

the pensions
advisory service

Annual Report
and Financial Statements
31 March 2006

The Pensions Advisory Service Limited
(Company Limited By Guarantee)
Company Number: 2459671

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About The Pensions Advisory Service

The Pensions Advisory Service is an independent voluntary organisation. It is a company limited by guarantee registered in England and Wales. Company number 2459671.

We provide a one stop pensions and advice service through:

- resolving specific problems an individual may be experiencing with a private pension provider;
- giving general information and advice (other than investment advice) on all pension matters;
- bringing to the attention of government departments, the public and the pensions industry areas of concern arising out of our experiences.

It is a free service. As an independent body, we are uniquely placed to provide both advice and, because we are at the sharp end, an insight into the areas that are causing concern.

We are a progressive organisation committed to providing the best possible service to the public. We:

- are an equal opportunities employer;
- introduce where possible practices to sustain the environment;
- have policies in place to ensure a good work-life balance;
- make full use, where possible of IT, to support our service;
- put the customer first;
- fully support the development of our staff and volunteers.

We provide our service through a mix of paid staff based in London and a nationwide network of volunteer pension professionals. This advice can be provided in response to either written correspondence or via our national telephone helpline. Our volunteers, supported where necessary by paid staff, handle the specific problems that we receive. Cases are sent to the volunteers who deal with them either from home or at their place of work. General information and advice is provided either in writing, in response to queries received, or via our telephone helpline, by a mix of volunteers and paid staff. The helpline is open Monday to Friday 9:00am to 5:00pm. Further details of the help we give can be found on our website www.pensionsadvisoryservice.org.uk. This gives free access to all our recent reports and press releases. It also provides a comprehensive source of information on a wide variety of pension issues.

We are funded by means of a grant in aid from the Department of Work and Pensions (DWP). This is recoverable from a levy imposed on occupational and personal pension providers.

Chairman's Review

Introduction It is an honour and pleasure to be able, in my first year as Chairman, to present our Annual Report and Accounts for the year ended 31 March 2006. I succeeded Jane Samsworth as Chairman on 1 April 2006. She will be a difficult act to follow and I would like to record on behalf of the company our gratitude to Jane for her wise counsel and leadership skills she showed during her two-year tenure.

We are a unique organisation providing a valuable service to members of the public in need of advice (other than investment advice) on all aspects of pensions. This is aptly encapsulated in our mission statement:

"The Pensions Advisory Service seeks to provide, in a cost effective way, high quality advice free of charge, to members of the public who have either a general or specific query or complaint on a pensions matter and to publicise areas of concern arising out of our experiences."

Review of the Year a) Workload

This has been another demanding though uneven year. Whilst the number of written enquiries has remained at the level of last year, there has been an increase in telephone enquiries while the number of complaints against pension schemes has decreased slightly. Calls to our helpline reached a record 57,000, an increase of 3% over the previous year. There was a real upsurge in calls during the final three months of the financial year, as A-day approached. We received 36% of the year's calls in this period. On one day we received over 700 calls. I am pleased that the staff and volunteers managed to answer these and still meet our performance targets. This year we received a record number of visitors to our two websites with just under 300,000 visits.

b) Volunteers

We are indebted to the army of pension professionals who help us provide our service. The number of volunteers now stands at 471. This represents a net loss of fifty-five over the previous year. This is a little disappointing, but we appreciate the pressures on the pensions professionals in the lead up to A-day and the impact this has had on their time. We are hopeful that once the impact of the new legislation has been absorbed we shall be able to increase the number of advisers. It is remarkable given the demands on these professionals and the changes in legislation that they need to come to terms with, that time can still be found to help others. I never cease to be amazed at the sheer professionalism and dedication both of the staff and especially the volunteers. It is the volunteers that make us unique, providing, at no cost to the enquirers, advice from experienced pension professionals. Many companies actively encourage their employees to volunteer, for which we applaud them.

In our desire to recruit more volunteers, we will not relax the high standards of professionalism that we demand of the volunteers. The public deserve a first rate service and because we provide this largely through volunteers this does not mean an inferior service. We have set benchmarks that the volunteers must follow. Further details are on page 11. All volunteers receive a full induction before they start and training and ready support from our small paid staff is always at hand. Volunteers who do not meet the standards required are invited not to continue to assist.

