Introduction to the FRC

The FRC's aim is to promote confidence in corporate reporting and governance.

The regulatory role of the FRC is to define high standards in corporate reporting, auditing, actuarial practice and corporate governance and, where appropriate, to oversee the application of those standards.

We see this role as vital to the healthy functioning of business and markets and thus as making a significant contribution to the economy overall and the UK's competitiveness in international markets.

We know that no system of regulation can eliminate the possibility of corporate reporting or governance failures. But we are certain that proper definition and promotion of good practice will substantially reduce risk and improve performance.

We believe in the value of thorough consultation and research as the best way to secure the application of high standards in practice. We, therefore, pay close and continuous attention to the views of practitioners, particularly investors, businesses and the professions. We recognise the central role of the professions in formulating and applying accounting, auditing and actuarial standards.

Judgement by practitioners in the light of particular circumstances is fundamental to good reporting and governance. We, therefore, believe in defining best practice in terms of clear overall principles and in leaving appropriate scope for judgement in the way these principles are followed when we set the rules governing the application of these principles.

We are committed to the Better Regulation Commission objectives of proportionality, targeting, consistency, transparency and accountability. We will seek to make effective use of Regulatory Impact Assessments. We have particular regard to the impact of regulation on small enterprises.

The Board of FRC Ltd determines our strategy and priorities and ensures that the FRC and its operating bodies deliver their functions. The Council provides advice on strategy and priorities and, through the Committee on Corporate Governance, has responsibility for the oversight of the Combined Code on Corporate Governance.

For the period covered by this report, our operating bodies were the Accounting Standards Board (ASB), Auditing Practices Board (APB), Professional Oversight Board for Accountancy (POBA), Financial Reporting Review Panel (FRRP) and the Accountancy Investigation and Discipline Board (AIDB). The Board for Actuarial Standards (BAS) has subsequently been added, and POBA has become the Professional Oversight Board (POB) to reflect its responsibilities for overseeing the regulation of the actuarial profession in addition to its previous responsibilities for the accountancy profession.
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One - Chairman's Statement

I took over the Chair of the FRC from Sir Bryan Nicholson on 1 January 2006 and am still climbing a steep learning curve.

The scope of our responsibilities was significantly enlarged in April 2004 when we became the UK’s unified and independent regulator for corporate reporting and governance.

In the last two years, great progress has been made in developing the running of the FRC so as to exploit effectively the strong interconnection between the work of our five self-standing operating bodies, to which a sixth has now been added following the addition to our remit of responsibility for actuarial standards and regulation. The evaluation of our structure carried out in 2005 with the help of the Institute of Chartered Secretaries and Administrators was a major step forward in reconciling the FRC’s management role with the degree of autonomy appropriate for the operating bodies.

The task of improving our effectiveness inevitably continues - in the international sphere as well as the domestic one. But a strong base has been laid and I am glad in that regard to acknowledge most warmly the great contribution made by my predecessor and all who have worked so well under him to bring the FRC to its present state of vitality and effectiveness. I am very pleased that the FRC’s Chief Executive, Paul Boyle, became a member of the Board in December 2005.

There have been a number of changes to the membership of the Council during the year. Sir Bryan Nicholson, Sir Derek Higgs, Rory Murphy and Sir Nigel Rudd left the Council, as did Anthony Inglese and Paul Deighton (both of who joined the Council during the year) and Ian Michael and Ian Morris (observers). I would like to record my thanks to the departing members and my welcome to the new members: John Alty, Sir Christopher Gent, Ed Sweeney and Richard Dyson (observer).

Outline of work in 2005/06

2005 was a year of major change for many companies, and their shareholders and auditors, with the introduction of international accounting standards and new auditing standards.

We focused on the introduction of these changes and on influencing the key EU and global proposals. We were active in influencing the next stages in the development of both IFRS and international auditing standards and in engaging the UK constituency in debate about the handling of the issues around convergence with international standards.

We published an analysis of the implications of the new accounting and auditing standards for the concept of the "true and fair view" which re-affirmed the importance of that concept as the cornerstone of financial reporting and auditing in the UK. We also took a leading role in promoting co-operation between EU and international authorities with responsibility for the regulation of auditing.
We published assessments of the effectiveness of the Combined Code on Corporate Governance and the Turnbull Guidance on Internal Control which suggested that the "comply or explain" approach remained effective but that its effectiveness could not be taken for granted - it would depend on the continuing constructive engagement of both boards and investors.

We jointly commissioned with the DTI a study of "Competition and choice in the UK audit market". The study, conducted by economic consultancy Oxera, considered the factors that contribute to the competitive environment for audit services to large listed companies in the UK. It provided an objective, independent analysis of the market as a starting point for a major debate in 2006/07 on the future of the audit market.

We published a statement of best practice on narrative reporting following the Government's decision not to require quoted companies to produce a statutory OFR.

We prepared for the commencement of our responsibilities for actuarial standards and regulation and appointed the Board for Actuarial Standards.

In July 2005, we held our first Annual Open Meeting. In December 2005, we published for comment our updated Regulatory Strategy and Plan & Budget for 2006/07.

Our aims for 2006/07

We will continue in 2006/07 to focus on international developments and leading public debate in the UK.

We will also continue to shift resources from developing UK standards and guidance towards the development of high quality international standards and effective cross-border regulatory cooperation.

We will contribute to the necessary modifications to the UK regulatory regime to take account of changes in European and UK legislation, including the Company Law Reform Bill.

We will integrate into our operations our new responsibilities for actuarial standards and regulation - enabling us to take a broader view of pensions accounting and other issues where accountancy and actuarial practice interact.

We will continue to attach great importance to the views of our "stakeholders" - i.e. those who contribute to, and are affected by, our work: preparers, auditors and users of financial statements, boards of companies, investors and trustees.
The survey of confidence in corporate reporting and governance carried out on our behalf by Ipsos MORI in April 2006 (summarised in Section Five of this report) suggested that our stakeholders fully recognise the importance of the issues with which we are concerned, but are less aware of our work to address those issues. We are implementing a programme of work to broaden and deepen our stakeholder relationships, which are crucial to our effectiveness as a market-led regulator.

Sir Christopher Hogg
Two - Chief Executive's report

Introduction

In our Annual Report for 2004/05 we explained that our three main goals had been:

- establishing our credibility in our wider and deeper role;
- making the FRC more than the sum of its parts; and
- ensuring that the FRC has adequate resources and management processes.

We continued to pursue these three goals in 2005/06 and I believe that we can fairly claim to have made considerable progress.

Establishing our credibility in our wider and deeper role

The most important way in which we have sought to establish our credibility in our new role has been by delivering the projects and activities set out in our Plan & Budget for 2005/06, which we published for comment in December 2004.

The projects and activities in our Plan & Budget were set out under the five objectives through which we pursue our aim of promoting confidence in corporate reporting and governance. The five objectives were to promote:

- high quality corporate reporting
- high quality auditing
- high standards of corporate governance
- the integrity, competence and transparency of the accountancy profession
- our own effectiveness as a unified independent regulator.

We have added a sixth objective for 2006/07 to reflect our new responsibilities for actuarial standards and regulation.

