead of ARGAs. We have established a dedicated local audit unit and recruited to key posts. • By June 2023, we will issue a position statement setting out our diagnosis of the issues, the actions we think need to be taken, and how we plan to deliver our role as system leader including short, medium and long-term priorities. • By the summer of 2023, we will become Chair of the Liaison Committee of senior local audit stakeholders and will use our convener role to set clear priorities for action, hold all parties to account on delivering these and make policy recommendations to DLUHC as necessary. 	<p>This is a new risk to the FRC. We will monitor and report progress as we commence our shadow system leader role.</p> <p>To date we have made significant progress to be ready for this role including:</p> <ul style="list-style-type: none"> • Publication of the MoU in March 2023. • Recruitment to key posts (e.g. Director and Deputy Director of Local Audit) and on track for the remaining positions. • Following extensive engagement and research, setting out our emerging views on whole system risk, actions, and short, medium and long-term. 	<p>Within appetite</p> 	

Risk appetite definitions:	Risk appetite definitions:	Time horizon definitions:
<p>Very low – Avoidance of risk and uncertainty is a key objective.</p> <p>Low – Preference for ultra-safe options that are low risk and only have a potential for limited reward.</p> <p>Medium – Preference for safe options with little risk and reasonable rewards.</p> <p>High – Willing to consider all potential options (including higher levels of risk) and choose the one most likely to result in successful delivery and increased rewards.</p> <p>Very high – Eager to be innovative and choose activities offering potentially very high rewards, even if these activities carry a very high inherent risk.</p>	<p>Within appetite – The right people and processes in place are in place to manage the risk. </p> <p>Tolerated – The risk is being tolerated and subject to active monitoring. </p> <p>Outside appetite – Risk is of immediate concern and subject to continuous oversight. </p>	<p>This is the period within which the risk could potentially materialise.</p> <p>Short-term: Within one year.</p> <p>Medium-term: One year to five years.</p> <p>Long-term: Over five years.</p>



Governance



17. Chair's introduction

I am pleased to present our governance review, which sets out how the Board and its committees operated during 2022/23, my first full year as Chair of the FRC. It has been a busy but rewarding year for the Board, overseeing significant progress in our continued work to raise standards and be an impactful, assertive regulator.

In July 2023, we will have said thank you and farewell to both John Coomber and Sir Jon Thompson. John has made a valuable contribution to the work of the FRC over nearly nine years in a number of roles, most recently as Chair of the Supervision Committee and as Senior Independent Director. I am pleased that Ruwan Weerasekera has agreed to take on the role of Chair of the Supervision Committee, and that Clare Thompson will be taking on the role of Senior Independent Director. The search for our new CEO to take over from Jon is progressing well and, in the meantime, Sarah Rapson has successfully stepped into her new role as Deputy Chief Executive.

We have also recently revised the membership of our People Committee, which predominantly deals with the various aspects of talent management at the FRC. For 2023/24, the committee will be populated by the full suite of Board members, and I will take on the role of the committee's Chair.

Ultimately, the role of the FRC Board is to provide strategic leadership and constructive challenge, particularly in the delivery of its Transformation Programme as we transition to ARGA. We're well on our way towards becoming the new regulator, while also delivering against our strategy and ensuring that the organisation robustly delivers against its mandate. To support this transition, we also conducted the annual Board and Committee Effectiveness Review, which found that the new structure is effective. Further details on actions that will be taken forward in light of the review can be found on page 106.

There is a lot that we should be proud of – it is clear that we've come a long way since Kingman, and the way that individuals in this organisation have contributed to that must be recognised. We're doing everything we can to convey to every stakeholder the importance of our work, supported by the entire organisation from our staff on the ground to our committees and our Board.

We'll continue to drive forward our work to emphasise the need for us to have the powers to do a truly effective job. Indeed, the future continues to be bright for the FRC as an influential and impactful regulator.



Sir Jan du Plessis
FRC Chair



Sir Jan du Plessis
Chair

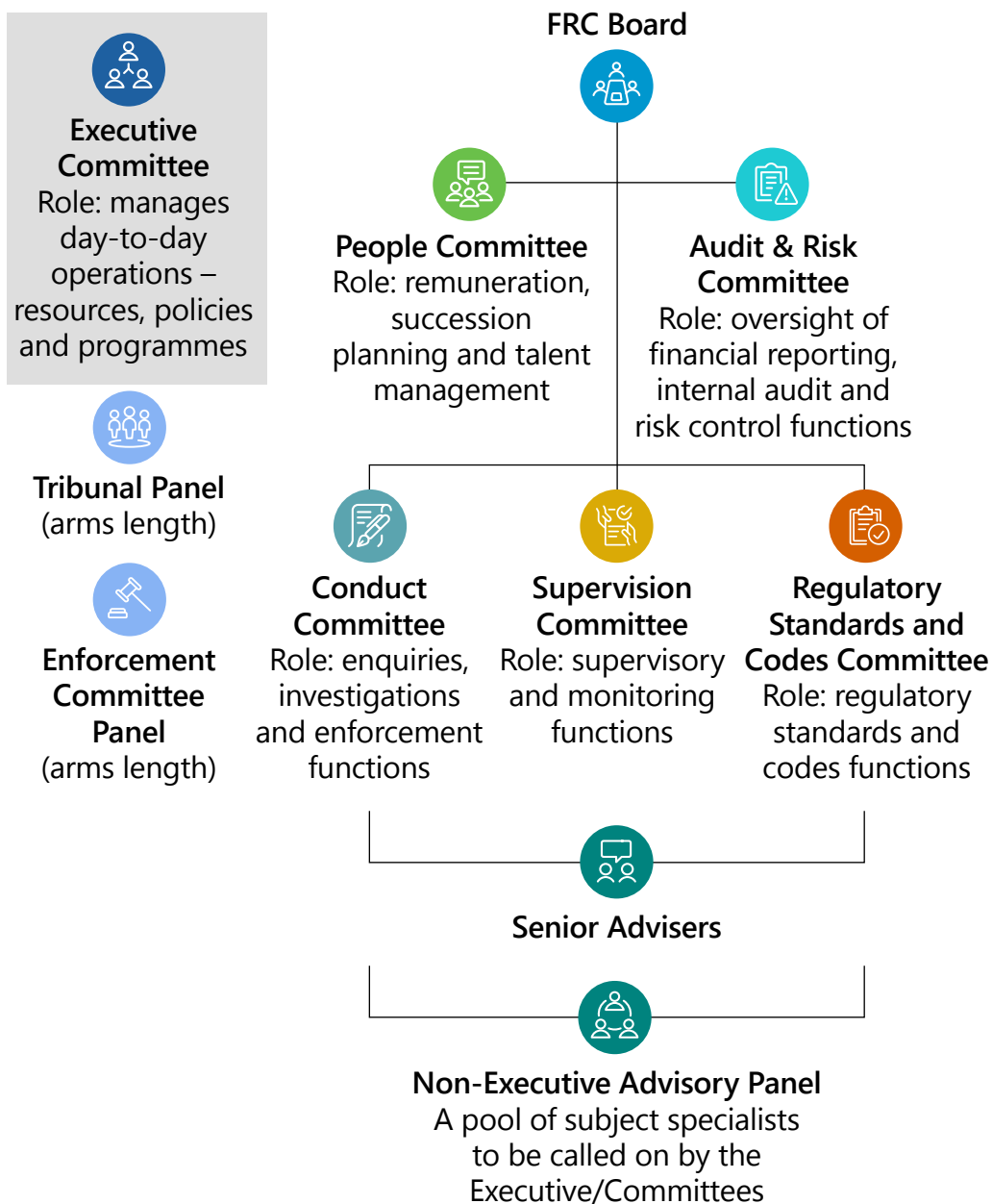
"There is a lot that we should be proud of"

18. Governance and transparency

The FRC is an arm’s length body of the Government and a private company limited by guarantee. It reports to the Secretary of State for the DBT, and to Parliament on the discharge of its functions. The Secretary of State for Business and Trade appoints the Chair and NEDs to the FRC Board, which is responsible for the FRC’s strategy and monitoring its implementation.

Our governance structure is designed to provide the Board with the assurance and confidence that any proposals considered by them take account of the impact on our stakeholder community. Further information on how the FRC engages with stakeholders is available in chapter 11.

Our structure



Corporate governance statement

As a private limited company, the UK Corporate Governance Code does not apply to the FRC. However, as the regulator of the Code, the FRC upholds high standards of transparency, accountability and integrity, and aligns itself with the principles and provisions of the Code where they are relevant and applicable. As an arm's length body, the FRC also follows the Corporate governance in central government departments: code of good practice and the Regulators' Code. Areas of departure from these Codes are explained below.

Engagement with shareholders (Principle D)

As a private company limited by guarantee, the FRC has no shareholders. However, as a Non-Departmental Public Body, the FRC presents its Annual Report and Accounts to the Secretary of State for Business and Trade, and the Directors fulfil their duties as required under sections 170 to 177 of the Companies Act 2006.

Appointments to the Board (Principles J and K)

Appointments to the FRC's Board are made by the Secretary of State in accordance with the Public Appointments Process, which is not within the FRC's control. The FRC does not have a Nominations Committee, but our People Committee oversees succession planning and the skill/experience requirements for any new appointees. A member of the FRC Board sits on the recruitment panel to ensure that the skills and experience required on the FRC Board are taken into consideration.

Composition, succession and evaluation (Provision 18)

The Directors are not subject to annual shareholder re-election. The terms of appointment are set by the Secretary of State following a rigorous Public Appointments Process. The Chief Executive is employed under a fixed-term contract.

Audit, risk and internal control (Provision 30 and 31)

The Board supported the view that a viability statement would not be included, and the financial statements should continue to be prepared on a going concern basis. The financial statements confirm that it is appropriate to adopt the going concern basis of accounting and a 3-Year Plan (2023-26) was approved by the Board on 24 March 2023. In addition, as a Central Government Body under the sponsorship of DBT, the FRC receives a Letter of Comfort from DBT which provides an assurance of financial support.

Remuneration (Principles P, Q and R and Provisions 32 to 28)

As a Central Government Body, the FRC follows Public Sector Pay Guidelines and there is greater oversight from DBT, HM Treasury and the Cabinet Office in relation to remuneration decisions across the organisation.

The FRC has a limited ability to determine remuneration and does not have a Remuneration Committee. However, the People Committee is responsible for recommending submissions to DBT regarding staff pay awards and advising the Secretary of State on the proposed fees for Directors. These proposals are considered by benchmarking the organisation against similarly paid professionals within the sector and NEDs at equivalent organisations.

Corporate governance in central government departments: code of good practice

Principle 3.3

“The Board should be balanced, with approximately equal number of ministers, senior officials and non-executive board members.”

As the FRC is not a government department, this principle is not applicable.

19. Our Executive Committee

The Executive Committee meets weekly and is chaired by the CEO. It is an opportunity for the Executive to discuss operational, strategic, financial, reputational and workforce matters in support of the day-to-day running of the organisation and to further the objectives established by the Board.

The Executive Committee is also responsible for managing the operations of the FRC in accordance with the Framework Agreement agreed with DBT.