Due to the sterling work of our volunteers, our unit cost per enquiry remains low at some £110 for written casework and £13 per helpline call enabling us to continue to provide exceptional value for money. The open market cost of the services undertaken by our volunteers is estimated to be in excess of £9,000,000 annually. This is a very substantial contribution by the industry to our work.

c) Accountability

Our funding for the year has been provided by the DWP to whom we are accountable for our expenditure. Prior to April 2005 our funding was provided by the Occupational Pensions Regulatory Authority (Opra). Following the replacement of Opra by The Pensions Regulator, the DWP assumed direct responsibility for our funding. A Financial Memorandum and Management statement has been agreed between ourselves and the DWP, outlining the nature of the relationship. We are pleased that the document reinforces our independence and enables us to continue to raise areas of concern arising from our experiences. Each year we produce a three-year corporate plan outlining our objectives and plans for the next three years. Included in this are our delivery targets and we report quarterly to the DWP on our success in meeting these - see Report on Our Objectives 2005/06 on page 12.

d) Performance Targets

Like most modern organisations, our paid staff are subject to performance targets. We have these for all aspects of our work, which include clearance times for written casework and response times in answering calls to our helpline. We consider the standards we have set to be exacting ones. These are reappraised on an annual basis to ensure that they are still relevant. I am pleased to report that in all areas except one we exceeded our targets. This is an excellent achievement for the staff considering the upheaval of having to move out of Belgrave Road temporarily during the refurbishment. Further details of our performance targets can be found on page 10.

e) Our Strategic Objectives

The Board of directors oversees our strategies and work priorities with the Chief Executive, Malcolm McLean and his senior staff responsible for the day to day running of the organisation. Like our advisers, the members of the Board do not currently receive any remuneration but a small allowance will, as explained below, be available to appointed board members from 4 April 2006. During the year I am pleased to report the Board has been greatly enhanced by the appointment of Baroness Hollis of Heigham. I would like to thank all the Board members for their professionalism, vision and commitment to ensuring we meet the needs of the public. Details of the board and its committees can be found on page 8.

f) Corporate Governance

During the year the board undertook a full review of its corporate governance responsibilities. This included looking at how the board was constituted and whether there was room for improvement. As a result of this review an EGM was held on 4 April 2006 to amend our articles to enable us to pay a small fee to members of the board for attending board meetings and to enable the Chief Executive, the Director of Administration and the Technical Director to be appointed to the board. It is our intention only to pay a fee to appointed members. This will help us to compete and attract new appointed members with the requisite skills to take the organisation forward. We shall also, over the coming year, be closely monitoring our effectiveness as a board.

g) Our Achievements

We can look back with a genuine sense of pride over the past 12 months. During this period we successfully:

- managed the increase in the number of callers to our helpline without any slippage in standards;
- continued to work with the Association of Pension Lawyers in providing a mediation service to further assist resolution of disputes;
- revised the way the board operates and introduced measures for ensuring the board provides the leadership and strategies required to take the organisation forward;
- introduced competency frameworks for staff to ensure they fulfil their potential;
- introduced satisfaction questionnaires to obtain feedback on our helpline service;
- improved our website resulting in excess of 260,000 visitors to our main site.

The Year Ahead

I expect the forthcoming year to provide yet further challenges. We have set a number of objectives designed to ensure we continue to provide a first class service. Since early December the staff have been based at Tavis House, near Euston while our accommodation in Belgrave Road has been refurbished. I am pleased to report that we shall be moving back to Belgrave Road during the summer, when a total refresh of our IT systems and hardware will have been completed. We are very grateful to the DWP for meeting the cost of the accommodation and IT refresh. We hope to repay their faith in us by using the new systems to further improve the service we provide to both the public and our volunteers. To ensure we provide a first rate service we have set a number of objectives for the coming year, details of which can be found on page 14. I look forward to the staff and volunteers working together to meet these objectives.

Graham Wright

Chairman

10 July 2006

Our Board and Senior Staff

The Board met three times in the year to consider the strategy and direction of The Pensions Advisory Service. As part of its corporate governance review the Board in future intends to meet at least four times a year. The Board currently consists of up to six elected directors and up to six appointed directors. There is currently one vacancy among the elected members. Following the EGM on 4 April, the Board can appoint up to three members of the senior staff to the Board. On 24 April 2006, the Board appointed Malcolm McLean, Des Hamilton and Barry Wilkins to the Board. The elected directors are directors elected by the Members of The Pensions Advisory Service. The Members are those volunteers who having served for a minimum period are invited to become Members. All directors are Members. As at 31 March 2006, the number of Members stood at 341. During 2007 the number of elected directors is to be reduced to five and the number of appointed directors is to be reduced to four.

The directors at 1 April 2006 are:

Directors Graham Wright (Chairman)*
Ian Ferguson*
Tony Hodgkiss
Baroness Hollis of Heigham
Mike Anthony
David Millington
Karen Aveyard*
Margaret Snowdon*
Vivien Cockerill*
Baroness Turner of Camden
Keith Wallace

*elected, the remainder are appointed.