There were a large number of projects and activities in the 2005/06 Plan & Budget, of which we identified ten which were particularly important. I am pleased to report that we either successfully completed or made significant progress on all ten as summarised opposite:
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| Increase the pro-active enforcement of accounting standards | Undertook 286 reviews of accounts.  
Reviewed interim accounts prepared under IFRS.  
Reviewed the accounts of MG Rover at the request of the DTI. |
| Broaden the coverage of our independent inspection of audits | Completed a programme of inspections that included revisiting the four largest audit firms and visiting the "mid-five" audit firms. |
| Develop a programme for convergence of UK accounting standards with IFRS | Developed a strategy that reflects the changing role of the ASB, which now focuses on influencing international standards rather than developing its own standards. |
| Contribute to the improvement of international standards on auditing | Contributed to the IAASB’s work on international standards, including its ‘Clarity Project’ aimed at improving the quality of international standards on auditing. |
| Take on new statutory responsibilities for the regulation of auditing - establishing arrangements for monitoring the supervision of the auditing profession by the RSBs/RQBs | Completed inspections of all RSBs and the major RQBs and reported findings and recommendations to the bodies concerned. Will report publicly through POB’s 2005/06 report to the Secretary of State in July 2006. |
| Review implementation of the revised Combined Code on Corporate Governance | Completed review in November 2005 and consulted on proposed changes in January 2006. |
| Update the Turnbull Guidance on Internal Control | Published updated guidance in October 2005. |
Issued an exposure draft of ethical standards in January 2006. |
| Issue a reporting standard for the OFR | Issued a reporting standard on the OFR in May 2005.  
Issued a statement of best practice on narrative reporting in January 2006 following the Government’s decision that the OFR should not be a statutory requirement. |
| Ensure the effectiveness of the new independent investigation and discipline scheme | Completed an investigation into certain matters arising out of the collapse of the Mayflower Corporation plc and initiated disciplinary proceedings.  
Started an investigation into the conduct of Deloitte & Touche LLP as auditors and advisers to the MG Rover Group. |
We have published on our website a more detailed summary of the progress we made on all of the projects and activities in the 2005/06 Plan.

The projects and activities set out in the 2005/06 Plan in themselves represented a considerable programme of work. However, in addition to these activities we were also called upon to undertake a number of significant projects which had not been included in the Plan. The most important of these unplanned activities were:

- Preparing to implement the recommendations relating to *actuarial standards and regulation* contained in the Morris Review of the Actuarial Profession which was published in March 2005. The arrangements for commencing these new responsibilities were substantially completed by 31 March 2006 and we have now started to exercise them. They involve a sixth FRC objective - to promote high quality actuarial practice.

- Undertaking a review of the financial statements of *MG Rover* and associated companies in response to a request in April 2005 from the Secretary of State for Trade and Industry. The FRRP submitted a report to the Secretary of State in May 2005.

- Responding to public concerns about the continuing relevance of "true and fair view" in the context of the introduction of international standards of accounting and auditing in the UK. In August 2005 we published a report in which we concluded that "true and fair view" remains a cornerstone of financial reporting in the UK.

- Commissioning, jointly with the DTI, a study into "*Competition and choice in the UK Audit market*". The study was published in April 2006 and our follow-up discussion paper was published in May 2006.

A further way in which we have sought to establish our credibility has been to build international awareness of the FRC's role and responsibilities. During 2005/06 my colleagues and I have visited a large number of countries to speak at or attend conferences and for meetings with regulatory authorities and government officials.

**Making the FRC more than the sum of its parts**

The FRC is unique amongst national regulators around the world in having the combined responsibility for accounting, auditing and corporate governance - and now for actuarial matters too. We believe that there are strong connections between these functions and that our ability to speak authoritatively about them as a whole is an advantage for the UK markets, which will be further enhanced by responsibility for actuarial standards and regulation.

The interconnectedness of our functions is a fact of life with our stakeholders also, which widens and deepens our communication with them. The total business context for them, as for us, is the background to considering what constitutes best practice.
During 2005/06 we have made further progress in realising the synergies between the different parts of the FRC, whilst preserving the essential authority and independence of our operating bodies.

In order to make it easier to realise these synergies we established a unified management structure which brings together all of the FRC staff as a single team to support the FRC and all of its operating bodies. The revised organisational structure is shown in Annex C. My thanks are due to the staff and the Chairs of the operating bodies for their flexibility and adaptability in ensuring that the new arrangements were implemented quickly and effectively.

Examples of the benefits flowing from the integrated nature of the FRC include:

- delivering a consistent view on matters such as "true and fair view" which affect more than one operating body
- enhanced international influence and authority
- offering staff a broader range of career opportunities
- applying a wider range of skills and experience to the issues which we have to address.

**Resources and management processes**

The FRC is an organisation which sells no products or services and depends crucially for its effectiveness upon the quality of its staff. I warmly acknowledge their dedication and skill in the year under review.

Notwithstanding the shortage of skilled accountants in the market we were able to increase staff numbers during the year, although more slowly than we intended. I strongly believe that the FRC can offer rewarding and constructive employment for accounting and actuarial professionals and we shall work hard at communicating this. During the year we took a number of steps to encourage staff to develop their professional skills. We have also introduced improved processes for information management and Regulatory Impact Assessments.

As set out in Section Four of this report, our programme of work has been achieved for a total expenditure of around £11m, which is extremely modest in relation to the number and size of the businesses which come within our scope. Our cost-effectiveness is dependent upon the support of market practitioners and we will continue to seek their support in the future.

**Performance assessment**

In contrast with commercial organisations for which quantifiable measures of success, such as market value or market share, can be identified, measuring the performance of the FRC is less straightforward. In Section Five of this report we have summarised a range of factors which we believe contribute to the assessment of our performance.
Last year's Annual Report included an assessment of confidence in corporate reporting, auditing and governance based on the outcome of our own monitoring activities and the results of an independent survey by Ipsos MORI. The results of that survey broadly confirmed our view that the approach we have developed should, over time, contribute to greater confidence in corporate reporting and governance.

This year we asked Ipsos MORI to undertake a second survey. This time they sought views from auditors as well as investors and company directors, and views on confidence in the integrity, competence and transparency of the accountancy profession as well as confidence in corporate reporting, auditing and governance. We are grateful to all those who took the time to contribute to that survey.

The overall results, summarised in Section Five of this report, suggest that levels of confidence have remained at the high levels identified in the 2005 survey. However, they also suggest that there is still an important task for the FRC in promoting well-founded confidence in corporate reporting and governance, and that we need to do more to publicise our work and enhance our ability to engage with our stakeholders, particularly in the investor community.

**Looking ahead to 2006/07**

Our Plan & Budget for 2006/07 has been updated to reflect comments received from our stakeholders (summarised on our website). Stakeholders supported the approach we were proposing for 2006/07. They emphasised the importance of the principles-based approach to international standards and the need for a thorough assessment of regulatory interventions at an early stage to gauge their likely impact, particularly on smaller enterprises.

We have set ourselves a number of significant goals for 2006/07 and believe that we can make a further cost-effective contribution to promoting confidence in corporate reporting and governance in the next 12 months.

Paul Boyle
Three - Operating Body Reports

The Accounting Standards Board (ASB)

The ASB has contributed to confidence in corporate reporting and governance by establishing and improving standards of financial accounting and corporate reporting to the benefit of users, preparers and auditors of financial information.