Key areas of focus for the committee

- **Strategy:** including the development of the Strategy, Plan and Budget, transformation strategy and office location plans. The committee also monitored progress against agreed objectives.
- **Operational:** including reports from the Finance Director on management accounts, procurement, IT (including cyber security) and office management matters.
- **Risks and internal controls:** in addition to routine risk reports, the committee engaged in deep dives on the FRC's principal risks and considered the effectiveness of the FRC's internal control and risk management framework.
- **People:** including key people-related policies, FRC culture, staff survey results and hybrid working arrangements.
- **Stakeholder engagement:** including review of the stakeholder perceptions survey, approval of a new communications planner to enable us to better target information to our stakeholders, and consideration of feedback on key stakeholder matters and responses to FRC publications. This informs our future policy work and offers insight to possible future issues and areas of work. The committee also focused time on internal communications and messaging.
- **Policy:** including both internal and external policy positions.

Executive Committee members (as of 31 March 2023)



Sir Jonathan Thompson

Chief Executive Officer, Statutory Director and Accounting Officer (until 31 July 2023)

Role

Sir Jon leads the Executive team and is responsible for the implementation of the FRC strategy. As Accounting Officer, he ensures that the FRC is run in accordance with the Framework Agreement agreed with DBT, the requirements of the Managing Public Money principles, and any additional instructions and guidance issued from time to time by DBT, HM Treasury and the Cabinet Office, while maintaining the FRC's position as an independent regulator.

Experience

Sir Jon brings experience of working with government bodies and has enjoyed a lengthy career in finance. Prior to joining the FRC, Jon was the CEO of HMRC, and previously Permanent Secretary of the Ministry of Defence. He has extensive experience of delivering change and programme management, as well as deep experience of finance and corporate governance as a former Head of the Government Finance Function and the CFO of four organisations.



Mark Babington

Executive Director, Regulatory Standards

Role

Mark leads the FRC's Regulatory Standards division covering audit, corporate reporting, corporate governance and stewardship, actuarial policy and the FRC Lab. Prior to joining the Executive Committee, Mark led the FRC's UK Audit Policy Programme and work to support the reform of international standard setting for auditors by global regulatory authorities. He is a member of IESBA and chairs the Board's Sustainability Task Force, and represents the UK on the Sustainability Standards Advisory Forum of the ISSB.

Experience

Before joining the FRC, Mark was a Director at the UK National Audit Office, leading the audits of a number of major Government departments. For five years, Mark was a member of the UK Government's counter-fraud taskforce. He is a former Chair of the International Colleges of Auditors of several European defence-related organisations. Mark is an Independent Governor, Board member and Chair of the Westminster Foundation for Democracy, the UK public body dedicated to supporting democracy around the world.



Elizabeth Barrett

Executive Counsel and Executive Director of Enforcement

Role

Elizabeth leads the FRC's Enforcement division and is responsible for decisions in relation to enforcement proceedings involving auditors, accountants and actuaries.

Experience

Elizabeth spent 30 years at Slaughter and May, including 27 years as a partner, and was head of the firm's Dispute Resolution department between 2004 and 2008. Her practice spanned a broad range of complex litigation and contentious regulatory matters in the commercial and financial sectors covering both private and public law.



Miranda Craig

Director of Strategy and Change

Role

Miranda leads the FRC's Transformation Programme, bringing together and implementing the FRC's ambitious audit, corporate governance and reporting reforms. Her role also includes development of the FRC's strategy and improving project delivery capability via the Project Management Office.

Experience

Miranda is a Fellow of the Chartered Governance Institute with 17 years' experience across professional services, large private and listed companies, having qualified while at Ernst & Young. She has also held senior secretariat roles at Safe Group plc, ARM, R&Q and EDF Energy. Miranda spent 2019 seconded to BEIS leading on the Independent Review into the Quality and Effectiveness of Audit, supporting Sir Donald Brydon's comprehensive review of audit, its purpose, user needs and future direction.



Alex Kuczynski

General Counsel and Executive Director of Corporate Services

Role

Alex is responsible for the Corporate Services division which comprises the General Counsel team, Finance (including risk, procurement and facilities), Human Resources, Information Technology, and Economics, Strategy and Analytics. The role brings together the professional and support services for the FRC. Its effectiveness is critical to the Transformation Programme.

Experience

Prior to joining the FRC, Alex was Chief Corporate Affairs Officer and an Executive Board Director at the Financial Services Compensation Scheme (FSCS). As a lawyer, Alex was firstly Head of Legal at FSCS, but over 20 years with the organisation held various roles and worked on a wide range of financial services issues, particularly those concerned with actual or potential consumer detriment across investment business, insurance and banking, and often collaborating closely with Government, regulators and industry stakeholders.



Kate O'Neill

Director of Stakeholder Engagement and Corporate Affairs

Role

Kate leads the Stakeholder Engagement and Corporate Affairs function with responsibility for delivering a coordinated international engagement programme for all stakeholders across the whole of the FRC's remit. She is also responsible for marketing and brand, employee and change communications, media relations, digital communications and public affairs.

Experience

Previously, Kate was Head of Corporate Development at Jupiter Asset Management, where she was responsible for corporate strategy, investor relations and communications. She was the Managing Director of Investor Relations at Lloyds Banking Group during the financial crisis, before becoming a Partner at Brunswick and then at Maitland advising global clients on capital markets and communications issues. After qualifying as a lawyer, Kate spent most of her career in the financial services sector in the UK, Europe and Australasia, holding senior leadership roles in distribution and alternative assets at AMP Asset Management, Henderson Global Investors and RBS Asset Management.



Sarah Rapson

Executive Director of Supervision and
Deputy Chief Executive

Role

Sarah is responsible for leading the FRC's Supervision division and its work to enhance audit quality both through standard setting and audit monitoring of firms, supervisor oversight of the Recognised Professional Bodies, and promoting improvement in corporate reporting through detailed technical reviews of companies' Annual Reports and Accounts.

Experience

From 2016 to 2021, Sarah was the Director of Authorisations at the FCA. From 2013 to 2016, she was a member of the Home Office Board as the first Director General of UK Visas and Immigration, responsible for overseas visas, in-country immigration and asylum. Sarah was also Chief Executive of the Identity and Passport Service (now HM Passport Office) from 2010 to 2016, and in 2010 was also appointed by Her Majesty the Queen as the 20th Registrar General for England and Wales responsible for Civil Registration, a post she held until 2014. She is currently the Senior Independent Director of North Middlesex University Hospital Trust and, from December 2021, is also a NED of the Royal Free London NHS Foundation Trust.

20. Our Board and committees

The Board is responsible for the strategic direction and supervision of the FRC, regularly reviewing operational plans and financial performance. It is also responsible for managing, assessing and mitigating risk. Of the nine Board members, eight are Non-Executive and independent members, and one is executive (the CEO). The Board has delegated its functions under the enforcement and disciplinary procedures to the Conduct Committee. The Board met ten times in 2022/23.

The roles of the Chair and the Chief Executive are held separately, ensuring a clear separation of responsibilities in line with the Corporate Governance Code. The Chair leads the Board and ensures its effectiveness through the management of Board meetings, agenda setting and supporting the optimisation of Board discussions. The Chair also takes a leading role in Board succession planning and ensuring effective communication with stakeholders.

As the Accounting Officer, the Chief Executive is personally responsible for safeguarding the public funds under their control, for ensuring propriety and value for money in the handling of those public funds, and for the day-to-day operation and management of the FRC. The Chief Executive has a responsibility to the Permanent Secretary for Business and Trade as the Principal Accounting Officer for all public bodies in the DBT family, who delegates powers directly to the Chief Executive through a Framework Agreement.

The Board discharges some of its responsibilities directly through Reserved Powers, and others through its two Governance Committees and three Regulatory Committees. The committees comprise of independent NEDs of the Board and are assisted by Senior Advisers who are subject matter experts and act as a sounding board for ongoing issues and topics. Observers from the FCA and DBT routinely attend the Regulatory Standards and Codes Committee. Representatives from the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA) attend meetings of the Audit & Risk Committee, and a member of the BEIS Audit Committee attended the committee's October meeting.

The biographies for all members of the governance structure, the Reserved Powers of the Board and the Terms of Reference for each committee, together with a summary of Board business, is published on the [FRC website](#).

Board members (as of 31 March 2023)



Sir Jan Du Plessis

Chair



Appointed 3 February 2022
Attendance: 10 of 10

Experience

Sir Jan has served as Chair of various public companies over the last 18 years: BT Group plc (2017 to 2021); Rio Tinto plc (2009 to 2018); SABMiller plc (2014 to 2016); RHM plc (2005 to 2007); and British American Tobacco plc (2004 to 2009). These roles have given him extensive experience in leadership and governance of major public companies. He has also had multiple interactions with the institutional investment community and gained meaningful insight into the challenges facing the audit services sector.

Sir Jan has also served as NED of Marks and Spencer Group plc and Lloyds Banking Group plc. From 1988 to 2004, he was CFO of Richemont.

Sir Jan was knighted in the 2022 New Year's Honours List for services to Telecommunications and Business.

External appointments

Sir Jan is Mentor and Adviser of Chair Mentors International.



Sir Jonathan Thompson

Chief Executive Officer
and Accounting Officer

Appointed 1 October 2019
Attendance: 10 of 10

Experience

Sir Jon brings experience of working with Government bodies and has enjoyed a lengthy career in finance. Prior to joining the FRC, Sir Jon was the CEO of HMRC, and previously Permanent Secretary of the Ministry of Defence, jointly leading the £36bn organisation with the Chief of the Defence Staff.

He has extensive experience of delivering change and programme management, as well as deep experience of finance and corporate governance as a former Head of the Government Finance Function and the CFO of four organisations.

Sir Jon chairs the Executive Committee.

External appointments

Sir Jon is the Chair of Crown Hosting Data Centres Ltd, an unpaid position. He is also the Chair of HS2 Ltd.

Key to Committees



Audit and Risk



People



Conduct



Regulatory
Standards
and Codes



Supervision

Bold and black keyline denotes Chair of the Committee

Full biographical details of each Director are available at www.frc.org.uk



Angela Cha

Independent Non-Executive Director



Appointed 1 February 2022
Attendance: 10 of 10

Experience

Angela is a solicitor and a former partner at the international law firm, Pinsent Masons, where she was joint head of the financial services sector group and head of the outsourcing, commercial and technology practice in London. She specialised in advising financial services sector clients on major change and business transformation projects. After her private practice career with Pinsent Masons, Angela continued her legal career, working with financial services sector clients on a consulting basis.

External appointments

Angela is a NED on the Board of Bath Building Society, where she is Vice Chair and Senior Independent Director, and a member of the Audit, Remuneration and Nominations Committees. Outside of the financial services sector, Angela is a co-opted member of the Finance, Audit & Risk Committee at the NSPCC.



John Coomber

Independent Non-Executive Director and Senior Independent Director



Appointed 23 July 2015
Attendance: 9 of 10

Experience

John has extensive actuarial and senior management experience. He was CEO of the Pension Insurance Corporation (2009 to 2015) and at Swiss Re (2003 to 2005). He has previously been Chairman of MH (GB) Limited, The Climate Group and Climatewise, a Director of Euler Hermes and a member of the Deutsche Bank Climate Advisory Board.