The Board has established two committees, an Executive Committee and an Audit and Risk Management Committee. The Executive Committee met four times during the year. Its remit is to monitor the implementation of agreed strategies and policies. It consists of two elected directors, one appointed director and the three senior members of staff. As at 1 April 2006 the members of the committee were:

Board Members Graham Wright (Chairman)
Tony Hodgkiss
Margaret Snowdon

Staff Members Malcolm McLean (Chief Executive)
Des Hamilton (Technical Director)
Barry Wilkins (Director of Administration)

The Audit and Risk Management Committee met once during the year. Its remit is to identify and monitor all areas of potential risk, ensuring these are properly managed and to ensure there are robust financial controls in place. It consists of three directors. As at 1 April 2006 the members of the committee were:

Keith Wallace (Chairman)
Vivien Cockerill
David Millington

Senior Members of Staff The Chief Executive, Malcolm McLean is responsible for the day to day running of the organisation. In this, he is assisted by a senior management team. The team consists of:

Malcolm McLean (Chief Executive)
Des Hamilton (Technical Director)
Barry Wilkins (Director of Administration)
Tony Attubato (Casework Manager)

Performance Measurement

We aim to provide a first rate service to the public. To help us we have in place a number of performance targets for staff and benchmarks for our volunteer workforce. It is important to us that those contacting us have a high regard for the service they receive. To ensure this is the case we issue a satisfaction survey to a sample of those using the service.

Productivity Targets To monitor work plan outputs, we have established a series of productivity targets that staff must meet. For the fifth year running, we have, in most instances, either met or exceeded our targets. The targets we have set are:

Financial

Unless there is a dispute with the invoice, we aim to pay all invoices within 10 working days of receipt. During the year, we achieved a 100% success rate.

Written Casework

These are divided into general enquiries/requests for information and complaints. By complaints, we mean that the person has a grievance with his/her pension provider. Some of these can be extremely complex and time consuming.

		Target %	Achievement 2005/06
Enquiries	Case cleared within:		
	15 working days	90	98
	20 working days	95	99
	25 working days	99	100
Complaints	Case cleared within:		
	3 months	50	55
	6 months	70	75
	12 months	95	93
	24 months	100	99
Helpline Calls	Calls answered within:		
	20 seconds	90	98
	30 seconds	95	99
	60 seconds	99	100

Calls abandoned to be less than 10% of all calls received. The actual calls abandoned were less than 1%.

Adviser Benchmarks The volunteer advisers deal solely with complaints, working either from home or their place of work. We recognise that it is difficult to insist on the advisers having the same productivity targets as paid staff. However, we have set benchmarks for the advisers, which are closely monitored. This year for the first time we set % targets to monitor the success of the benchmarks. It is very difficult in setting targets to set them at the right level, between not making them either too easy or too difficult to achieve. We believe we now have them at the right level. In all but one instance the advisers met the targets set. The benchmarks and the targets are:

	Target %	Achievement 2005/06
Benchmark		
• acknowledge receipt of a case and issue a form of authority to the enquirer seeking his/her agreement to contacting the scheme within two weeks of receiving the case;	90	90
• take positive action on the case within four weeks of receipt;	90	88
• keep the enquirer informed of developments at regular intervals, normally not exceeding two months;	85	86
• appropriate quality of advice given.	95	98

Our staff monitors the progress of the case and asks for regular updates. The fact that we rely on volunteers does not mean that we provide a second-class service. Far from it, we pride ourselves on the high quality of service provided. This is supported by the returns from the satisfaction surveys sent to enquirers.

Satisfaction Surveys The targets set and the achievements for the year are:

<i>Handling of Written Complaints Against Schemes</i>		
Users satisfied with the service	85	88
<i>Handling of Written Enquiries</i>		
Users satisfied with the service	90	95
<i>Handling of Helpline Calls</i>		
Users satisfied with the service	95	98

A Report on our 2005/06 Objectives

Each year the Board sets a number of key objectives. We describe below how far we have met these.

To implement a new IT system

We had hoped to have in place by October 2005 a new IT system, with a more modern database to enable us to further improve the service we provide. This has been delayed due to reasons beyond our control. Following an open tender a contract has been let with BT to supply us with new hardware and a new IT system. We now expect this to be available by late summer 2006.

To produce a revised updated website

We have been working on expanding our website to give more information on pension issues. By doing so, we may be able to answer some people's queries without them having to contact us. This is an on-going project and has proven to be a far larger task than we had anticipated. While we had hoped to have the new website available by the end of the financial year, it is now unlikely to be ready until June 2006.

To increase the number of volunteer advisers

This has been a difficult year for recruitment. The pensions industry from which we recruit our advisers has been under increasing pressure to implement the changes required by the new pensions legislation (A-day) coming into force in April 2006. We have suffered a loss in the number of advisers. However, we are confident that once the new changes emanating from A-day have bedded in, we shall be able to reverse this loss.