The ASB continues to work on the international accounting-setting agenda, given the requirement from the start of 2005 for listed companies in the UK and Republic of Ireland to use EU-adopted IFRS to prepare their group financial statements. In the light of this radically-changed environment, in March 2005 the ASB published a draft Policy Statement on its future role, arguing that the most significant future role for the ASB would be in seeking to influence the development of high quality international accounting standards, working with the IASB, the US FASB and other national, European and international bodies involved with standard-setting.

The responses to the draft Policy Statement confirmed the importance of the ASB’s influencing role and identified two central issues for further consideration:

- the ASB’s policy on convergence of UK standards with IFRS
- how the ASB should most effectively relate to, and communicate with, its UK constituents and influence EU and international matters.

At a public meeting held in January 2006, the ASB proposed that further UK standards should be introduced with one common effective date, rather than in a phased way, currently estimated to be financial years beginning on or after 1 January 2009. These standards would be based either on full IFRS or the IASB’s standard for SMEs, although a decision on that cannot be taken until the IASB’s proposals on SMEs are known.

At the public meeting, differing views were expressed about whether full IFRS should be applied to more entities than those that are required to adopt them by the EU Regulation. It was generally agreed that there was a case for having a simpler alternative for the smallest companies.

One of the key issues for the ASB in setting a workable strategy for convergence is determining where the boundaries should be between full IFRS and any alternative. The ASB is continuing to discuss this issue.

On communications, the ASB has developed a strategy which reflects the fact that the Board’s role has changed from only developing its own standards to one of influencing the development of IFRS. A final version of the strategy has been developed and is available on the ASB section of the FRC website. The ASB attaches considerable importance to working not only with the IASB, but also with other...
national standard-setters, and plays an active part in the work of EFRAG. As part of our influencing role, I chair an international group of national accounting standard-setters.

While the international dimension remains central to the ASB’s work, domestic responsibilities are still important. The ASB published two new standards during the year, amendments to another two UK standards and an update of the FRSSE.

The ASB also completed its work on life assurance accounting, following a request from HM Treasury to carry out an urgent study into the accounting for with-profits business by life assurers, in the light of the issues raised by the Penrose Report on Equitable Life. A final report was submitted to HM Treasury in June 2005.

In November 2005, the Government announced its intention to repeal the statutory requirement for an OFR and legislation to this effect came into force in January 2006. As a result of this, the ASB converted RS 1 into a statement of best practice on the OFR, which was published on 26 January. The ASB remains of the view that the publication of a narrative explanation of a company’s development, performance, position and prospects should be encouraged as an important element of best practice in corporate reporting.

In October 2005, the ASB announced a research project into the financial reporting of pensions. The project will reconsider the fundamental principles of pensions accounting. It is expected that the research will be published by the end of 2006. The ASB hopes that the research will contribute to the development of improved international accounting standards, which may provide a suitable basis for a review of FRS 17.

There have been some changes in the membership of the ASB during the year. Isobel Sharp, Andrew Lennard and Tony Good stood down as members of the Board and I thank them for their contribution to the work of the ASB. I welcome those who have joined the Board as members: Marisa Cassoni, Helen Weir, Robert Overend and David Loweth.

Ian Mackintosh (Chair)
The Auditing Practices Board (APB)

The APB contributes to confidence in corporate reporting and governance by setting performance standards and standards on independence, objectivity and integrity for external auditors and the providers of assurance services.

The regulatory environment for audit services has changed significantly over the last two years, with changes to the Combined Code on Corporate Governance putting greater emphasis on the role of audit committees of listed companies in overseeing the external audit process, and the commencement of inspection of the largest audit firms by POBA's AIU. Furthermore, in 2004 the APB introduced new auditing standards based on International Standards on Auditing (ISAs) and issued new ethical standards for auditors.

Major activities for the APB in 2005/06 were updating of the standards on investment reporting (SIRs) and issuing draft ethical standards for accountants reporting in connection with investment circulars. This responds to the new requirements contained in the EU Prospectus Directive which came into force on 1 July 2005.

During the year revisions to the Eighth Directive have provided the basis for the application of consistent auditing standards within the EU. APB's issuing of ISAs (UK and Ireland) in 2004 means that the UK is at the forefront of international harmonisation of auditing standards. The APB has continued to contribute to the international standard setting process by supporting the continued improvement of the international standards including contributing to IAASB's 'Clarity Project'.

The APB is supportive of the aims of the IAASB to improve the clarity of the ISAs, especially as recent revisions to ISAs have resulted in standards that are perceived to be more complex and technical than earlier standards. Auditors of small and medium sized entities in particular should benefit from clarification of the requirements. In its response to the IAASB, the APB has emphasised, however, that the 'Clarity Project' should not lead to a substantial increase in the level of prescription in auditing standards. This would risk over-emphasising the process by which an audit is performed and, in so doing, have negative implications for other elements of audit quality - including the quality of staff performing the audit, the need for flexibility in the audit approach, influenced by professional scepticism, and the quality of the judgement exercised.

Given the very considerable progress that has been made in the past two years in updating both auditing standards and standards for accountants reporting on investment circulars as well as issuing a new set of ethical standards for auditors, the APB believes that a stable period is now needed. APB proposes, therefore, to concentrate during 2006/07 on its role in role in influencing the nature of future international standards, including continuing to influence the outcome of the 'Clarity Project', and their adoption in the EU.
There have been some changes to the membership of the APB during the year. Jonathan Beckerlegge and Gill Laver left the Board. I would like to thank them for their contribution.

Richard Fleck (Chair)

The Professional Oversight Board for Accountancy (POBA)

POBA, through its AIU, is responsible for monitoring directly the quality of the auditing of listed companies and of other entities in whose financial condition there is a major public interest. This continued to be a major feature of POBA’s work in 2005/06. In particular the scope of inspection activity was widened, so that the AIU not only re-visited the four largest audit firms but also carried out visits to the five other audit firms that audit the largest number of entities within the AIU’s remit. The AIU will report publicly on the key findings and themes of its visits during 2005/06 in July 2006.

POBA was given statutory responsibility for the recognition, supervision and de-recognition of those accountancy bodies responsible for supervising the work of auditors or offering an audit qualification in September 2005. This completes the transfer to POBA of the responsibilities for audit regulation envisaged by the Government’s review of the regulatory regime that was published in 2003.

These new powers enabled POBA to build on the preparatory work in 2004/05 and carry out a full programme of monitoring visits to the professional bodies responsible for supervising the work of auditors or offering an audit qualification. Each of the bodies’ regulatory systems was documented and tested. The results of this work were reported to the bodies and relevant recommendations made to them. The POBA will report its findings in its 2005/06 Report to the Secretary of State for Trade and Industry, which is expected to be published in July.

This work has been complemented by an in-depth review of the audit monitoring activities of the RSBs. The resulting recommendations have been discussed with the RSBs and POBA will publish a report on this review in July 2006.