John is a Fellow of the IFOA and an Honorary Fellow of the Chartered Insurance Institute.

External appointments

John is a NED of Ecospray Ltd.

Key to Committees



Audit and Risk



People



Conduct



Regulatory Standards and Codes



Supervision

Bold and black keyline

denotes Chair of the Committee

Full biographical details of each Director are available at www.frc.org.uk



Sir Ashley Fox

Independent Non-Executive Director



Appointed 1 February 2022
Attendance: 10 of 10

Experience

Sir Ashley is a business consultant providing strategic advice on the European Union. He served as a Member of the European Parliament (MEP) for the South West of England and Gibraltar from 2009 to 2019. During his career in the European Parliament, Sir Ashley was a member of the Committee for Economic and Monetary Affairs and the Committee on Industry, Research and Energy. He was knighted in 2019 for political and public service.

Before entering politics, Sir Ashley was a solicitor specialising in insurance litigation.

External appointments

Sir Ashley is the Chair and NED of the Independent Monitoring Authority and a member of the APCO Worldwide’s International Advisory Council.



Hannah Nixon

Independent Non-Executive Director



Appointed 24 June 2021
Attendance: 10 of 10

Experience

Hannah has widespread experience in economics and regulation across a range of industries. She brings significant experience of developing, implementing and enforcing regulatory regimes and influencing public policy. She was the first CEO of the Payment Systems Regulator, the economic regulator of the UK’s £80 trillion payments industry, responsible for driving competition and innovation in the interests of consumers. Hannah was also a senior Partner at Ofgem, where she had responsibility for the networks division. Until recently, she was also a NED of the Jersey and Guernsey Competition and Regulatory Authorities.

External appointments

Hannah is currently Chair of the Single Source Regulations Office, and a NED of Thames Water Utilities Ltd, Worldpay and National Grid Electricity System Operator.

Key to Committees



Audit and Risk



People



Conduct



Regulatory Standards and Codes



Supervision

Bold and black keyline

denotes Chair of the Committee

Full biographical details of each Director are available at www.frc.org.uk



Clare Thompson

Independent Non-Executive Director



Appointed 1 February 2022
Attendance: 9 of 10

Experience

Clare was a Partner at PwC until her retirement in 2011. There she was audit/lead Partner on major financial services groups and served as UK Insurance Leader and a member of the UK Assurance Executive team.

Since leaving PwC, she has built a portfolio of non-executive roles and has served as Senior Independent Director and Chair of the Audit Committee of Bupa, as a NED of Direct Line Insurance Group plc, Retail Charity Bonds plc, and Miller Insurance Services LLP and as Treasurer of the Disasters Emergency Committee.

Clare is a Fellow of the ICAEW.

External appointments

Clare is a NED and Chair of the Audit Committee at M&G plc.



Ruwan Weerasekera

Independent Non-Executive Director and NED designated for workforce engagement



Appointed 21 June 2021
Attendance: 9 of 10

Experience

Ruwan is the former COO and a Managing Partner of SoftBank Investment Advisers, a Managing Director and COO for Securities at UBS Investment Bank and Partner of Accenture.

He is also a former Senior Independent Director of ICBC Standard Bank PLC and a former NED of London North West University Health Care Trust. He brings 35 years' experience across financial services and 15 years in senior leadership and Director positions. He has an in-depth knowledge and experience of operating complex businesses on a global basis with a focus on leveraging technology, implementing strategy and change, and embedding and managing conduct, culture and controls.

External appointments

Ruwan is a NED of UK Research and Innovation, and chairs their Audit and Risk Assurance Committee.

Key to Committees



Audit and Risk



People



Conduct



Regulatory Standards and Codes



Supervision

Bold and black keyline

denotes Chair of the Committee

Full biographical details of each Director are available at www.frc.org.uk



David Willis

Independent Non-Executive Director



Appointed 1 February 2022
Attendance: 9 of 10

Experience

David is a solicitor by profession and was a partner in international law firm, Herbert Smith Freehills (and predecessor firm Herbert Smith) for many years. He was Managing Partner of Herbert Smith from 2008 to 2012 and Joint CEO of Herbert Smith Freehills from 2012 to 2014. He was previously a member of the governing body of Queen Mary University of London, where he chaired the Audit & Risk Committee, and a member of the board of the Solicitors Regulation Authority, where he chaired the Finance and Audit Committee and was a member of the Law Society Group Audit Committee.

External appointments

David is currently Chair of Paradigm Trust, a multi-academy trust, and Vice Chair of United Response, a charity supporting adults with learning disabilities, where he chairs the Finance and Resources Committee. He is also a NED and member of Primrose Street Ltd.

Key to Committees



Audit and Risk



People



Conduct



Regulatory Standards and Codes



Supervision

Bold and black keyline

denotes Chair of the Committee

Full biographical details of each Director are available at www.frc.org.uk

Company Secretary

The Board and its committees have access to an appropriately qualified and experienced Company Secretary who provides independent advice on governance matters. They are responsible for working with the Chair and the Chief Executive to develop the agendas for Board and committee meetings and to ensuring that all governance procedures are complied with. The removal and appointment of the Company Secretary is a matter reserved for the Board. Francesca Carter stepped down in May 2022, and the Board appointed James Schirn as Company Secretary.

Transparency

The FRC reports to the Secretary of State for the Department for Business and Trade and Parliament on the discharge of its statutory functions, and lays its Annual Report and Accounts before Parliament.

Board appointments, diversity and succession planning

Appointments to the Board are made by the Secretary of State for the Department for Business and Trade in accordance with the Public Appointments Process and the Governance Code for public appointments.

The Board Diversity Policy sets out the Board's support for the Government's ambitions with respect to diversity and the Board's commitment to work with the Secretary of State in pursuit of the Government's objectives.

The Board annually reviews the Board skills matrix and succession plans to ensure it has relevant expertise to support the strategy. The Board has commissioned the recruitment of three new NEDs through the public appointments process for the coming year, with a focus on appointing Directors who can bring actuarial, local audit, and investment management experience to the Board. The recruitment of these additional members reflects our expanding remit and responsibilities in relation to actuarial regulation and local audit and will enhance the Board's diversity and representation of our key stakeholders as we transition to ARGAs.

Board induction and training

A detailed induction programme tailored for the Chair and all new NEDs took place in the year 2022/23. The programme included meetings with senior executives from across the FRC to gain a full understanding of the roles and responsibilities of the senior management of the FRC, its standard setting and enforcement procedures and policies, and the operations of the FRC. All Board members received bespoke ongoing training on various matters including IT security, GDPR and the FOIA. A Board and committee training and development plan has also been produced to support the Board's continuous learning in areas such as cyber security, climate governance, GDPR and diversity and inclusion.

Independence and conflicts

The FRC attaches special importance to avoiding any potential conflict between the work and values of the FRC and the personal interests of its staff, Directors and its Non-Executive Advisers. Please see more on our ethics and compliance on page 60.

Key Board matters 2022/23

Board meeting agendas are carefully tailored in advance by the Chair, Chief Executive and the Executive team to ensure an appropriate balance between strategic and operational matters. The Board agenda also includes a report from the Chief Executive on key operational matters, the Transformation Programme and, on a quarterly basis, management information packs provide key information on the delivery of the strategy and finances.

The Chairs of the Governance and Regulatory Committees update the Board on the proceedings of their meetings, including key discussion points and matters for approval. Please see the reports on the individual committees for more detail on their areas of focus on pages 108-119.

The NEDs assess, constructively challenge, and decide on the Executive's proposals and matters for decision to ensure they are aligned with the FRC's strategy and purpose.

The focus of the Board's business throughout the year can be assessed through the lens of seven broad themes.

Theme	Key areas of focus for the Board in 2022/23
Transformation	<ul style="list-style-type: none"> Supported the Executive in its active engagement with Government on the development of the Audit Reform Bill. Provided non-executive oversight of the Transformation Programme and funding plans for ARGA. Considered matters relating to the establishment of a second office location in Birmingham. Scrutinised and approved the publication of the FRC's Position Paper, setting out how we will support the Government's reform as it transitions into ARGA.
Regulatory Standards and Codes	<ul style="list-style-type: none"> Received regular updates on the Regulatory Standards division and Regulatory Standards and Codes Committee activities. Approved regulatory standards and Codes, following scrutiny by the committee, for publication. Considered the Government's future plans for setting sustainability standards in the UK and the FRC's role in this area.
Supervision	<ul style="list-style-type: none"> Received regular updates on the FRC's Supervision division and Supervision Committee activities. Approved the publication of the Tier 1 and the inaugural Tier 2 and 3 audit quality and supervisory reports to support improvements in audit quality. Provided input and challenge to the Executive on the development of the FRC's professional oversight regime of the Professional Bodies to enhance oversight and scrutiny. Approved the publication of the Independent Supervisor report of the Auditors General to the Secretary of State and the Professional Oversight Annual Report to the Secretary of State. Agreed the creation of the PIE Auditor Register enabling the FRC to act decisively when it identifies systemic issues in an audit firm. Considered and monitored the implementation of the FRC's shadow system leader role for local audit.
Enforcement and Conduct	<ul style="list-style-type: none"> Received regular updates on the FRC's Enforcement division and Conduct Committee activities, and scrutinised progress against KPIs. Received updates from the Executive Director of Enforcement on cases under investigation. Approved the publication of a consultation in relation to amendments to the AEP.

Theme	Key areas of focus for the Board in 2022/23
Engagement with stakeholders and staff	<ul style="list-style-type: none"> • Approved the 2023-26 3-Year Plan and Budget, following consultation with stakeholders. • Received regular updates from the Stakeholder Engagement and Corporate Affairs team on how the FRC engages with its stakeholders. • Analysed the positive results of the stakeholder perceptions and staff feedback surveys. • Received regular updates from the People Committee and the NED responsible for workforce engagement to support staff wellbeing.
Maintaining good governance	<ul style="list-style-type: none"> • Approved updates to the Board and committees Terms of Reference to optimise and clarify roles and responsibilities. • Approved the Annual Modern Slavery Statement in accordance with the FRC's commitment to meet section 54 of the Modern Slavery Act 2015. • Received oversight reports on the UKEB and monitored its operations as part of the FRC's oversight role. • Undertook the Annual Board Effectiveness Review and agreed an action plan to support the Board's continuous improvement. • Reviewed Board succession plans and in conjunction with DBT, began recruitment for all new NEDs and for a new Chief Executive following Sir Jonathan Thompson's resignation.
Finance, risk and operations	<ul style="list-style-type: none"> • Received regular updates from the Audit & Risk Committee on the internal and external audit plan, internal controls and financial management. • Received regular operational updates from the Chief Executive, as well as monitored the financial health of the organisation through quarterly financial and KPI reports. • Provided input and challenge to the development of the risk management framework and updates to the principal risks. • Approved the Annual Report and Accounts, and scrutinised the disclosures contained therein.

Board effectiveness review

In accordance with the UK Corporate Governance Code, a Board effectiveness review was conducted to assess the effectiveness of the FRC governance structure, the Board and its committees, as well as individual Board member performance.

With a new Chair, Board and governance structure, this exercise was also an excellent opportunity to ensure the 2021 governance reforms, stemming from the Kingman report, are embedded and working optimally in support of the FRC's effectiveness prior to the transition to ARGA.