To introduce competency frameworks for staff

We set ourselves the task of implementing competency frameworks for staff to ensure we maximise their full potential. These were implemented by September 2005. We expect to reap the benefits over the coming years.

To collect additional information on the people who use our service

We had hoped to be in a position to collect a whole raft of new information about the people who use our service. This would enable us to target those sections of the public who would benefit from knowing about our service. Unfortunately this is tied up with the new IT system and until this is ready we are not in a position to collect and analyse this information.

To review the role of the board

A thorough review of the way the board operates has been undertaken and significant changes made. An EGM was held on 4 April 2006 and amendments to our Memorandum and Articles of Association made. As a result the board will now be able to concentrate on strategy and driving the organisation forward. An annual review of the board will take place to ensure it is functioning in accordance with its aims.

To oversee the refurbishment of our accommodation

We have commissioned a refurbishment of our accommodation to create more space and improve working conditions. We had hoped that this would have been completed by December 2005. Unfortunately there were delays but the work was finally completed on 18 April 2006.

To run a special helpline for the self-employed

In addition to our normal helpline we were intending to run a special helpline for the self-employed. We had hoped to tie this in with a DWP initiative. However, the DWP postponed its initiative and by this time it was too late in the year to start the helpline. We now intend to run the helpline in the autumn of 2006.

To further improve the service through working in partnership with other organisations

We are pleased that the arrangement with the Association of Pension Lawyers to provide a mediation service has proven to be successful. We have contacted the National Association of Citizen Advice Bureaux (NACAB) with a view to exploring better working relationships to further benefit the public. We are waiting for a response from NACAB.

Our Future Plans

As part of our three year corporate plan we have set a number of key objectives. These are to:

- position ourselves as an accessible, friendly, independent and expert organisation to provide information and advice to members of the public, whether they have a pension or not, on all aspects of pensions;
- resolve areas of dispute between pension schemes and their members through mediation and conciliation;
- highlight areas of concern arising from our experiences with all relevant bodies, including the pensions industry and government departments;
- ensure as much as possible of our service is delivered through volunteers;
- develop to the fullest extent all of our people, both volunteers and staff.

Supporting these key objectives are, for the first year of the plan, a number of specific action plans. These are reproduced below. They are not set in stone and will be regularly reviewed and, as appropriate, modified as the situation demands.

Action plans 2006/07

During the year we aim to:

- run a specific helpline aimed at the self-employed;
- obtain additional information about the users of our service to help direct resources;
- increase our links with ITV and regional press while maintaining the good links with existing media;
- investigate new ways of providing our service through collaboration with others;
- extend our service by providing advice to employees in the workplace of the need to save for retirement;
- increase the number of volunteer advisers by 2.5%;
- maximise the use of volunteers in dealing with enquiries;
- continue to provide training opportunities for staff and volunteers, ensuring as many staff as possible study for relevant professional qualifications.

Financial Statements
Year Ended 31 March 2006

Statutory Directors' Report:

Foreword to the Accounts

The Members of the Board, as directors of the company limited by guarantee, present their report and the audited financial statements for the year ended 31 March 2006.

Statement of the Chairman's and Directors' Responsibilities

Company law and the terms of the Financial Memorandum and Management Statement agreed between ourselves and the DWP require the chairman and directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the chairman and directors are required to:

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

The chairman and directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 and any directions given by the DWP. The chairman and directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. With effect from 1 April 2005 the chief executive has been appointed as the company's Accounting Officer. Previously this was the responsibility of the chairman. The role of Accounting Officer carries with it certain responsibilities. These include responsibility for the propriety and regularity of the public finances and for keeping proper records, as set out in "Government Accounting".

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Historical and Statutory Background

The Pensions Advisory Service Ltd is an independent voluntary body. It is a company limited by guarantee, registered in England and Wales. The guarantee of Members is limited to a contribution of £1 in the event of the company being wound up. The governing instrument is its Memorandum and Articles of Association. The forerunner of The Pensions Advisory Service Ltd, the Occupational Pensions Advisory Service, was formed in April 1983 with the intention of providing advice and assistance on all matters relating to occupational pension schemes to both individual elderly members of the public and those considered deserving of such advice and assistance by

reason of their financial circumstances. Charitable status was conferred in May 1984. Requests for advice increased to such an extent that due to restrictions under which it operated, the charity was unable to provide the service required. In December 1990, OPAS Ltd was incorporated to solve this problem. In December 2004, OPAS changed its name to The Pensions Advisory Service Ltd. Funding is primarily by means of a grant in aid, which was originally administered by the Occupational Pensions Board (OPB). Following the closure of the OPB, from April 1997 the grant was administered by the Occupational Pensions Regulatory Authority (Opra) under Schedule 5, section 73 of the Pensions Act 1995. Following the replacement of Opra with the Pensions Regulator, from 1 April 2005, the grant has been administered directly by the DWP.