In addition to its statutory responsibilities, POBA undertook a comprehensive review of how the accountancy profession helps to meet the needs of small and medium-sized companies and their stakeholders. In undertaking this review POBA worked closely with other parts of the FRC, including
the ASB’s Committee for Accounting for Smaller Entities and the APB’s Small and Medium-Sized Entities Audit Sub-Committee. The review involved research among a large number of company directors, users of their accounts, and accountants and other business advisers. The professional bodies and Companies House were also closely involved. The report, which included recommendations to the professional bodies, was published in March 2006.

POBA has continued to be closely involved in developing cooperation amongst audit regulators internationally as regards the regulation of the audit and accountancy professions. Within the EU, POBA represents the FRC on the European Group of Auditor Oversight Bodies, which is identifying effective and efficient ways in which Member States can cooperate in implementing the revised Eight Directive on Audit Regulation. The AIU has also worked closely with other audit regulators to avoid unnecessary duplication of inspection work. In particular, following careful discussions with the audit firms and the US PCAOB, the largest firms in the UK have asked the PCAOB to rely to the maximum extent possible on the work of POBA and the AIU. This paved the way for AIU-led joint inspections, one of which took place in 2005/06.

POBA published an updated edition of Key Facts and Trends in the Accountancy Profession at the end of March 2006 and is planning to publish a new edition in the second half of 2006.

It was agreed during the year that POBA should extend its remit to include oversight of the regulation of the actuarial profession. This was part of the implementation by the FRC of key recommendations of the Morris Review of the Actuarial Profession. To reflect these wider responsibilities, POBA has changed its name to the Professional Oversight Board. Work on oversight of the actuarial profession started in earnest in April 2006.

There were no departures from POBA during the year. I was pleased to welcome Hilary Daniels, who joined the Board in April 2005.

Sir John Bourn (Chair)
The Financial Reporting Review Panel (FRRP)

The FRRP contributes to confidence in corporate reporting and governance by seeking to ensure that the provision by public and large private companies of financial and other information falling within its remit complies with relevant reporting requirements.

The role of the Panel is to examine the annual accounts of public and large private companies to see whether they comply with the requirements of the Companies Act 1985, including applicable accounting standards.

In April 2005, the Panel was given powers under the C(AICE) Act 2004 to require companies, directors and auditors to provide documents, information and explanations if it appears to the Panel that there is, or may be, a question whether accounts comply with relevant reporting requirements.

The Panel was also given the responsibility to keep under review reports issued under listing rules. This extended the Panel's remit to cover interim as well as annual accounts. It also covered accounts issued by UK issuers which are not companies and by some non-UK companies.

Also in April 2005, the Panel published a revised memorandum of understanding with the FSA under which the Panel will co-operate closely with the Financial Services Authority in enquiries into listed companies. The Panel will inform the FSA of any relevant findings and both bodies will co-operate over action to be taken. This was a significant step in ensuring the co-ordination of accounting enforcement activities in the UK for which the Panel and FSA share responsibility, so as to comply with standards set by the CESR.

These changes increased the Panel's authority, but the Panel remains committed to the principle that the best regulation is by agreement. Every business which prepares accounts also uses them, and it is in all market participants' interest to make sure that the system of regulation works and that accounts continue to be true and fair.

The Panel carried out 286 reviews in 2005/06.

The Panel extended its enforcement programme by:

- Reviewing the annual accounts of a wider range of entities. The range of organisations whose accounts may be reviewed was increased to include UK non-corporate entities and non-UK entities which have certain securities listed in the UK.
- Reviewing, for the first time, interim accounts, starting with those prepared for periods beginning on or after 1 January 2005.
In August 2005, the Panel published its first report on the results of its pro-active approach to the selection of accounts for review. The report covered the fifteen-month period to 31 March 2005. The Panel found no evidence of systemic weakness in the accounts that it examined.

In February 2006, the Panel published its findings from a review of 70 sets of interim accounts prepared under IFRS. The accounts showed a good level of compliance and disclosure and reflected the considerable effort that had been made by companies in making the transition to IFRS.

There have been some changes to the membership of the FRRP during the year. Ron Paterson left the Panel. My thanks to him and my welcome to our new members: Charles Allen-Jones, David Cairns, Anthony Carey, Christopher Fitzgerald, Stephen Hodge, Alun Jones and John Reizenstein.

Bill Knight (Chair)
The Accountancy Investigation and Discipline Board

The Accountancy Investigation and Discipline Board (AIDB) is the independent, investigative and disciplinary body for accountants in the UK. It contributes to confidence in corporate reporting and governance by operating and administering an independent disciplinary scheme covering members of the following accountants' professional bodies: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Ireland. The Institute of Chartered Accountants of Scotland is in the process of joining the scheme.

The AIDB monitored a number of potential cases, including notifications received from various sources. During 2005/06 the Board considered 20 potential matters which were brought to its attention.

In August 2005, the AIDB announced that it had decided to investigate the conduct of Deloitte & Touche LLP as auditors and advisers to the MG Rover Group. This decision was taken following consultation with the ICAEW (the professional body of which Deloitte & Touche is a member firm), which has agreed that the matter should be investigated by the AIDB.

In 2005, the Executive Counsel of the AIDB completed an investigation into certain matters arising out of the collapse of the Mayflower Corporation plc. Following the investigation it was decided to file disciplinary complaints against PricewaterhouseCoopers, Mayflower’s former auditors, Mayflower’s former Group Finance Director, and the former Financial Controller of TransBus International Limited, one of the principal subsidiaries of the Mayflower Corporation plc. An independent tribunal has been set up, chaired by Robert Rhodes QC. Arrangements have been made for a four week public hearing commencing on 11 September 2006.

I would like to welcome James Miller to the Board.

Mike Fogden (Chair)
Committee on Corporate Governance

During the year, the Committee oversaw reviews of the Combined Code on Corporate Governance and the Turnbull Guidance on Internal Control.

The main findings of a review carried out between July and October 2005 were that good progress had been made in implementing the revised Combined Code on Corporate Governance following its introduction in 2003. The Code was bedding down well and having a positive impact. There was no demand for major changes to be made at this stage.

In January 2006, we consulted on possible amendments to the Combined Code. The main proposals were to allow the company chair to sit on the remuneration committee:

- to add a new provision regarding companies including a 'vote withheld' box on AGM proxy voting forms and publicising the results of votes held on a show of hands as recommended by the Shareholder Voting Working Group.

In October 2005, we published an updated version of 'Internal Control: Guidance for Directors on the Combined Code', also known as the Turnbull guidance. The new guidance took effect for financial years beginning on or after 1 January 2006.

The guidance was reviewed by an FRC working group, chaired by Douglas Flint, Group Finance Director of HSBC Holdings plc. There were two consultation exercises, during the course of which the principles-based approach of the existing guidance was strongly endorsed by listed companies, the investor community and the accountancy profession. As a result, only limited changes were made to the guidance itself.

We will continue to monitor what use companies and investors are making of the internal control statement.

Sir Christopher Hogg
Four - Expenditure and funding

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

The Framework which applied during 2005/06 identifies four categories of activity in relation to our responsibilities for corporate reporting, auditing and governance:

- **Core operating costs** which are subject to firm budgetary limits and funded by the tri-partite arrangement, under which they are met in equal proportions by the business community, the accountancy profession and the government. Core operating costs include employment costs, accommodation, IT, professional services and other costs.