This year's review was internally facilitated by the Chair and supported by the Company Secretary via a questionnaire and individual discussions with each Director. This was supplemented with Board and committee reflection. An externally facilitated evaluation will take place in 2024.

The Board received a report detailing the feedback received and approved an action plan to support improvements to its effectiveness. Overall, the results of the evaluation confirm that:

- The Board, its committees and overarching governance structure is effective, with strong leadership provided by the Chair.
- The Board and its committees are clear on their roles and responsibilities and have the skills, experience and leadership to provide oversight and constructive challenge to the Executive.
- Board and committee members are actively engaged and provide valuable input and oversight to support the FRC's obligations as a regulator.

"The Board effectiveness review ensured that reforms are embedded and working optimally"

Themes arising from the agreed action plan that will be taken forward in 2023 relate to enhancing the Board's operations through improvements to:

- The Board training and development framework to strengthen Director knowledge.
- Non-executive succession plans to ensure a regular refreshing of skills and experience.
- Board and committee reporting templates to aid decision-making.
- Board horizon scanning to reinforce the identification of emerging risks and opportunities.
- The Executive performance management toolkit to strengthen non-executive oversight.
- The risk reporting framework to augment the FRC's risk management processes.

Committee effectiveness

Each committee also considered the feedback from the effectiveness review exercise and developed actions as appropriate.

21. Audit & Risk Committee report

I am pleased to present the Audit & Risk Committee report for the year ended 31 March 2023, which provides an overview of the work of the Committee and the key matters it addressed over the year. The Committee continues to support the Board in its review of the integrity of financial reporting and ensuring that internal control remains robust and appropriately managed.

Significant matters considered by the Committee during the year include:

- Review of the risk management framework, principal risks and reserves policy. This is particularly important as the organisation transforms into ARGA.
- Receipt of regular updates on the FRC's responsibility for overseeing UKEB compliance with due process.
- Oversight of the activities of the internal audit function and external auditors including an enhanced evaluation of their effectiveness, based on the Committee's own interaction with the internal and external auditors as well as a questionnaire with key internal stakeholders. Both were deemed effective.
- Its own effectiveness through a questionnaire and in-meeting discussion as part of the Board and Committee Effectiveness Review. The Committee was judged to be effective, with an action plan developed to strengthen its processes.

The Committee also receives regular and relevant updates from the Finance team to ensure that the FRC has complied with its obligations as set out in Managing Public Money.

The forward agenda for 2023 includes several important new priorities, including strengthening our information management framework, enhancements to the risk management framework to support a holistic risk environment, and ongoing consideration of the FRC's reserves policy in anticipation of the transition to ARGA.

Clare Thompson

Chair of the Audit & Risk Committee

Role of the committee

The Audit & Risk Committee supports and advises the Accounting Officer (the Chief Executive) and the Board by providing oversight of our financial reporting process and use of public funds, corporate governance, the external and internal audit process, the system of internal controls including business continuity and information technology, the identification and management of significant risks, and compliance with laws and regulations. The Audit & Risk Committee's Terms of Reference can be viewed on [our website](#).

The committee held five meetings in the 2022/23 financial year. Members of the committee also attended training sessions for NEDs run by DBT. In addition, the committee met (without the presence of management) with the lead external and internal auditors from the NAO and GIAA respectively.

The committee is composed of individuals with extensive, recent and relevant audit, risk and financial experience, both in the private and public sectors, and listed environments. The Chair, Clare Thompson, is an ICAEW Chartered Accountant and former Audit Partner, with extensive non-executive experience including as an Audit Committee Chair.

Michael Hearty, Senior Adviser, is also appointed to the committee and brings extensive public sector finance background including experience of organisations undergoing transformation. The biographies of the committee members can be found on [our website](#). With these appointments, the Board is satisfied that the combined knowledge and financial experience of the committee members ensured that it could fulfil its responsibilities effectively.

Membership and attendance

Members	Attendance
Clare Thompson FCA (Chair)	5/5
Angela Cha	5/5
Hannah Nixon	4/5
Ruwan Weerasekera	3/5
Senior Advisers	
Michael Hearty (FCPFA)	4/5

Other regular attendees at committee meetings

FRC Chair, Accounting Officer, Finance Director, Executive Director of Corporate Services and General Counsel, Head of Risk, NAO, GIAA.

External auditor independence

The NAO was appointed as external auditor in 2019 with Greg Wilson as Senior Statutory Auditor. Greg is not part of the NAO's Central Quality team, nor responsible for PIE audits inspected by the FRC. The Board reviews how the relationship and any potential conflicts of interest between the NAO and FRC are mitigated each year prior to appointing the FRC's external auditors. To protect the objectivity and independence of the external auditor, it is the FRC's policy that they are not contracted to carry out any non-audit services and no such services were provided during the financial year. The Audit Partner will rotate in 2024, following the signing of the accounts.

Financial reporting

The committee reviewed and recommended to the Board the Annual Report and Accounts for the financial year ended 31 March 2023, having confirmed that it satisfied all applicable legal and regulatory obligations. The committee also considered the letter of support and representation issued to the auditors and received the auditors ISA 260 report setting out any matters arising from the audit. The committee concluded that the financial statements should continue to be prepared on the going concern basis of accounting, given DBT's letter of comfort.

Fair, balanced and understandable

In assessing whether the Annual Report and Accounts are fair, balanced and understandable, on behalf of the Board, the Audit & Risk Committee gave regard to:

- The information contained within the Strategic Report and ensuring it represents a fair reflection of performance during the year under review.
- Key judgement areas, accounting and reserves policies.
- The KPIs agreed by management, ensuring they reflect those used to manage, monitor and assess the organisational health of the FRC with a strong linkage to the strategy.
- The key messages in the Annual Report and ensuring they are clear, consistent and easily understood.

Internal audit opinion 2022/23

A key source of independent assurance for the FRC is the internal audit function provided by the GIAA, which complies with the Public Sector Internal Audit Standards. The annual internal audit programme is closely linked to its key risks. Arrangements are in place to ensure that the Accounting Officer is made aware of any significant issues which indicate that key risks are not being effectively managed.

The GIAA provided an opinion on governance, risk management and control for 2022/23, which was assessed as 'moderate'. While this is unchanged from last year, the opinion reflects that although there are no fundamental weaknesses in the prevailing internal control environment in the areas examined, the findings and recommendations represent an opportunity to improve controls and implement good practice. We are receptive to this, reflected in our commitment to continuous improvement. Based on the assessment and considering insights from other regulators, it is the GIAA's opinion that the FRC compares favourably in its approach to developing strengths in the first and second line.

22. Conduct Committee report

I am pleased to present the Conduct Committee report for the year ended 31 March 2023, which provides an overview of the work of the committee and the key matters it addressed over the year.

Since I took over as Chair of the committee in April 2022, we have seen the conclusion of the Independent Disciplinary Tribunal into KPMG's misconduct in relation to audits of Regeneris and Carillion³, the timely settlement or closure of a significant number of new and historical investigations, and the opening of ten new Scheme or AEP investigations in the public interest.

The Conduct Committee's work involves careful consideration. It must balance the impact of its decisions on firms and individuals who work in the highly technical, and often challenging, professions of accounting, auditing and actuarial work against the FRC's purpose to protect the public interest, uphold the standards that the markets expect and rely upon, and hold to account the few who fall below those standards.

David Willis

Chair of the Conduct Committee

Role of the committee

The Conduct Committee is responsible for oversight of the FRC's enquiries, investigations and enforcement function, ensuring that appropriate cases are investigated and conducted fairly, in the public interest, in a timely and cost-effective manner and in accordance with due process and the Regulators' Code. The Conduct Committee also looks at some wider legal matters at the FRC, such as the FRC's handling of complaints and the approval of the AER.

3 This investigation concerned misconduct in relation to the FRC inspections (known as AQRs) of the audit of the financial statements of Regeneris plc for the period ended 30 June 2014; and the audit of the financial statements of Carillion plc for the period ended 31 December 2016. There is a separate ongoing investigation into KPMG's audit of Carillion for the years ended 31 December 2013, 2014, 2015 and 2016, and the six months ended 30 June 2017, and the preparation and reporting of other financial information during the period 2014-2017.

Membership and attendance

Members	Attendance
David Willis (Chair)	11/11
Angela Cha	11/11
Sir Ashley Fox	10/11
Senior Advisers	
Richard Murray	10/11
Anne Whitaker	9/11
Sean Collins	10/11

Key areas of focus

The committee provided non-executive oversight and challenge to the Executive on conduct and enforcement matters including:

- **Enforcement case review:** information presented by the Case Examiner, General Counsel and Executive Counsel to support its decision-making role, ensuring thorough discussion and scrutiny of that information.
- **Risk management:** emerging issues, risks or delays relating to open investigations.
- **KPIs and milestones:** how the profession of investigations is measured and monitored.
- **Regulation and procedures:** proposed amendments to the AEP, Schemes and associated guidance, and the establishment of the PIE Auditor Registration Regulations.
- **Publication of enforcement action:** the timing and content of enforcement-related publications.
- **Succession planning:** the composition and recruitment of the Tribunal and Enforcement Committee panels.
- **Transformation:** the implications of the audit reform proposals on enforcement activity.

23. People Committee report

I am pleased to present the People Committee report for the year ended 31 March 2023, which provides an overview of the work of the Committee and the key matters it addressed over the year.

Our transformation to a stronger, more agile and empowered regulator is well underway, and key to this journey is the effective recruitment, development, performance management and retention of our staff in accordance with our Values and Behaviours. The Committee's work over the year has focused on the design and implementation of pay measures and succession planning, while monitoring the feedback from staff on delivery of the strategy through the People Forum and staff survey. Our work plan has approached this through the lens of D&I, while continuing to provide non-executive oversight on these matters, alongside registers of interest reviews and other disclosures.

We look forward to working with management on the employee value proposition and planning for new office environments to support the FRC's transition to ARGA.

Ruwan Weerasekera

Chair of the People Committee

Role of the committee

The committee provides the FRC Executive with challenge, constructive dialogues and strategic direction on issues relating to the appointment and recruitment, remuneration, talent management and welfare of FRC staff and non-executive members, and takes high-level decisions on such issues as necessary. The Chair of the People Committee is also the NED with responsibility for workforce engagement to improve visibility of people matters at Board and committee level.

Membership and attendance

Members	Attendance
Ruwan Weerasekera (Chair)	4/4
Sir Jan du Plessis	3/4
Clare Thompson	4/4
David Willis	4/4

Key areas of focus

The committee provided non-executive oversight and challenge to the Executive on people matters including:

- **Staff wellbeing:** our hybrid working arrangements and staff survey results to support staff wellbeing.
- **Diversity and inclusion:** our diversity and inclusion initiatives and our diversity policy to foster an inclusive organisation. For example, we have several staff-led diversity groups to help support and develop employee knowledge of equality and inclusion matters.
- **Succession plans and staff pay award:** the Board skills matrix, identifying areas of experience that would complement and add value to the Board. Recommendations to Government to support and retain the talent pipeline.
- **Other key matters:** progress against KPIs, receiving regular updates from the Chief People Officer on HR matters, commissioning the Board and Committee Effectiveness Review, conflicts of interest, gifts and hospitality, and Board and Executive Committee expenses.