- Preparation of Accounts** The Accounts have been prepared in accordance with an accounts direction given by the DWP. The accounts direction is reproduced as an appendix to the Accounts on page 30.
- Review of Activities** The company's principal activity is the provision of an independent source of advice to the general public regardless of their circumstances, on all matters concerning pension schemes, including occupational pensions, personal pensions and stakeholder pensions. In the case of the state pension scheme generic advice only is given. We are not authorised under financial services legislation to give financial advice. The provision of advice is mainly through a nation-wide network of advisers who provide their time and expertise free of charge. The company maintains a small staff which co-ordinates the provision of this service both financially and technically. Additionally the company operates a national telephone helpline based at Belgrave Road, London. It is serviced by a mix of volunteers and paid staff.
- Financing of Activities** The Company's income is comprised almost entirely of a grant in aid from the Government. Our ability to meet contractual obligations is dependent upon the continued receipt of these funds.
- Results** The company does not trade with a view to profit and it is proposed that the excess of expenditure over income for 2005/2006 (£42,629) is met from reserves.
- Changes in Fixed Assets** The movements in fixed assets during the year are set out in note 5 to the Financial Statements.
- Corporate Governance** The governing body is the Board of Directors. It consists of up to six elected directors i.e. directors elected by the Members of the company and up to six appointed directors i.e. directors appointed by the board. Following approved amendments to the company's Memorandum and Articles of Association, the Board can appoint up to three senior members of staff (the Executive) to the Board. At present, the Board has its full complement of Appointed and Executive directors. There is currently one vacancy within the Elected directors. The Board is responsible for governance. It leads and controls the company by ensuring that it has a clear mission and strategy.

The board met three times during the year. In the future it intends to meet at least four times annually. The Board has appointed an Audit and Risk Management Committee. Its remit is to identify and monitor all areas of potential risk, ensuring these are properly managed and to ensure there are robust financial controls in place. The Board has also established an Executive Committee. Its remit is to oversee the implementation of strategy and company policy. Further details of the Board and its committees can be found on page 8.

Directors Serving in the Year

The Directors serving during this period were:

Jane Samsworth *Chairman*

Graham Wright *Deputy Chairman*

Mike Anthony

Karen Aveyard

Vivien Cockerill

Chris Dimmock

Ian Ferguson

Tony Hodgkiss

Baroness Hollis of Heigham

David Millington

Margaret Snowdon

Baroness Turner of Camden

Keith Wallace

On 31 October 2005, Chris Dimmock retired as a member of the Board. On the same date, Karen Aveyard was re-elected to the Board. Baroness Hollis was appointed to the Board on 23 January 2006. Jane Samsworth's term of office as chairman expired on 31 March 2006. In accordance with the Articles of Association she retired as a director with effect from this date. On 1 April 2006, Graham Wright succeeded Jane Samsworth as chairman. On 24 April 2006, Tony Hodgkiss was re-appointed to the Board. On the same date Malcolm McLean, Des Hamilton and Barry Wilkins were appointed to the board.

Since 4 October 1999, there have been elective resolutions in force dispensing with the laying of accounts and reports before the company in general meeting and the holding of annual general meetings.

Auditors

At an EGM held on 29 April 2000 an elective resolution dispensing with the annual appointment of auditors was passed. This is still in force. MacIntyre Hudson became a limited liability partnership ("LLP") on 1 October 2005 and are deemed to be appointed as auditors for the forthcoming year.



B J Wilkins

Secretary

By Order of the Board

11 Belgrave Road
London SW1V 1RB

Statement on the System of Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements, policies and objectives of The Pensions Advisory Service, whilst safeguarding the public funds for which I am responsible, in accordance with the responsibilities assigned in Government Accounting and the Financial Memorandum.

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

During the year ended 31 March 2006, The Pensions Advisory Service Board met three times. As part of a review of its corporate governance responsibilities, it intends to meet at least four times a year, to consider the plans and overall strategic direction of the service. The Executive Committee meets four times a year to monitor the implementation of agreed strategies. An Audit and Risk Management Committee meets at least once a year and is responsible for identifying and evaluating risks and for ensuring that policies and procedures are in place to manage the risks. A Risk Register identifying all major risks has been established to help monitor the risks. This is kept under review. The Audit Committee reports back to the Board on its findings.