- **Audit inspection costs** which include only the specific and variable costs of the AIU. The fixed overheads of the AIU (principally office accommodation and shared IT systems) are included in core operating costs. The Audit Inspection costs are met by the individual participating bodies with which the firms that are subject to inspection are registered.

- **Accountancy disciplinary case costs**, which include only the specific and variable costs of cases taken by the AIDB. The other costs of the AIDB (principally staff, accommodation, shared IT systems and other overheads) are included in core operating costs. The case costs are met by the individual participating bodies to which the members or firms that are the subject of each case belong. The total of these costs will depend on the number and complexity of cases and cannot be subject to firm budgetary limits. In the event of disciplinary complaints being brought, the disciplinary tribunals have powers to award costs against those found guilty of misconduct.

- **Review Panel case costs**, which include only the specific and variable costs of cases which the FRRP decides to take to court or prepares to take to the Courts. The other costs of the FRRP (principally the Director and other staff, office accommodation and shared IT systems) are included in core operating costs. Case costs are met in the first instance from the Review Panel Case costs fund (currently £2m), which is then replenished in the following financial year under the tri-partite funding arrangement.

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

As set out in version 2.1 of our Regulatory Strategy, the Framework has been extended for 2006/07 to incorporate our new responsibilities for actuarial standards and regulation.
## Summary of expenditure

<table>
<thead>
<tr>
<th></th>
<th>Actual 2005/06</th>
<th>Budget 2005/06</th>
<th>Actual 2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core operating costs</td>
<td>9.0</td>
<td>10.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Audit inspection costs</td>
<td>1.7</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Accountancy disciplinary case costs</td>
<td>0.5</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Review Panel case costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11.2</td>
<td>12.5</td>
<td>10.1</td>
</tr>
</tbody>
</table>

The Framework is consistent with the way in which we manage our costs and the basis on which they are funded. Our audited financial statements are in Annex A on pages 41 to 53. The expenditure as reported above can be reconciled to the audited financial statements as follows:

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure in the table above</td>
<td>11.2</td>
</tr>
<tr>
<td>Deduct: Cash payments in respect of onerous lease</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Capital expenditure included in core operating costs</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Add: Actuarial regulation set up costs</td>
<td>0.3</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0.3</td>
</tr>
<tr>
<td>Non-cash other finance costs</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Net operational expenditure per audited financial statements</strong></td>
<td><strong>10.9</strong></td>
</tr>
</tbody>
</table>
Core operating costs

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

<table>
<thead>
<tr>
<th></th>
<th>Actual 2005/06</th>
<th>Budget 2005/06</th>
<th>Actual 2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Staff costs</td>
<td>6.2</td>
<td>6.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Accommodation costs</td>
<td>1.3</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Professional fees</td>
<td>0.5</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>IT costs</td>
<td>0.6</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Other costs</td>
<td>0.8</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Contingency</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>9.4</td>
<td>10.3</td>
<td>8.0</td>
</tr>
<tr>
<td>Sundry income</td>
<td>(0.6)</td>
<td>(0.2)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>0.2</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>9.0</td>
<td>10.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Staff numbers</td>
<td>49</td>
<td>59</td>
<td>46</td>
</tr>
</tbody>
</table>

The main reason for core operating costs being lower than budget was the much higher than expected income from sale of publications. Staff costs were lower than budget due to slower than planned recruitment. Accommodation costs were higher than budgeted due to a re-phasing of payments in relation to the lease of the property formerly occupied by the Accountancy Foundation, whose responsibilities were transferred to the FRC in 2004.
Core operating costs, analysed by operating unit were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Actual 2005/06</th>
<th>Budget 2005/06</th>
<th>Actual 2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>Staff</td>
<td>£m</td>
</tr>
<tr>
<td>ASB</td>
<td>2.1</td>
<td>13</td>
<td>2.7</td>
</tr>
<tr>
<td>APB</td>
<td>0.8</td>
<td>6</td>
<td>1.3</td>
</tr>
<tr>
<td>FRRP</td>
<td>1.2</td>
<td>7</td>
<td>1.9</td>
</tr>
<tr>
<td>POBA</td>
<td>1.1</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>AIDB</td>
<td>0.8</td>
<td>4</td>
<td>0.9</td>
</tr>
<tr>
<td>CGU</td>
<td>0.1</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>Support Services</td>
<td>2.0</td>
<td>8</td>
<td>1.0</td>
</tr>
<tr>
<td>Corporate</td>
<td>0.9</td>
<td>4</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>9.0</td>
<td>49</td>
<td>10.3</td>
</tr>
</tbody>
</table>

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

**Audit Inspection Unit**

The costs of the AIU represent the costs of the programme of independent audit inspections. The costs in 2005/06 were £1.7m compared to a budget of £2.2m and £1.0m in 2004/05. Although recruitment of staff for the AIU was slower than planned we have been able to deliver the planned extension of the AIU’s remit from the Big Four audit firms to include the 5 mid-tier audit firms. The average number of AIU staff increased to 13 from 8 in 2004/05.

**Accountancy disciplinary case costs**

During the year the AIDB incurred costs of £0.5m in relation to individual cases.

**The levy on listed companies for 2005/06**

The levy on listed companies is collected on our behalf by the FSA at the same time that it collects its own fees, which helps to reduce the costs of collection.
Our revised new policy of basing our levy on market-capitalisation rather than a two-tiered flat-rate was successfully implemented. A total of £3.4m was collected by the FSA, which was slightly more than planned. The excess will be used to reduce the levy on companies in 2006/07.

Reserves

In our Regulatory Strategy we explain that the Directors believe it is prudent to maintain reserves to meet unforeseen circumstances in recognition of the fact that the FRC has entered into a number of long-term commitments. The target level of reserves is between £0.5m and £1.0m but this is kept under review by the Directors.

At 31 March 2006 our General Fund showed a surplus of £0.7m compared to a deficit of £0.3m as at 31 March 2005. The level of reserves is adversely affected because only £1.5m of the £2.0m exceptional charge for the onerous lease of the former premises of the Accountancy Foundation has been recovered from our sponsors. The balance of the un-recovered costs is planned to be recovered from sponsors during the period until the tenant's break-point in the lease.

Excluding the un-recovered lease costs, the general reserves were around £1.2m, compared to £0.8m in 2005. The increase is primarily attributed to the under-spend on core operating costs. Given the expansion of our responsibilities the Directors have concluded that it would be appropriate to add the under-spend to reserves rather than return it to sponsors by way of a reduction in the levy for 2006/07. The Directors believe that the level of reserves is now satisfactory but will continue to keep the level under review.

Actuarial set-up costs

In 2005/06 we incurred set-up costs arising from the need to establish the new arrangements and recruit new operating body members and a small number of additional staff. These costs were £0.3m, and we intend to recover them over the first three years of the operation of the new arrangements. The recovery of these costs is under-written by HM Treasury.
Five - Performance assessment

We have assessed three aspects of our performance (Outcomes, Outputs and Effectiveness) within the framework established in our Regulatory Strategy.

Outcomes

We assess the outcomes of our work through:

- The evidence we obtain from our monitoring and enforcement activities
- An annual survey of confidence in corporate reporting and governance. The most recent survey was conducted on our behalf by Ipsos MORI in April 2006.