24. Regulatory Standards and Codes

Committee report

I am pleased to present the Regulatory Standards and Codes Committee report for the year ended 31 March 2023, which provides an overview of the work of the Committee and the key matters it addressed over the year.

The Committee's work has focused on the review of new and revised standards, Codes and guidance the FRC either monitors and inspects against, or issues to drive good practice in the provision and assurance of high-quality reporting. Key highlights include the publication of AS TM1 to support the development of the Government's pension dashboard, a Competition policy paper setting out how the FRC proposes to deliver and promote effective competition in the market for statutory audit, and the periodic review of FRS 102 and the Professional Judgement Framework.

We look forward to hearing stakeholder feedback on the Corporate Governance Code consultation and continuing to provide non-executive oversight of standards, Codes and guidance on behalf of the Board.

Hannah Nixon

Chair of the Regulatory Standards and Codes Committee

Role of the committee

The committee is responsible for approving and overseeing high-quality, effective and proportionate standards, guidance, Statements of Recommended Practice (SORPs), Practice Notes, and Codes for corporate governance, stewardship, audit and assurance, actuarial, and corporate reporting work on behalf of the Board. A full summary of the committee's business can be found on [our website](#).

Membership and attendance

Members	Attendance
Hannah Nixon (Chair)	7/7
John Coomber	7/7
Sir Ashley Fox	6/7
Clare Thompson	4/7

Membership and attendance

Senior Advisers	
Paul Cox	7/7
Richard Lawrence	6/7
Rosemary Beaver (retired 31 December 2022)	5/5
Howard Walpole (appointed 1 January 2023)	2/2

Key areas of focus

The committee provided non-executive oversight and challenge to the Executive on regulatory standards, Codes and guidance including:

- **Actuarial policy work:** the scope of compliance of Technical Actuarial Standards 100 and 400. Changes to AS TM1 – actuarial assumptions and methods to be used in the calculation of Statutory Money Purchase Illustrations.
- **Financial reporting:** support for clear and concise, fair, balanced and understandable reporting. Considerations of amendments to FRED 81. Amendments to FRS 100, 101 and 102, application of Financial Reporting Requirements and ISA (UK) 600 – ‘audit of group financial statements’.
- **Digital reporting:** actions to improve the usability and design of the reports and XBRL tagging.
- **Professional Judgement Framework:** effective application of the framework in an audit.
- **Transformation:** consideration of the development of 'Audit Committees and the External Audit: Minimum Standard' for FTSE 350 Audit Committees in relation to the appointment and oversight of the audit and our approach to competition in the audit market.
- **Key publications:** revisions to the guidance for RSBs on the 'Recognition of Key Audit Partners for local audit', in response to a recommendation from the Redmond Review of local audit regarding the issue of capacity in this market.
- **Corporate governance and stewardship:** progress on the Stewardship Code signatory assessment framework and proposed updates to the UK Corporate Governance Code.

25. Supervision Committee report

I am pleased to present the Supervision Committee report for the year ended 31 March 2023, which provides an overview of the work of the Committee and the key matters it addressed over the year.

Our work has focused on research and innovation being undertaken by the division such as the 'What Makes a Good...' publication series, increased engagement with smaller audit firms, early plans to refresh the FRC's approach to its oversight and regulation of the accountancy and actuarial professional and qualifying bodies, and joint work with, and benchmarking against, other UK and international peer regulators. This work all aims to support the delivery of consistently high-quality audit and corporate reporting across the market and expands the toolkit at the FRC's disposal as a robust, improvement regulator.

We look forward to supporting the Supervision division as it settles into its new roles as PIE Auditor Registrar and shadow system leader for local audit, and in ensuring that the improvements to audit quality described in our Tier 1 Audit Quality Inspection Report 2021/22 are embedded and broadened.

John Coomber

Chair of the Supervision Committee

Role of the committee

The Supervision Committee was established in 2021. It receives regular updates from the six teams within the Supervision division on its approach, outputs and outcomes, and considers emerging issues and risks in relation to the delivery of the FRC's supervisory objectives. It has delegated authority from the Board to exercise its powers in relation to companies' compliance with UK corporate reporting laws. It also oversees the discharge of the FRC's responsibilities, designated by the Secretary of State, to provide independent oversight of the professional and qualifying bodies, and the Comptroller and Auditor General, and to report on the discharge of these responsibilities to Parliament each year.

Membership and attendance

Members	Attendance*
John Coomber (Chair)	6/6
Ruwan Weerasekera	4/6
Angela Cha	4/6
Hannah Nixon	3/6
Senior Advisers	
John Hitchins	5/6
Anne Whitaker	6/6
Andrew Vials	5/6

*In addition to the four scheduled meetings, two further meetings were called during the year to deal with specific business.

Key areas of focus

The committee provided non-executive oversight and challenge to the Executive on Supervision matters including:

- **Local audit:** our role as shadow system leader for local audit, and the risks and challenges associated with this new role.
- **Professional oversight:** initial plans to broaden the scope of our oversight of the RSBs to achieve a more holistic assessment of their operations, as well as consideration of the security and integrity of UK accounting examinations and qualifications, and the establishment of the PIE Auditor Register.
- **Supervisory activities:** the criteria used to select companies for AQR or CRR reviews, strategies to improve the resilience and audit quality of smaller audit firms operating in the PIE market, and work with the FCA to review companies' TCFD and other ESG-related disclosures.
- **Key publications:** the Annual CRR, the Tier 1 and inaugural Tier 2 and 3 audit quality and supervisory reports, including the analysis of its conclusions to support improvements in audit quality. Statutory and mutually agreed reports to Parliament or other relevant bodies.
- **Other:** emerging risks in the audit market, developments in the operational separation of audit practices, and progress of projects against KPIs.

26. Remuneration framework

The Chief Executive is the only Executive member of the Board (CA06 Executive Director). The performance of the Chief Executive and other Executive Committee members is assessed against both collective objectives set in line with the FRC business plan, and individual objectives. An overview of the remuneration framework that applied to all staff during 2022/23 is set out below. The main components of the Chief Executive and other Executive Committee members' remuneration are consistent with this framework unless indicated otherwise.

Element and purpose	Operation	Opportunity/output
<p>Base salary To provide core remuneration for the role, recognising the responsibility for setting and delivering the annual FRC Plan and Budget.</p>	<p>Salaries are normally reviewed annually by the People Committee, which considers the Chief Executive and other Executive Committee members' responsibilities, performance and experience alongside market trends and relevant comparator organisations, where available.</p>	<p>Any annual increase awarded reflects movement in market rates and increasing competency within role.</p>
	<p>Salaries for new Chief Executive and other Executive Committee member appointments are subject to HM Treasury approval in line with Senior Civil Service Pay Guidance.</p>	<p>The Chief Executive and Executive Committee members are required to achieve higher ratings for performance than other members of staff in order to qualify for a potential salary increase.</p>
		<p>Individual adjustments in excess of general market movements may be made in appropriate circumstances (for example, where the role scope has changed or as a reflection of a significant development in the role).</p>

Element and purpose	Operation	Opportunity/output
<p>Benefits To provide a competitive and cost-effective benefits package in line with public sector norms.</p>	<p>All staff who were offered employment prior to 1 June 2018 are eligible to receive benefits, which may include:</p> <ul style="list-style-type: none"> • Dental insurance • Private health insurance • Income protection insurance • Life assurance <p>In aligning the FRC's remuneration policy more closely with the public sector, new joiners who started from 1 June 2018 are no longer eligible for dental or private health insurance.</p>	
<p>Pension benefits To provide competitive retirement benefits in line with relevant market comparators.</p>	<p>All staff are eligible to participate in the group personal pension scheme, which is a defined contribution scheme.</p> <p>Staff offered employment prior to 1 June 2018 were able to elect to take pay in lieu of pension contributions less an amount equivalent to Employer's National Insurance contributions, but this has been discontinued for staff offered employment after 1 June 2018.</p>	<p>A maximum of 10% of base salary.</p>
<p>Non-consolidated pay</p>	<p>The FRC provides a modest cash award to all eligible employees with qualifying service and personal performance reflecting the overall performance of the FRC during the year.</p>	<p>An in-year award of £1,100 was made in respect of the FRC's performance to all qualifying employees.</p>

Pay multiples (subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid Director, the Chief Executive Officer, in office as of 31 March 2023 was £330,000 – 335,000 (2021/22: £330,000 – 335,000). This was 3.67 times (2021/22: 3.78) the median remuneration of the workforce, which was £91,139 (2021/22: £88,289).

Total remuneration includes salary and benefits in kind. It does not include severance payments, or any employer's pension allowance or payments in lieu of pension payments. In 2022/23, no employee received remuneration in excess of the annual equivalent remuneration of the highest paid Director.

Directors' remuneration (subject to audit)

	2022/23 fees/salary	2022/23 GHI ⁽¹⁾	2022/23 Pension ⁽²⁾	2022/23 Total £	2021/22 Total £
Non-Executive Directors					
Sir Jan du Plessis	125,000	-	-	125,000	20,089
Angela Cha	17,500	-	-	17,500	2,917
David Childs (to October 2021)	-	-	-	-	48,871
John Coomber	27,500	-	-	27,500	30,652
Sir Ashley Fox	17,500	-	-	17,500	2,917
Hannah Nixon	27,500	-	-	27,500	19,534
Keith Skeoch (to October 2021)	-	-	-	-	39,718
Clare Thompson	27,500	-	-	27,500	2,917
Dame Julia Unwin (to August 2021)	-	-	-	-	29,167
Jenny Watson (to August 2021)	-	-	-	-	12,500
Ruwan Weerasekera	22,500	-	-	22,500	16,377
David Willis	30,000	-	-	30,000	2,917
Sub-total	295,000	-	-	295,000	228,576
Executive Directors					
Sir Jonathan Thompson ⁽³⁾	305,250	4,229	30,525	340,004	375,833
Sub-total	305,250	4,229	30,525	340,004	375,833
Total⁽⁴⁾	600,250	4,229	30,525	635,004	604,409

Notes:

When Directors have served for part of a year, the amounts shown are for the relevant proportion of the year.

- (1) This is Life Assurance and Group Income Protection insurance.
- (2) This is a payment to a defined contribution scheme.
- (3) Executive Directors are entitled to receive some other benefits in accordance with the remuneration framework; the benefits vary depending on when their employment with the FRC started. The figures shown are the cash equivalent of their full pay and benefits.
- (4) Executive Directors' remuneration in 2022/23 amounted to 1.6% (2021:22: 1.9%) of total company remuneration.
- (5) Sir Jonathan Thompson is the statutory Director and therefore included in the remuneration report.

27. Directors' report

The Directors of the FRC (Registered number: 02486368) present their report for the year ended 31 March 2023. This report should be read in conjunction with both the Strategic Report, pages 7-85, which includes Ethics and compliance (p60) and the Governance Report, pages 86-129, which includes the Corporate Governance Statement.

In accordance with section 414C (11) of the Companies Act 2006, the Directors have provided disclosures and information in relation to a number of matters elsewhere in this Annual Report. These matters, together with those required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, and voluntary disclosures under the Sustainability Accounting Standards Board are cross-referenced in the table below.