Risk is controlled through:

- using clearly documented financial and management procedures;
- monitoring by the audit and risk management committee;
- employing outside bodies to undertake an internal audit;
- comprehensive budgeting systems and financial reporting which indicates financial performance against the budget and forecast. Quarterly reports are made to the Executive Committee and as appropriate to the Board.

The most significant risks that we monitor are:

- loss of volunteers and key staff;
- litigation arising from advice given;
- reliance on the DWP for funding;
- operating effectiveness (including financial)

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness is informed by the Director of Administration who has day to day responsibility for the development and maintenance of the internal control framework, the Audit and Risk Management Committee, internal audit reports and comments made by the external auditors in their management letters and other reports. Plans are put in place to rectify any weaknesses identified.

Malcolm McLean
Accounting Officer



Independent Auditors' Report to the Members of The Pensions Advisory Service Limited

For The Year Ended 31 March 2006

We have audited the financial statements of The Pensions Advisory Service Limited for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information beyond that referred to in this paragraph.

Basis of audit opinion We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st March 2006 and of its deficit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Directors' Report is consistent with the financial statements



MacIntyre Hudson LLP

Chartered Accountants and Registered Auditors

Greenwood House

4/7 Salisbury Court

London

11 July 2006

Income And Expenditure Account

For The Year Ended 31 March 2006

	Notes	2006		2005	
		£	£	£	£
Income					
Government Grants	1.3	2,033,819		2,156,937	
Donations received		10		0	
Bank interest received		16,240		12,135	
		<u>2,050,069</u>		<u>2,169,072</u>	
Expenditure					
Staffing					
Employment costs	2	1,416,807		1,370,227	
Training	2	25,823		20,141	
Travel & Subsistence	2	35,989		16,944	
Conferences & Meetings	2	2,611		3,250	
Travel & Subsistence - Board		68		409	
Promotional	3	60,106		82,628	
Telephone & Fax		30,616		31,326	
Print, Post, Stationery		63,261		70,435	
Library		18,271		17,094	
Insurance		28,701		22,891	
Legal & Professional		12,803		14,512	
Audit Fee		2,409		2,409	
IT Costs	4	35,886		51,536	
Repairs & other maintenance		5,578		6,933	
Depreciation of fixed assets	5	31,622		44,279	
Software acquisitions		40		1,560	
Minor furniture & equipment		1,789		416	
Regional Expenses		54,784		44,263	
Miscellaneous		7,122		4,610	
Lease Hire		922		0	
Accommodation charges		255,043		247,328	
Donations to Charity		25		0	
Loss on disposal of Fixed Assets		940		0	
		<u>2,091,216</u>		<u>2,053,191</u>	
(Deficit)/Surplus on ordinary activities before taxation		(41,147)		115,881	
Taxation	7	1,482		507	
		<u>(42,629)</u>		<u>115,374</u>	
Retained surplus brought forward		216,474		101,100	
Retained surplus carried forward		<u>173,845</u>		<u>216,474</u>	

The company made no recognised gains or losses in 2006 and 2005 other than the (deficit)/surplus for the year. All amounts relate to continuing operations. The notes on pages 25 to 29 form part of these financial statements.

Balance Sheet

As at 31 March 2006

	Notes	2006		2005	
		£	£	£	£
Fixed Assets					
Tangible Assets	5		55,425		58,244
Current Assets					
Debtors - Prepayments and accrued income	8		89,452		118,572
Cash at bank and in hand			95,381		656,750
			<u>184,833</u>		<u>775,322</u>
Creditors:					
Amounts falling due within one year					
Accruals			(9,506)		(7,041)
Corporation Tax			(1,482)		(507)
Deferred grant income	1.3		(55,425)		(609,544)
			<u>(66,413)</u>		<u>(617,092)</u>
Net current assets			<u>118,420</u>		<u>158,230</u>
			<u>173,845</u>		<u>216,474</u>
Reserves					
Income and expenditure account			173,845		216,474
			<u>173,845</u>		<u>216,474</u>

The financial statements were approved by the Board on 10 July 2006 and signed on its behalf by:



K Wallace
Director



M McLean
Chief Executive

Cash Flow Statement

For The Year Ended 31 March 2006

	<u>2006</u>	<u>2005</u>
	£	£
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating (deficit)/surplus	(41,147)	115,881
Depreciation charges	31,622	44,279
Loss on disposal of Fixed asset	940	0
Interest received	(16,240)	(12,135)
Decrease/(increase) in debtors	29,120	(24,018)
Increase/(decrease) in creditors	2,465	(19,962)
Deferred grant (released)/withheld in year	(554,119)	521,313
Net cash inflow/(outflow) from operating activities	<u>(547,359)</u>	<u>625,358</u>
 Cash Flow Statement		
Net cash flow from operating activities	(547,359)	625,358
Returns on investments and servicing of finance (note 9.1)	16,240	12,135
Taxation	(507)	0
Capital expenditure	(29,743)	(14,292)
	<u>(561,369)</u>	<u>623,201</u>
 Reconciliation of net cash flow to movement in net debt (note 9.2)		
Increase/(decrease) in cash in period	(561,369)	623,201
Change in net funds	(561,369)	623,201
Net funds at 1 April 2005	<u>656,750</u>	<u>33,549</u>
Net funds at 1 April 2006	95,381	656,750