The following sections of the report set out the evidence we have obtained, together with the results of the survey, in relation to corporate reporting, auditing, corporate governance and the integrity, competence and transparency of the accountancy profession.

Corporate Reporting

In August 2005, the FRRP published its first report on the results of its pro-active approach to the selection of accounts for review. The report covered the fifteen-month period to 31 March 2005. The Panel found no evidence of systemic weakness in the accounts that came to its attention.

Pro-activity brought the Panel into contact, for the first time, with some of the largest companies in the United Kingdom. The great majority of company responses to the Panel's enquiries were well considered and carefully written with clear technical argument. Audit committees were often involved in the management of communications with the Panel.

In February 2006, the Panel published its findings from a review of 70 sets of interim accounts. The Panel found the level of disclosure and compliance in the first reports prepared under IFRS to be good. Issues arose on matters of presentation and narrative descriptions of accounting policies. The report provides details on areas where the Panel found evidence of non-compliance.

Our survey evidence showed the following level of confidence in corporate reporting and the degree to which this had increased or stayed the same over the last four years:
The AIU widened the scope of its inspection activity, not only re-visiting the Big 4 audit firms but also carrying out inspection visits at the next five largest audit firms, focusing on audit judgments as well as on audit processes.

POBA completed its first full programme of inspection visits to the professional accountancy bodies responsible for supervising the work of auditors or offering a recognised audit qualification. This led to detailed reports and recommendations to each of the bodies. In addition, POBA carried out an in-depth study of the audit monitoring activities of the professional bodies.

Our survey evidence showed the following level of confidence in auditing of UK companies and the degree to which this had increased or stayed the same over the last four years:

<table>
<thead>
<tr>
<th></th>
<th>2006 view</th>
<th>2005 view</th>
<th>Reported change in confidence over last 4 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very</td>
<td>Fairly</td>
<td>Very</td>
</tr>
<tr>
<td></td>
<td>confident</td>
<td>confident</td>
<td>confident</td>
</tr>
<tr>
<td>Directors</td>
<td>36</td>
<td>60</td>
<td>32</td>
</tr>
<tr>
<td>Investors</td>
<td>26</td>
<td>68</td>
<td>22</td>
</tr>
<tr>
<td>Auditors</td>
<td>24</td>
<td>68</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**Auditing**

The AIU widened the scope of its inspection activity, not only re-visiting the Big 4 audit firms but also carrying out inspection visits at the next five largest audit firms, focusing on audit judgments as well as on audit processes.

POBA completed its first full programme of inspection visits to the professional accountancy bodies responsible for supervising the work of auditors or offering a recognised audit qualification. This led to detailed reports and recommendations to each of the bodies. In addition, POBA carried out an in-depth study of the audit monitoring activities of the professional bodies.

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<table>
<thead>
<tr>
<th></th>
<th>2006 view</th>
<th>2005 view</th>
<th>Reported change in confidence over last 4 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very</td>
<td>Fairly</td>
<td>Very</td>
</tr>
<tr>
<td></td>
<td>confident</td>
<td>confident</td>
<td>confident</td>
</tr>
<tr>
<td>Directors</td>
<td>41</td>
<td>53</td>
<td>37</td>
</tr>
<tr>
<td>Investors</td>
<td>20</td>
<td>66</td>
<td>20</td>
</tr>
<tr>
<td>Auditors</td>
<td>38</td>
<td>58</td>
<td>n/a</td>
</tr>
</tbody>
</table>
**Corporate governance**

It is still early days in the life of the new Combined Code, but it is bedding down well. The review carried out in the second half of 2005 found that both companies and investors believe there have been improvements in the corporate governance of listed companies and report that the relationship between boards and their main shareholders is more constructive than it was at the time the 2003 Code was introduced. Investors also report that corporate governance statements in annual reports are becoming more informative.

We have consulted on limited changes to the Code, and will continue to monitor how companies and investors are implementing the Code and the impact that it is having. But overall we believe this is a strong endorsement of the 'comply or explain' approach to improving standards of corporate governance.

The separate review of the Turnbull guidance on Internal Control also found strong support for its principles-based approach. Only limited changes were made as a result of the review. However, that does not mean there is nothing for boards to do in terms of internal control. The risks that companies face change constantly. We hope that boards will look critically at how they review their internal control systems, and consider whether they can make more of the communication opportunity afforded by the internal control statement in their annual reports.

Our survey evidence showed the following level of confidence in corporate governance and the degree to which this had increased or stayed the same over the last four years:

<table>
<thead>
<tr>
<th></th>
<th>2006 view</th>
<th>2005 view</th>
<th>Reported change in confidence over last 4 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very Confident</td>
<td>Fairly Confident</td>
<td>Very Confident</td>
</tr>
<tr>
<td>Directors</td>
<td>31%</td>
<td>63%</td>
<td>24%</td>
</tr>
<tr>
<td>Investors</td>
<td>22%</td>
<td>70%</td>
<td>12%</td>
</tr>
<tr>
<td>Auditors</td>
<td>10%</td>
<td>78%</td>
<td>n/a</td>
</tr>
</tbody>
</table>
The competence, integrity and transparency of the accountancy profession

During the year, POBA carried out a review of how accountants support the needs of small and medium-sized companies and their stakeholders. The research found that most company directors reported few significant accounting and auditing problems and felt that the accountancy profession offered appropriate support to help with the accounting and auditing needs. However, directors of many smaller companies were often unclear over the role of professional accountants as well as the various financial accounting and reporting options available to them. Meanwhile, users of the accounts of small companies were often unclear over the role of professional accountants in the preparation of unaudited accounts.

POBA made recommendations to the professional bodies designed to make the role of professional accountants clearer to company directors and to users of their accounts. To help achieve this objective, the bodies have been asked to consider adopting and promoting the use of a cross-profession compilation report that includes a very broad description of the scope of engagement of the professional accountant together with a positive description of professional accountants' obligations.

To support this increased clarity over the role of professional accountants, POBA identified a need for the overall quality of accounts of small companies prepared with the involvement of professional accountants to be improved. The professional bodies shared POBA's concerns and have proposed steps to improve the quality of financial accounts which have the involvement of their members.

Our survey evidence showed the following level of confidence in the integrity, competence and transparency of the accountancy profession and the degree to which this had increased or stayed the same over the last four years:

<table>
<thead>
<tr>
<th></th>
<th>2006 view</th>
<th>Reported change in confidence over last 4 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very confident</td>
<td>Fairly confident</td>
</tr>
<tr>
<td>Directors</td>
<td>44%</td>
<td>46%</td>
</tr>
<tr>
<td>Investors</td>
<td>16%</td>
<td>60%</td>
</tr>
<tr>
<td>Auditors</td>
<td>54%</td>
<td>38%</td>
</tr>
</tbody>
</table>
Outputs

We have assessed our outputs by reference to our published Plan & Budget for 2005/06. Section Two of this report and the supplementary report on our website demonstrate that we have either completed or made significant progress on the major projects and activities set out in our published Plan, and have, in addition, undertaken a number of significant projects which had not been included in the Plan.