Topic/ reporting responsibility	Relevant section	Page
Business model	Our business model	15
Values	Our business model	15
Strategy	Strategic priorities for 2023/24	37
Likely future developments	Strategic priorities for 2023/24	37
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Directors' responsibilities statement

The Directors (including the Chief Executive as Accounting Officer) are responsible for preparing the Annual Report and Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year.

Under the law, the Directors have elected to prepare the financial statements in accordance with applicable law and UK accounting standards (UK GAAP), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law, the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Ensure a system of internal controls are in place to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the FRC will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the FRC's transactions and disclose with reasonable accuracy at any time the financial position of the FRC and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the FRC and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In assessing the going concern, the Board is satisfied that the FRC will continue to operate for a minimum of 12 months after the approval of the financial statements. In addition, DBT provides the FRC with confirmation that it would help the FRC meet its financial obligations, if necessary, that would allow the FRC to continue its operations for a minimum of 12 months.

The Directors consider that the Strategic Report is fair, balanced and understandable, and that it contains the information necessary for the user to assess the position, performance, business model and strategy of the FRC.

Board of Directors

We have included information on the names of the individuals who, at any time during the financial year, were Directors of the FRC on pages 97-101, as well as their attendance.

Appointment of Directors

Directors are appointed for fixed terms, which may be renewed, rather than being submitted for re-election at regular intervals. There were no changes of the Company Directors during the year.

Retirement, vacation and removal of Directors

In accordance with the Articles of Association (5.1) the Secretary of State, or his or her duly authorised representative, may at any time remove any person so appointed. A Director of the Company shall retire from office upon the expiry of the period specified in the most recent notice of his or her appointment or reappointment received by the Company, or if no period is specified therein, upon the third anniversary of such appointment or reappointment.

The office of Director shall be vacated if the Director:

- Is removed from office pursuant to the provisions of Articles 5.1 above.
- Resigns his or her office by notice in writing received at the registered office of the company.
- Ceases to be a member of the Company.
- Ceases to be a Director by virtue of any provision of the Companies Act or otherwise becomes prohibited by law from being a Director.
- In the case of the Chief Executive, ceases to hold that position.

Directors and Directors' insurance and indemnities

Under the terms of the FRC's Articles of Association, all Directors are members of the FRC, and each has undertaken to guarantee the liability of the FRC up to an amount not exceeding £1. There are no other members, and no dividend is payable. The FRC purchased and maintained the Directors' and officers' liability insurance in respect of itself and for its Directors and officers throughout the financial year. This gives appropriate cover for any legal action brought against the FRC or its Directors or officers.

Articles of Association

The Company's Articles may be amended by a special resolution of the Company members. There were no amendments to the Articles during the year.

Related party transactions

Related party transactions are disclosed in Note 16 to the Accounts.

Political donation disclosures

As a central government body, the FRC is compliant with Managing Public Money. Political affiliations and disclosures are not consistent with the principles of Managing Public Money. No political donations were made during the year.

Key contracts

The FRC has a number of key contracts. However, the FRC performs several checks on the providers of those contracts including financial health checks. As part of the FRC's Business Continuity Planning, scenario testing is undertaken in respect of the failure of one of the firms providing the key contracts.

Company's trading activities

The FRC is not a trading company. There have been no changes in corporate structure.

Financial risk management

More detail can be found in the notes to the financial statements on pages 147-161.

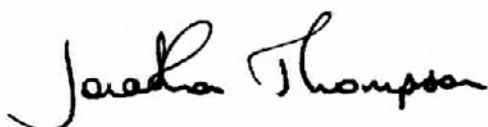
Disclosure to the auditor

The Directors, including the Chief Executive as Accounting Officer, at the date of this report, confirm that, as far as they are aware, there is no relevant audit information of which the FRC's auditor is unaware. Each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the FRC's auditor is aware of that information.

Auditors

The NAO, on behalf of the Comptroller and Auditor General, has expressed its willingness to remain in office. The Audit & Risk Committee's conclusions reached were that the NAO has continued to perform the external audit in a professional and efficient manner and is deemed to be reappointed.

Approved by the Board of Directors on 29 June 2023 and signed on its behalf by:



Sir Jonathan Thompson
CEO and Accounting Officer



Financial Reports

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

Opinion on financial statements

I have audited the financial statements of the Financial Reporting Council Limited ("FRC") for the year ended 31 March 2023 which comprise the FRC's:

- Balance Sheet as at 31 March 2023;
- Profit and Loss account, Statement of Changes in Equity, Cash Flow Statement for the year then ended; and
- the related notes including the principal accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In my opinion the financial statements:

- give a true and fair view of the state of the FRC's affairs as at 31 March 2023 and of the loss for the year then ended;
- have been properly prepared in accordance with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), applicable law and Practice Note 10 'Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the FRC in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of Authorities	
Authorising legislation	Companies Act 2006 Statutory Audit and Third Country Auditor Regulations (SATCAR) 2013, 2016 and 2017 Local Audit (Delegation of Functions) and Statutory Audit (Delegations of Functions) Order 2014 Local Audit and Accountability Act 2014
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the FRC's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included review of management forecasts and a signed Letter of Support from the Department for Business and Trade, confirming that the Department would make appropriate financial resources available to support the FRC with meeting its financial obligations as they fall due, should that be necessary.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the FRC's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the key audit matters below to be those matters that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified though the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around expenditure, an area where my work has not identified any significant matters to report.

The key audit matters were discussed with the Audit & Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 108-111.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- In the prior year a new finance system was introduced. This was recognised as a significant risk and a Key Audit Matter in the year of implementation and is not relevant to the current year. There are no other changes.

Key audit matter 1 – Risk of fraud in revenue recognition

Description of risk

It is a rebuttable presumption that there is a significant risk of error in revenue recognition. The risk of fraud in revenue recognition has been considered to be one of the most significant assessed risks of material misstatement for the Financial Reporting Council Limited, as it receives income from a variety of sources (as reflected in the revenue note in the financial statements) and therefore has a heightened inherent risk. Whilst I understand that there have been no significant changes to the sources of revenue nor the accounting policies in this year, the FRC's revenue has grown to £50.99m in year (2021-22 £46.85m) due to higher levy collection and contributions from Accountancy professional bodies. The following risk characteristics also exist:

- Income arises from a number of sources, and several of these are voluntary;
- The FRC use a third-party service organisation to invoice some of their voluntary levies, although those levies are received directly into a Financial Reporting Council bank account;
- There is a material accrued income balance on the year-end balance sheet; and
- The uncertain economic environment may result in difficulties collecting voluntary levies.

Therefore, I have identified this as a key audit matter.

How the scope of my audit responded to the risk

My team reviewed the design and implementation of controls in place over revenue. These controls were not relied upon for audit assurance.

My team reviewed all material revenue streams to confirm that revenue is recognised appropriately in line with the FRC's stated accounting policies, and FRS102. Revenue in respect of voluntary contributions (levy revenue) is recognised on a cash basis, therefore for a selected sample of levy receipts we agreed them back to the bank statement.

My team reviewed the completeness of trade receivables, accrued and deferred income at year end to assess the appropriateness of their recognition. No evidence of management bias was identified during the course of our work.

Key observations

My testing results were satisfactory.

Key audit matter 2 – Risk of management override of controls

Description of risk

ISAs (UK) include a non-rebuttable risk that management could perpetrate fraud or manipulate accounting records. Accordingly, I am required to perform procedures in response to this risk. Whilst the other significant risk was also designed to respond to the risk of fraud through management override of controls, (specifically in relation to revenue) due to the unpredictable nature of this risk I also performed more general procedures to gain assurance. Account areas that are particularly susceptible to management override of control are those areas where there has been a change to an established system/process/practices, and account areas where there are high levels of estimation and judgement.

How the scope of my audit responded to the risk

My team reviewed key financial processes and controls, and carried out transaction testing on a sample basis. Controls were not relied upon for audit assurance.

My team used data analytics to review the manual journals posted, looking for key risk factors identified through our discussion of potential fraud and management override risks, and they tested any such journals. We also considered accounting estimates, such as the leasehold improvement and dilapidations provision, and judgements for evidence of bias, including a retrospective review of judgements and assumptions.

My team reviewed the general ledger and bank statements, committee papers and wider audit work across the financial statements to support discussions with management in seeking to identify significant transactions that appeared to be outside the normal course of business.

Key observations

My testing results were satisfactory.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the FRC's financial statements as a whole as follows:

Materiality	£765,000
Basis for determining materiality	1.5% of total expenditure of £51m (2021-22: 1% of total expenditure of £45m). The prior year percentage was suppressed to 1% as a result of the risk of error from the change of finance system. This suppression was not deemed necessary in the current year.
Rationale for the benchmark applied	I considered a number of benchmarks for materiality, including profit, revenue, asset measures and equity. Given that the FRC is a regulator, it incurs costs in fulfilling its responsibilities and collects funding sufficient to cover those costs. Consequently, the users of the financial statements will principally be interested in the cost of the FRC discharging its responsibilities. Mindful of this, I identified total expenditure as the key driver.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2022-23 audit (2021-22: 72.25%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work to support my opinion on regularity and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Audit & Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £15,300, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit & Risk Committee have decreased net expenditure by £58k.

Audit scope

The scope of my audit was determined by obtaining an understanding of the Financial Reporting Council Limited and its environment, including the entity wide controls, and assessing the risks of material misstatement.

My team and I met virtually and in person with senior members of the company's finance team and members of the Executive and Audit & Risk Committee as part of the audit planning process. This resulted in the identification of two significant risks within the audit plan, which are shown in key audit matters above. This dialogue continued throughout the audit process, as I reassessed and re-evaluated audit risks where necessary, and amended my approach accordingly. This included consideration, for example, of the continued impact of the BEIS consultation on audit and corporate governance reform as well as the Machinery of Government changes announced in February 2023 on the company's going concern assessment.

My planning and audit work procedures were undertaken both remotely and in person.

I have provided a regularity opinion within this report. My team discussed the framework of authorities with management and reviewed the results of transaction testing to determine whether any evidence of material irregularity was noted.

Other Information

The other information comprises the information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the section entitled Remuneration Framework in the Governance section of the Annual Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- Information about the FRC's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which I report by exception

In the light of the knowledge and understanding of the FRC and its environment obtained in the course of the audit, I have not identified material misstatements in:

- the Strategic Report or the Directors' Report.

-
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA rules.

I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the section entitled Remuneration Framework in the Governance section of the Annual Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit.

Corporate governance statement

The Listing Rules require me to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the FRC's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 126;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 126;
- Directors' statement on fair, balanced and understandable set out on page 126;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 74-85;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 74-85; and
- The section describing the work of the audit committee set out on pages 108-111.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for:

- maintaining proper accounting records;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as directors determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the Annual Report, which includes the section entitled Remuneration Framework in the Governance section of the Annual Report to be audited, in accordance with the Companies Act; and
- assessing the FRC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the applicable law and International Standards on Auditing (UK) (ISAs (UK)).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the FRC's accounting policies, key performance indicators and performance incentives.
- inquired of management, the FRC's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the FRC's policies and procedures on:
 - identifying, evaluating and complying with laws and regulations;
 - detecting and responding to the risks of fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the FRC's controls relating to the FRC's compliance with the Companies Act 2006 and Managing Public Money;
- inquired of management, FRC's head of internal audit and those charged with governance whether:
 - they were aware of any instances of non-compliance with laws and regulations; and
 - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the FRC for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the FRC's framework of authority and other legal and regulatory frameworks in which the FRC operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the FRC. The key laws and regulations I considered in this context included Companies Act 2006; SATCAR 2013, 2016 and 2017; Local Audit (Delegation of Functions) and Statutory Audit (Delegation of Functions) Order 2014; Local Audit and Accountability Act 2014; Managing Public Money; employment law; pensions legislation and tax legislation.