Notes to the Accounts

For The Year Ended 31 March 2006

1. Accounting Policies

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and a Direction given by the Department for Work and Pensions (DWP). A summary of the more important policies is shown below:

1.1 Basis of Accounting

The financial statements are prepared under the historical cost convention.

1.2 Depreciation

Depreciation is provided using the following rates and bases to write off by annual instalments the cost of the tangible assets over their estimated useful lives.

Computer equipment costing more than £100	33% straight line
Software	written off in
Computer equipment costing less than £100	year of purchase
Furniture, Fixtures & Equipment costing more than £100	20% straight line
Furniture, Fixtures & Equipment costing less than £100	written off in
	year of purchase

1.3 Government Grants

Grants were received during the year from the DWP to fund our service. Prior to this year the grant in aid was administered by the Occupational Pensions Regulatory Authority (Opra). A general levy is set and payments collected from occupational pension schemes, personal pension schemes and public service schemes to recover our administrative costs. Grant income in respect of capital expenditure is credited to the Income and Expenditure account over the estimated useful life of the relevant fixed assets. Grants included in Accruals and Deferred Income represents the amount of Grants received in respect of Fixed Assets, less an annual release of grant (see Cash Flow Statement) to the Income and Expenditure Account of an amount equal to the depreciation of that asset. The total Grant Income received in respect of the year's activities was as follows:

- from the DWP £1,479,700 (2005 - £551,300 - received on 31 March 2005 to cover the period 1 April 2005 - 30 June 2005);
- from Opra Nil (2005 - £2,126,950)

1.4 Form and Content of the Accounts

The format of the Income and Expenditure Account is adapted and re-arranged from the prescribed formats in the Companies Act 1985 to provide a more meaningful presentation of the company's financial situation in the year. In all other respects, the form and contents of the Accounts are in accordance with the requirements of the Act.

1.5 Pension Scheme

Since 1 March 1994 the company has been participating in the Pensions Trust's Growth Plan. The Growth Plan is a multi-employer pension Plan which is in most respects a money purchase arrangement but it has some guarantees. Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The Plan is funded and is not contracted out of the state scheme. The rules of the Growth Plan allow for the declaration of bonuses and / or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses / investment credits are not guaranteed and are declared at the discretion of the Plan's Trustees. The Trustees commission an actuarial valuation of the Growth Plan every 3 years. The main purpose of the valuation is to determine the financial position of the Plan and so determine the future prospects for discretionary bonuses and / or investment credits. The actuarial valuation assesses whether the Plan's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them. During the accounting period the company paid contributions at the following rates, depending upon the age of the employee:

Age	%
Under 20	3
20-29	5
30-39	8
40-44	10
45-49	12
50-54	13
55-59	15
60-64	17

As at the balance sheet date there were nine active members of the Plan employed by the company. The company continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under Financial Reporting Standard (FRS) 17 represents the employer contribution payable. Under FRS17 it is also necessary to disclose any outstanding or prepaid contributions at

the balance sheet date. The last formal valuation of the Plan was performed at 30 September 2002 by a professionally qualified actuary. The market value of the Plan's assets at the valuation date was £418 million. The financial assumptions underlying the valuation were as follows:

	%pa
Rate of return on accumulated assets	6.7
Bonuses on accrued benefits	0.0
Rate of price inflation	2.5

The valuation revealed that the assets of the Plan broadly equalled the accrued liabilities as at the valuation date. The next actuarial valuation will be carried out as at 30 September 2005. The results of the valuation will be available before the end of September 2006. Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustees of the Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up. The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time. The company has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 31 March 2005. As of this date the estimated employer debt for the company was £161,000.

In addition to the Growth Plan the company provides access to the Pension Trust's Unitised Ethical Plan managed by F&C Asset Management plc. The Plan is a contracted-in money purchase scheme with assets of the scheme being held separately from the company in a separately administered fund. As at the balance sheet date there were three active members, employed by the company. Since September 2001, staff have also been provided with access to a stakeholder pension administered by Merrill Lynch, the assets of which are held separately from the company in a separately administered fund. As at the balance sheet date there were twelve active members employed by the company.