Effectiveness as a unified independent regulator

We have assessed three aspects of our effectiveness:

(a) Our adherence to our regulatory philosophy

We have demonstrated our commitment to each aspect of our regulatory philosophy, set out in our updated Regulatory Strategy, published for comment in December 2005 and finalised in May 2006.

  Working on the basis that a well-informed market is the best regulator
  We have continued to consult publicly and with our stakeholders to ensure that as far as possible the projects and activities we undertake address the main risks to confidence in corporate reporting and governance and do not impose an inappropriate or disproportionate burden on market participants.

  Targeting the use of our powers
  We deployed our monitoring and enforcement powers on a carefully targeted basis, focusing on the areas of greatest risk to confidence.

  During the year we analysed the impact of a number of our major proposals in order to prepare a set of principles for the application of Regulatory Impact Assessments, which we published on our website in May 2006.

  Emphasising principles and clarity in our standard-setting and rule-making
  The accounting, auditing and reporting standards issued in 2005/06 were in general principles-based.

  Being consultative
  We consulted in an effective and timely way on significant proposals during the year - using advisory groups where appropriate (for example in the review of pensions accounting).
Recognising the importance of professional judgement
We led the UK debate on the significance of "true and fair view", making clear our view that the need for professional judgement remains central to the work of preparers of accounts and auditors in the UK.

Discharge judicial or quasi-judicial functions in accordance with our formal powers and the rules of natural justice
We undertook our investigative and disciplinary functions in line with the rules of the AIDB Scheme and the rules of natural justice.

Being transparent, accountable and efficient
See (b) and (c) below.

(b) Our accountability

In December 2005, we published and invited comments on our Plan & Budget for 2006/07 and in May 2006 published a revised Plan and a feedback statement summarising our response to the comments we received. We publish a wide range of other information about our work.

This year, for the first time, we asked Ipsos MORI to include in their survey of confidence in corporate reporting and governance questions on the understanding of our role and the degree to which respondents viewed us favourably or otherwise:

<table>
<thead>
<tr>
<th>Understanding of the FRC’s role</th>
<th>Overall view of the FRC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Well understood</td>
</tr>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Directors</td>
<td>64</td>
</tr>
<tr>
<td>Investors</td>
<td>32</td>
</tr>
<tr>
<td>Auditors</td>
<td>70</td>
</tr>
</tbody>
</table>
We recognise that as, a relatively new organisation in our present form, there is an important task for us in ensuring that stakeholders understand our role. We also recognise that it is in the nature of our role that stakeholders will hold a range of views on our activities. The results of the survey will help inform our work to broaden and deepen our stakeholder relationships.

We intend to seek a further assessment on these lines in 2007.

(c) Managing our finances effectively

We explained in Section Four of this report that we believe that the cost of our core operating activities is the best indicator of our effectiveness in managing our costs. Section Four shows that our core operating costs were less than planned.

Our Annual Report and Financial Statements have received an unqualified audit opinion.
Annex A - Directors' Report and Accounts for the year ended 31 March 2006

Financial Reporting Council Limited - Company number 2486368

Directors' Report 32

Statement of Directors' Responsibilities 38

Independent Auditors' Report to the members of The Financial Reporting Council Limited 39

Consolidated income and expenditure account 41

Balance sheets 42

Consolidated cash flow statement 43

Notes to the financial statements 44
Directors' Report

The Directors have pleasure in presenting their report and financial statements for the year ended 31 March 2006.

Board of Directors

All FRC Directors, with the exception of the Chief Executive, are appointed by the Secretary of State for Trade and Industry (DTI).

*Sir Christopher Hogg Chair (appointed 1 January 2006)
*Sir Bryan Nicholson GBE Chair (resigned 31 December 2005)
*† The Hon Barbara Thomas Judge Deputy Chair
   Paul Boyle Chief Executive (appointed 14 December 2005)
*†Tim Breedon Group Chief Executive, Legal and General
*†Paul Druckman FCA Chairman, Clear Group
*†John Sunderland President of the CBI and Chairman, Cadbury Schweppes

The Directors of FRC Limited who are also members of the Nomination and Remuneration committees are indicated by *. The Directors who are also members of the Audit Committee are indicated by †.

Under the terms of the FRC’s Memorandum and Articles of Association, all Directors are members of the FRC and each has undertaken to guarantee the liability of the FRC up to an amount not exceeding £1. There are no other members and no dividend is payable.

Attendance at Board meetings during the year is shown below, with the attendance shown as a proportion of the numbers of meetings individual Directors were eligible to attend:

- Sir Christopher Hogg 1/1
- Sir Bryan Nicholson 3/3
- The Hon Barbara Thomas Judge 3/4
- Paul Boyle 1/1
- Tim Breedon 3/4
- Paul Druckman 4/4
- John Sunderland 4/4
Principal Activity

The principal activity of the FRC and its operating bodies is to promote confidence in corporate reporting and governance. Its operating bodies during 2005/06 were the Accounting Standards Board (ASB), the Auditing Practices Board (APB), the Financial Reporting Review Panel (FRRP), the Professional Oversight Board for Accountancy (POBA) and the Accountancy Investigation and Discipline Board (AIDB).

Review of the business and future developments

The activities of the FRC during 2005/06 and the expected developments in 2006/07 are summarised on pages 1 to 17.

Committees of the Board

Nomination Committee

The Nomination Committee comprises the Directors of the FRC, other than the Chief Executive, and was chaired by Sir Bryan Nicholson and, since 1 January 2006, Sir Christopher Hogg. It is responsible for the selection process and succession planning for members and observers of the Council and members of the operating bodies. The Committee is also responsible for the oversight of the selection process of the Company's senior management. During the year, the Committee approved forty five appointments and re-appointments to the Council and operating bodies, including the Board for Actuarial Standards, and one senior management appointment.

Remuneration Committee

The Remuneration Committee comprises the Directors of the FRC, other than the Chief Executive, and is chaired by John Sunderland. It is directly responsible for determining and reviewing the remuneration policy for the FRC. It sets the remuneration of the Chief Executive, the remuneration for Chairs and members of the operating bodies, and approves the remuneration recommendations of the Chief Executive for the senior management team.

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Bryan Nicholson</td>
<td>2/2</td>
</tr>
<tr>
<td>The Hon Barbara Thomas Judge</td>
<td>2/2</td>
</tr>
<tr>
<td>Tim Breedon</td>
<td>2/2</td>
</tr>
<tr>
<td>Paul Druckman</td>
<td>2/2</td>
</tr>
<tr>
<td>John Sunderland</td>
<td>2/2</td>
</tr>
</tbody>
</table>
Audit Committee

The Audit Committee comprises the Directors of the FRC, other than the FRC Chairman and Chief Executive, and is chaired by Paul Druckman. It is responsible for monitoring the quality and integrity of the accounting, auditing, and reporting practices of FRC Ltd and its subsidiaries. The Committee's purpose is to scrutinise the accounting and financial reporting processes of the Group and Company and the audits of the Group and Company's financial statements. It reviews the qualifications and the performance of the public accounting firm engaged as the independent auditors in the preparation and issue of the audit report on the financial statements. The Committee considers the appointment, compensation, retention and oversight of the independent auditor, making recommendations to the Board on these matters.