Audit response to identified risk

- To respond to the identified risks resulting from the above procedures: I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business;
- in addressing the risk of fraud through revenue recognition, substantively testing all material revenue streams to check revenue has been recognised in line with accounting policies; reviewing recognition and receivability of trade receivables and confirming all income received was in line with relevant laws and regulations; and
- considering the applicability of Managing Public Money in all of my transaction testing.
- I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.



Greg Wilson (Senior Statutory Auditor)

19 July 2023

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)

National Audit Office,
157-197 Buckingham Palace Road,
Victoria, London
SW1W 9SP

29. Financial statements

The Financial Reporting Council Limited

Registered number: 02486368

Profit and loss account for the year ended 31 March 2023

	Note	2022/23 £'000	2021/22 £'000
Revenue	2	50,985	46,854
Operating expenses	3	(51,143)	(45,524)
Operating profit/(loss)		(158)	1,330
Interest receivable		0	0
Profit/(loss) on ordinary activities before taxation		(158)	1,330
Tax on profit/(loss) on ordinary activities	4	0	0
Profit/(loss) for the financial year		(158)	1,330

Balance sheet as at 31 March 2023

	Note	31 March 2023 £'000	31 March 2022 £'000
Fixed assets			
Intangible assets	7	25	60
Tangible assets	8	1,230	1,590
		1,255	1,650
Current assets			
Debtors	9	11,304	10,671
Cash at bank and in hand	10	13,329	14,520
		24,633	25,191
Creditors – amounts falling due within one year	11	(9,130)	(9,691)
Net current assets		15,503	15,500
Total assets less current liabilities			
		16,758	17,150
Creditors – amounts falling due after more than one year	12	(347)	(655)
Provisions for liabilities	14	(405)	(331)
Net assets		16,006	16,164
Capital and reserves			
Accounting, auditing and corporate governance:			
- General reserve		5,654	5,914
- Corporate reporting review legal cost fund		2,000	2,000
Actuarial standards and regulation:			
- General reserve		6,352	6,250
- Actuarial case cost fund		2,000	2,000
		16,006	16,164

The financial statements and notes on pages 143 to 161 were approved by the Board of Directors on 29th June 2023 and signed on its behalf by:



Sir Jonathan Thompson
Chief Executive Officer
and Accounting Officer



Sir Jan du Plessis
FRC Chair

Statement of changes in equity for the year ended 31 March 2023

	Accounting, auditing and corporate governance		Actuarial standards and regulation		Total
	General reserve	Corporate reporting review legal cost fund	General reserve	Actuarial case cost fund	
	£'000	£'000	£'000	£'000	
At 31 March 2021	5,118	2,000	5,716	2,000	14,834
Profit for the year	796	-	534	-	1,330
At 31 March 2022	5,914	2,000	6,250	2,000	16,164
Profit/(loss) for the year	(260)		102	-	(158)
At 31 March 2023	5,654	2,000	6,352	2,000	16,006

Cash flow statement for year ended 31 March 2023

	Note	2022/23 £'000	2021/22 £'000
Cash flows from operating activities			
Operating profit/(loss)		(158)	1,330
Adjustments for:			
- Depreciation and amortisation	3	627	603
- Increase in dilapidation provision	14	74	34
- (Increase)/decrease in trade and other debtors	9	(633)	(6,190)
- Increase/(decrease) in trade and other creditors	11 & 12	(869)	3,467
Net cash (out)/inflow from operations		(959)	(756)
Corporation tax paid		0	0
Total cash inflow from operating activities		(959)	(756)
Cash flows from investing activities			
Purchase of tangible and intangible assets	7 & 8	(252)	(303)
Disposal of tangible and intangible assets	7 & 8	20	0
Total cash inflow from investing activities		(232)	(303)
Foreign exchange translation adjustment		0	0
Net decrease in cash and cash equivalents		(1,191)	(1,059)
Cash and cash equivalents at 1 April 2022	10	14,520	15,579
Cash and cash equivalents at 31 March 2023	10	13,329	14,520

30. Notes to the financial statements

1. Principal accounting policies

The Financial Reporting Council Limited (the FRC) is a company limited by guarantee, incorporated in the United Kingdom, and its registered office is 8th Floor, 125 London Wall, London, EC2Y 5AS. The company's registered number is 02486368.

The following principal accounting policies are those policies which have been applied consistently in dealing with transactions and balances that are considered material to the FRC Group.

The Directors have performed a going concern review considering income and costs, and the Board are satisfied that the FRC will continue as a going concern for a period of not less than 12 months after the approval of these financial statements. Whilst performing their review, the Board were also cognisant that DBT have also provided a letter of financial support to the Directors, confirming that they will provide funding such that the Company can meet its liabilities as they fall due for a period of not less than 12 months from the date the financial statements are approved.

a) Basis of preparation

On 7 February 2023, the Prime Minister announced a major Machinery of Government change which redistributed the activities of several existing Government departments, including BEIS, and created three new departments: the Department for Business and Trade; the Department for Digital, Science, Innovation and Technology; and the Department for Energy Security and Net Zero. The Department for Business and Trade has been designated to the Financial Reporting Council with accounting officer responsibilities formally transferred from 1 April 2023.

These financial statements for the year ended 31 March 2023 are prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the requirements of the Companies Act 2006.

These financial statements are prepared under the historical cost convention.

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 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 on-going basis.

Provisions for dilapidations

The FRC has an obligation to make good the conditions of the premises at 125 London Wall in accordance with the lease agreement at the end of the lease term. Provisions for dilapidations is the area involving estimates and judgements where there is the greatest potential risk of a material adjustment in future years. The provision is expected to be utilised at the end of the lease.

Accounting estimate – The current provision is based on management’s current best estimate of the future obligation. This year the estimate draws upon a prior year valuation report provided by a third-party surveyor. The provision is expected to be utilised at the end of the lease.

Accounting judgement – In making the estimate, management has exercised judgement about the likely future outcomes, including factors such as building and material costs. However, various factors and changes in circumstances could affect any amount payable in the future.

In relation to the new lease taken at 1 Victoria Street, where part of the floorspace is being used for the UKEB office, there is no specific requirement in the lease agreement to make good at the end of the lease term. We are also not allowed to make any structural change to the leased floorspace. As a result, we are not making any provision for dilapidations but are making sure the place is kept clean and tidy during the leased period.

Presentation of financial statements

The presentational and functional currency is the British Pound Sterling.

b) Consolidation

The FRC has one subsidiary, UK Accounting Standards Endorsement Board Limited. The subsidiary has not traded during the year and has no assets or liabilities. Therefore, it is not material to the financial performance and position of the FRC. Consequently, no consolidated set of financial statements has been prepared.

c) Revenue recognition

- Revenue is measured at the fair value of the consideration received or receivable. The FRC has predominantly the following sources of revenue:
 - Revenue received from preparers, pension and insurance levies are voluntary contributions and are recognised on a cash basis.
- The following revenue is received from participants to fund specific activities:
 - Revenue receivable from RSBs for FRC activities as the UK Competent Authority for Audit is recognised on an accruals’ basis. More specifically, revenue receivable from RSBs in respect of Audit Quality Review, Audit Market Supervision and Audit Firm Supervision are recognised on the basis of costs incurred in each financial year and the difference between revenue received and revenue recognised is transferred to deferred income in the Balance Sheet.
 - Revenue receivable from various professional accounting bodies in respect of Accountancy disciplinary case costs and from RSBs in respect of enforcement case costs is recognised on the basis that costs incurred in each financial year are to be fully reimbursed.

- Revenue receivable from the Consultative Committee of Accountancy Bodies (CCAB) bodies is based on non-statutory arrangements between the CCAB, FRC and DBT, and are recognised on an accruals' basis.
- In addition, there are some other smaller sources of revenue as listed below:
 - Revenue in respect of publications of books, guidance and standards is recognised on sale of goods or delivery of services.
 - Revenue in respect of inspection income for third country audit, the National Audit Office, the Public Sector Audit Appointments and Crown Dependencies is recognised as the work is delivered and the other party is required to pay.
 - Revenue in respect of becoming the system leader for local audit is funded from the DLUHC and will be recognised as the work is delivered and the other party is required to pay.
 - Revenue in respect of taxonomies development is recognised as costs are incurred and sponsors are satisfied that the project requirements have been met.

d) Tangible and intangible assets

Depreciation is provided on all property, plant and equipment, and amortisation is provided on all software at rates calculated to write off the cost, less estimated residual value (intangibles are assumed to have nil residual value), over their estimated expected useful lives on a straight-line basis, as follows:

Tangible assets

Office equipment	3 years
Fixtures, fittings and furniture	Lease term
Leasehold improvements	Lease term

Intangible assets

Capitalised software	3 years
----------------------	---------

Although the expected useful lives of some of these assets extend beyond the possible life of the FRC, as it will be replaced by ARGAs, the timing of this is currently uncertain. DBT has indicated that the existing assets (and liabilities) of the FRC will transfer to ARGAs as part of the transition. Therefore, in reviewing the estimates of the useful lives and residual values of the tangible and intangible assets, the Directors do not expect a significant change in the consumption of the assets and the useful lives and residual values have not been revised.

e) Financial instruments

Financial assets and financial liabilities are recognised when the FRC becomes a party to the contractual provisions of the financial instrument.

Cash and cash equivalents

These comprise cash at bank.

Debtors

Debtors do not carry any interest and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in the Profit and Loss account when there is objective evidence that the asset is impaired.

Trade creditors

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

f) Case costs and financial sanctions

Case costs

The legal and professional costs of accountancy and actuarial disciplinary cases and CRR cases incurred in the period are included in the financial statements on an accruals' basis. Provision is made for the future costs of any disciplinary cases only where the contract is onerous, the costs are unavoidable, and they represent a present obligation at the Balance Sheet date.

Financial sanctions and cost awards receivable

Case costs awards receivable in respect of accountancy disciplinary cases, which are due to the relevant participant body under the Accountancy Scheme, are included in the income statement of the FRC, as a reduction to case costs incurred and associated revenue receivable. Fines received are not included in the financial statements as the FRC acts only as a mechanism whereby the fines are transferred from one party to another.

Fines receivable and case costs awards in respect of actuarial disciplinary cases are retained and included within revenue in the period in which the fines and case costs become due and collectable. Although the FRC aim to complete a case within two years, it is difficult to predict the amount of costs and fine awards during the year.

Components of equity

As set out in the Statement of Changes in Equity, equity comprises the general reserves (separating those that arose from actuarial activities) of the FRC and two costs funds. As the FRC is a public body, the use of cash represented by general reserves is subject to approval by the government.