For permanent staff, the company makes contributions to the Ethical Plan and the Stakeholder Plan on the same basis as for the Growth Plan. The pension charge represents the contributions payable by the company for the year to the three Plans and amounted to £136,849 (2005 - £121,914).

2. Staff Costs	2006	2005
	£	£
Wages & Salaries	1,150,957	1,127,376
Social Security Costs	122,962	118,156
Recruitment Costs	6,039	2,781
Pension Costs	136,849	121,914
	1,416,807	1,370,227
Training	25,823	20,141
Travel & Subsistence	35,989	16,944
Conferences	2,611	3,250
	1,481,230	1,410,562
The average monthly number of employees during the year was:	33	35

The directors received no remuneration in the year.

Travel and subsistence costs have risen due to the increased costs in travel to Tavis House, attendance at employer workshops and attendance at workshops connected with the IT and accommodation refresh.

3. Promotional

Last year we changed our name and additional costs resulted from the need to publicise this.

4. IT Costs

We are currently undergoing a refresh of our IT system. As such there has been no development of our current IT system during the year and as a result the costs have reduced.

5. Tangible Fixed Assets

	Computer Equipment	Furniture Fixtures & Equipment	Total
	£	£	£
Cost			
As at 1st April 2005	135,858	249,013	384,871
Additions in year	2,140	27,603	29,743
Disposals in year	(1,254)	(61,673)	(62,927)
As at 31 March 2006	136,744	214,943	351,687
Depreciation			
As at 1st April 2005	122,935	203,692	326,627
Charge for the year	9,368	22,254	31,622
On disposals	(1,254)	(60,733)	(61,987)
As at 31 March 2005	131,049	165,213	296,262
Net Book Value			
As at 31 March 2006	5,695	49,730	55,425
As at 31 March 2005	12,923	45,321	58,244

6. Regional Expenses

These represent the out of pocket expenses incurred by the volunteer advisers. These can vary depending on the number of advisers and attendance at workshops.

7. Tax on Non-Grant Income	2006 £	2005 £
The taxation charge is based solely on bank interest and comprises: UK corporation tax at 0% on first £10,000, 23.75% on £6,240 (2005 0% on first £10,000, 23.75% on £2,135)		
	1,482	507

8. Debtors	2006 £	2005 £
Prepayments and accrued income	89,452	118,572
The main debtors are Mapeley Limited in respect of accommodation charges paid covering the period up to 23 June 2006.		

9. Notes to the cash flow statement

9.1 Gross cash flows	2006 £	2005 £
Returns on investments and servicing of finance		
Interest received	16,240	12,135
Capital expenditure		
Payments to acquire tangible fixed assets	29,743	14,292
	29,743	14,292

9.2 Analysis of changes in net funds	At 1 April 2005 £	Cash Flows £	At 31 March 2006 £
Cash in hand, at bank	656,750	(561,369)	95,381

10. Members' funds and Memorandum of Association

The company is limited by guarantee and has no issued share capital. Every member, in pursuance with Clause 5 of the Memorandum of Association, undertakes to contribute a sum not exceeding £1 in the event of the company being wound up whilst he is a member.

Any surplus on winding up, in pursuance of Clause 4 of the Memorandum of Association, will be repaid to any body which has contributed grants or other funding to the company.

The retained surplus carried forward does not, therefore, represent funds attributable to members.

11. Operating Lease Commitments

At 31 March 2006, the company had annual commitments under non-cancellable operating leases set out below.

Land and Building	2006 £	2005 £
Operating leases which expire:		
Within one year	NIL	NIL
Between two and five years	113,106	112,561
After five years	NIL	NIL
Plant and Machinery		
Operating leases which expire:		
Within one year	NIL	NIL
Between two and five years	3,687	NIL
After five years	NIL	NIL

Accounts Direction

Given by the Department of Work And Pensions

The Department of Work and Pensions has issued the following accounts direction.

Application of The Companies Act's Requirements

1. The disclosure exemptions permitted by the Companies Act in force for the financial period for which the statement of accounts is to be prepared shall not apply to TPAS unless specifically approved by the Treasury.
2. The foreword shall contain the information required by the Companies Act to be disclosed in the Directors' Report, to the extent that such requirements are appropriate to TPAS.
3. In preparing its income and expenditure account and balance sheet, TPAS shall adopt respectively format 2 and format 1 prescribed in Schedule 4 of the Companies Act to the extent that such requirements are appropriate to TPAS.
4. The foreword and balance sheet shall be signed and dated.

Additional Disclosure Requirements

1. The foreword shall state that the accounts have been prepared in accordance with a direction given by the Department.
2. The foreword shall include a brief history of TPAS and its statutory background.
3. The Accounts Direction shall be reproduced as an Appendix to the Accounts.

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