Costs funds

The FRC has two costs funds: the Corporate Reporting Review Legal Costs Fund and the Actuarial Case Costs Fund.

Contributions have been received to enable the Conduct Committee to take steps to pursue compliance with certain requirements of the Companies Act 2006 and applicable accounting standards, and to investigate departures from those requirements and standards. Those funds may be used only for this purpose and may not be used to meet other costs incurred by the FRC. The FRC retains the Legal Costs Fund while it continues to be authorised by the Secretary of State for the Department for Business and Trade (DBT) for the purposes of section 456 of the Companies Act 2006.

The Legal Costs Fund is currently maintained at £2m. Where use is made of these funds in the year, the funds are replenished the following year from the levies. DBT have confirmed that if the Legal Costs Fund falls below £1m in any one year, they will make a grant to cover legal costs subsequently incurred in that year.

The Actuarial Case Costs Fund consists of contributions received from the IFOA, and through levies on pension schemes and insurance companies. The fund is used to fund investigations into potential misconduct by actuaries and any subsequent prosecutions.

Deferred lease incentive

Deferred lease incentives are released on a straight-line basis over the term of the lease.

Provision for dilapidations

A provision for dilapidations in respect of leased property is recognised based on the estimated amount required to settle make good obligations under the lease as at the Balance Sheet date.

Taxation

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

2. Revenue

	2022/23	2021/22
	£'000	£'000
For core operating costs		
Preparers levy	20,548	18,306
Insurance and pension levies	2,651	2,591
Accountancy professional bodies	11,500	9,750
Actuarial profession	230	210
Publications	725	738
Government (note 16)	28	0
Other	523	244
Sub total	36,205	31,839
For audit quality review		
Accountancy professional bodies	13,496	10,700
Other income	1,377	1,686
Sub total	14,873	12,386
For accountancy disciplinary case costs		
Accountancy professional bodies	6,733	10,100
Less cost awards recovered	(7,179)	(7,746)
Sub total	(446)	2,354
For actuarial disciplinary case costs		
Insurance and pension levies	0	1
Sub total	0	1
For XBRL development		
Various sponsors (note 16)	353	274
Sub total	353	274
Total	50,985	46,854

3. Operating Expenses

	2022/23	2021/22
	£'000	£'000
Core staff and related people costs (note 5)	40,956	34,659
IT and facility costs	4,583	3,583
Lease expense	945	840
Depreciation and amortisation costs	627	603
Auditor's remuneration:		
- audit (incl. VAT)	89	85
- non-audit services	0	0
XBRL taxonomy development costs	353	274
Accountancy and actuarial case costs - gross	6,733	10,101
- Less cost awards recovered	(7,179)	(7,746)
Accountancy and actuarial case costs - net	(446)	2,355
Other operating expenses		
- Travel and conferences	413	87
- Legal and professional fees	1,407	1,052
- Contribution to European Financial Reporting Advisory Group	0	(21)
- All other costs	2,216	2,007
Total operating expenses	51,143	45,524

4. Taxation

Corporation Tax at an effective rate of 19% on interest income of £0 (2021/22: £14).

5. Staff and related people costs (including Directors)

	2022/23	2021/22
	£'000	£'000
Permanent staff:		
Salaries	34,466	28,735
Social security costs	4,284	3,460
Pension costs	3,472	2,864
Total permanent staff costs	42,222	35,059
Other people related costs:		
Seconded staff and contractors	506	913
Fees paid to Board, committee and council members	911	849
Other costs	727	678
Total staff and related people costs	44,366	37,499
Staff costs transferred to cases	(3,410)	(2,840)
Total core staff and related people costs	40,956	34,659

	2022/23	2021/22
Average no of permanent staff employed	418	360

Directors' emoluments

	2022/23	2021/22
	£'000	£'000
Fees (included in staff costs)	604	571
Other pension costs	31	33
Total Directors emoluments (see page 122)	635	604
Social security costs	76	71
	711	675

6. Financial risk management

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

Financial instruments

The FRC's basic financial instruments in both years comprise of cash in hand, debtors and creditors that arise directly from its operations. All FRC funds are kept in Government Banking Service (GBS) bank accounts, that have been opened since 2019.

The financial instruments include surplus funds that, subject to DBT approval, will be used to fund future operating costs including case costs. The FRC has no long-term borrowings or other financial liabilities apart from creditors.

Credit risk

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

At 31 March 2023 all FRC cash was held within the GBS bank accounts, where funds are backed by His Majesty's Treasury (HMT).

Interest rate risk

Funds held in GBS bank accounts do not generate receivable interest but do incur bank charges for payment services.

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

7. Intangible assets

	Software £'000
Cost at 1 April 2022	182
Additions	4
Disposals	(25)
Cost at 31 March 2023	161
Amortisation at 1 April 2022	122
Disposals	(8)
Charge for year	22
Amortisation at 31 March 2023	136
Net book value at 31 March 2023	25
Net book value at 31 March 2022	60

8. Tangible assets

	Leasehold improvements £'000	Office equipment £'000	Fixtures, fittings and furniture £'000	Total £'000
Cost at 1 April 2022	2,467	815	1,110	4,392
Additions		221	27	248
Disposals	0	(5)	0	(5)
Cost at 31 March 2023	2,467	1,031	1,137	4,635
Depreciation at 1 April 2022	1,777	512	513	2,802
Disposals	0	(2)	0	(2)
Charge for year	230	166	209	605
Depreciation at 31 March 2023	2,007	676	722	3,405
Net book value at 31 March 2023	460	355	415	1,230
Net book value at 31 March 2022	690	303	597	1,590

9. Debtors

	2022/23	2021/22
	£'000	£'000
Trade debtors	3,055	3,253
Prepayments	2,012	1,603
Accrued income	2,250	3,270
Enforcement sanctions	3,980	2,528
Other debtors	7	17
	11,304	10,671

10. Cash and investments held

	Cash	Total	Cash	Total
	2023	2023	2022	2022
	£'000	£'000	£'000	£'000
Actuarial case costs fund	2,000	2,000	2,000	2,000
Corporate reporting review legal costs fund	2,000	2,000	2,000	2,000
General accounts	9,329	9,329	10,520	10,520
Totals at 31 March 2023	13,329	13,329	14,520	14,520

11. Creditors – amounts falling due within one year

	2022/23	2021/22
	£'000	£'000
Trade creditors	447	579
Other taxation and social security	1,374	1,215
Accruals	2,292	2,371
Deferred income	633	1,541
Deferred lease incentive	350	351
Enforcement fines and cost awards	3,980	3,438
Corporation tax	0	0
Other payables	54	196
Total	9,130	9,691

12. Creditors – amounts falling due after more than one year

	2022/23	2021/22
	£'000	£'000
Deferred lease incentive	347	655
	347	655

13. Significant transactions with other standard setters

With the agreement of HM Treasury, DBT and the FCA, the FRC has, since 2008, taken the responsibility for collecting the UK contribution to the IASB alongside its preparer's levy. The FRC makes a small charge for providing this service. The amount of monies raised during the year was £915,000 (2021/22: £884,000), of which £16,000 (2021/22: £51,000) remained to be paid over by the FRC to the IASB as at 31 March 2023.

14. Provisions for liabilities

	2022/23	2021/22
	£'000	£'000
Leasehold improvements and dilapidations		
Balance at 01 April 2022	331	297
Amount charged to/(released from) profit and loss account	74	34
Balance at 31 March 2023	405	331

15. Commitments

Total commitments for the FRC under operating leases relating to the leasehold property were as follows:

	2022/23	2021/22
	Total	Total
	£'000	£'000
Payments due within one year	937	981
Payments due within two to five years	872	1,829
Payments due after more than five years	0	0
	1,809	2,810

Total commitments for the FRC under operating leases for office equipment were as follows:

	2022/23	2021/22
	£'000	£'000
Payments due within one year	2	0
Payments due within two to five years	2	0
Payments due after more than five years	0	0
	4	0

16. Related party transactions

Transactions with related parties

The FRC is an executive non-departmental public body of DBT (formally known as BEIS). DBT is therefore regarded as a related party. During this financial year, DBT provided £28,000 of funding towards the Recognition Arrangements Grant Programme and Companies House (an Executive Agency of DBT) contributed £137,000 towards the XBRL Taxonomies project.

There were no related party transactions undertaken by key management personnel with the FRC during the year.

Total key management personnel compensation

	2022/23	2021/22
	£'000	£'000
Fees and staff costs	1,814	1,570
Other pension costs	102	123
	1,916	1,693
Social security costs	196	207
	2,112	1,900

This includes all Board members and Executive Committee members.

17. Subsidiary undertaking

The FRC has one subsidiary undertaking, UK Accounting Standards Endorsement Board Limited. It changed its name from UK Endorsement Board Limited during the year. It is a company limited by guarantee of which the FRC is the sole member. Its registered office is 8th Floor 125 London Wall, London, United Kingdom, EC2Y 5AS. It did not trade during the reporting period.

18. 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.

19. Controlling party

The ultimate controlling party of the Financial Reporting Council Limited is the Secretary of State for the Department for Business and Trade.

The FRC is a company limited by guarantee, incorporated in the United Kingdom with registration number 02486368.

The financial statements for the FRC Group were prepared by the FRC and may be obtained from its registered address 8th floor, 125 London Wall, London, EC2Y 5AS.



Appendix



31. Acronyms

Acronym Meaning

ACCA	Association of Chartered Certified Accountants
AEP	Audit Enforcement Procedure
AER	Annual Enforcement Review
AFS	Audit Firm Supervision
AMS	Audit Market Supervision
AQI	Audit Quality Indicator
AQR	Audit Quality Review
ARGA	Audit, Reporting and Governance Authority
AS TM1	Actuarial Standard Technical Memorandum 1
BEIS	Department for Business, Energy and Industrial Strategy
CCAB	Consultative Committee of Accountancy Bodies
CEO	Chief Executive Officer
CGMA	Chartered Global Management Accountant
CRR	Corporate Reporting Review
D&I	Diversity and Inclusion
DBT	Department for Business and Trade
DLUHC	Department for Levelling Up, Housing and Communities
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FOIA	Freedom of Information Act
FRC	Financial Reporting Council
FRED	Financial Reporting Exposure Draft
FRS	Financial Reporting Standard
FY	Full year
GCT	General Counsel Team
GIAA	Government Internal Audit Agency
IAASB	International Audit and Assurance Standards Board
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators

Acronym Meaning

IFOA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
IGG	Information Governance Group
IR	Investigation Report
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
ISQM	International Standards of Quality Management
ISSB	International Sustainability Standards Board
JFAR	Joint Forum on Actuarial Regulation
KPI	Key Performance Indicator
MoU	Memorandum of Understanding
NAO	National Audit Office
NED	Non-Executive Director
PIE	Public Interest Entity
PMO	Project Management Office
PRA	Prudential Regulation Authority
ROPA	Record of Processing Activities
RSB	Recognised Supervisory Body
SORP	Statements of Recommended Practice
TAS	Technical Actuarial Standard
TCFD	Task Force on Climate-related Financial Disclosures
UK GAAP	Generally Accepted Accounting Practice in the UK
UKEB	UK Endorsement Board

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