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

- The Hon Barbara Thomas Judge 2/3
- Tim Breedon 2/3
- Paul Druckman 3/3
- John Sunderland 3/3

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

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

The Committee has resolved to conduct a re-tender for the auditors to the Company. The Committee has agreed that the current auditors, Horwath Clark Whitehill LLP may participate in the re-tender.

FRC Council

The Council has up to 30 members (including the Directors of FRC Ltd and the Chairs of the operating bodies) and in addition a number of observers from other bodies with an interest in the work of the FRC. It has wide and balanced representation from the business, investor, professional and other communities with an interest in corporate reporting and governance.
FRC Staff

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

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

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

Financial Review

Total operational expenditure was £11,893,000 (2004/05 £11,711,000). As reported in the Financial Statements, the Company has recalculated the provision in respect of the obligations attaching to the leasehold property formerly occupied by the Accountancy Foundation. This property is no longer occupied by the Company and accordingly £188,000 has been released to the profit and loss (2004/05 £2,192,000 charged). The current annual commitment relating to this leasehold property is £421,000. The lease extends to December 2015 with a break clause in September 2010, which the Company intends to exercise.

Investigation costs of £11,000 were charged to the Legal Costs Fund during the year (2004/05 £nil). The Legal Costs Fund may be used only to meet legal, professional and other costs of the FRRP’s investigations.

Income from publications was £822,000 (2004/05 £439,000). Interest, including interest on the Legal Costs Fund, which from 1 April 1993 has been used to offset general operating costs, amounted to £275,000 before taxation (2004/05 £195,000).

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

- Department of Trade and Industry
- Consultative Committee of Accountancy Bodies
- Listed companies
Contributions from sponsors under the tri-partite funding arrangement for operating costs and capital expenditure amounted to £9,313,000 (2004/05 £9,231,000). £250,000 (2004/05 £1,217,000) of the income relating to capital expenditure, was deferred in accordance with SSAP 4 (Accounting for government grants). £273,000 of the deferred income has been released in year (2004/05 £94,000).

No contributions were received during the year from sponsors earmarked for the Legal Costs fund as no costs were incurred in 2004/05. As is indicated in Note 8 to the accounts, sponsors’ contributions to make good drawings on the Legal Costs Fund are not sought until the financial year following the drawings.

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

There was surplus for the year on general activities of £993,000 (2004/05 £736,000 deficit). The accumulated surplus at 31 March 2006 was £683,000 (2004/05 £310,000 deficit).

During 2005/06, the Company incurred £345,000 of set-up costs relating to the FRC’s new responsibilities for actuarial standards and regulation. It is intended that these costs will be recovered over the first three years of the new arrangements. The recovery of these costs is underwritten by HM Treasury.

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

We, the Directors listed above, at the date of this report, confirm that, as far as we are aware there is no relevant audit information of which the company’s auditors are unaware. The Directors have taken all necessary steps to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

**Directors’ Emoluments**

The Directors’ remuneration, with the exception of the Chief Executive, is determined and reviewed by the Secretary of State for Trade and Industry. The total remuneration and benefits excluding pension contributions, received by Directors was:
<table>
<thead>
<tr>
<th>Name</th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Christopher Hogg</td>
<td>32,500</td>
<td>-</td>
</tr>
<tr>
<td>Sir Bryan Nicholson</td>
<td>75,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Barbara Thomas Judge</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Paul Boyle</td>
<td>74,714</td>
<td>-</td>
</tr>
<tr>
<td>Tim Breedon</td>
<td>15,000</td>
<td>9,442</td>
</tr>
<tr>
<td>Paul Druckman</td>
<td>15,000</td>
<td>11,250</td>
</tr>
<tr>
<td>John Sunderland</td>
<td>15,000</td>
<td>12,500</td>
</tr>
</tbody>
</table>

The only Director who is entitled to receive pension benefits is the Chief Executive, in respect of whom contributions of £7,291 were paid to a personal pension arrangement.

BY ORDER OF THE BOARD

Michael Lewington  
Secretary  
24 May 2006
Statement of Directors' Responsibilities

Company law requires the 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 Group and of the surplus or deficit of income over expenditure of the Group for that period. In preparing those financial statements the Directors are required to:

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

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

We have audited the group and company financial statements ("the financial statements") of the
Financial Reporting Council Limited for the year ended 31 March 2006 which comprise the
consolidated income and expenditure account, the group and company balance sheets, the
consolidated cash flow statement and the related notes numbered 1 to 21. These financial statements
have been prepared in accordance with the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditors

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

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

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

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

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group’s and the parent company’s affairs as at 31 March 2006 and of the group’s surplus of income compared to expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information provided in the directors’ report is consistent with the financial statements.

Horwath Clark Whitehill LLP
Chartered Accountants and Registered Auditors
London
24 May 2006
### CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 31 March 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATIONAL EXPENDITURE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>2</td>
<td>7,470</td>
</tr>
<tr>
<td>Other operating charges</td>
<td>4</td>
<td>3,717</td>
</tr>
<tr>
<td>(Credit)/Charge for onerous lease</td>
<td>5 &amp; 17</td>
<td>(188)</td>
</tr>
<tr>
<td>AIDB case costs</td>
<td></td>
<td>538</td>
</tr>
<tr>
<td>Actuarial regulation set-up costs</td>
<td>6</td>
<td>345</td>
</tr>
<tr>
<td>FRRP case costs</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td><strong>TOTAL OPERATIONAL EXPENDITURE</strong></td>
<td></td>
<td>11,893</td>
</tr>
<tr>
<td>Income from publications</td>
<td></td>
<td>(822)</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>7</td>
<td>(275)</td>
</tr>
<tr>
<td>Other finance costs</td>
<td>17</td>
<td>67</td>
</tr>
<tr>
<td><strong>NET OPERATIONAL EXPENDITURE</strong></td>
<td></td>
<td>10,863</td>
</tr>
</tbody>
</table>

| **CONTRIBUTIONS FROM SPONSORS FOR** |         |         |
| Core operating costs | 9 | 8,617 | 8,045 |
| Cost of onerous lease | 5 | 719 | 1,062 |
| AIDB case costs | | 538 | 327 |
| AIU case costs | | 1,702 | 957 |
| FRRP case costs | 8 | - | 8 |
| Actuarial regulation set-up costs | 6 | 345 | - |
| **TOTAL CONTRIBUTIONS FROM SPONSORS** | | 11,921 | 10,399 |

| **SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION** |         |         |
| General Fund | | 1,069 | (686) |
| FRRP Legal Costs Fund | 8 | (11) | 8 |
| **TAXATION** | | (76) | (50) |
| **SURPLUS/(DEFICIT) OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR** |         |         |
| General | 11 | 993 | (736) |
| FRRP Legal Costs Fund | 8 | (11) | 8 |
| **11** | | 982 | (728) |

The notes on pages 44 to 53 form part of these financial statements. There were no recognised gains or losses in the current or previous financial period other than those contained within the Consolidated Income and Expenditure account, and accordingly a Statement of Total Recognised Gains and Losses has not been presented.
The Financial Reporting Council Limited
Balance Sheets
31 March 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Notes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>12</td>
<td>1,199</td>
<td>1,199</td>
<td>1,235</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>falling due within one year</td>
<td>13</td>
<td>1,149</td>
<td>1,149</td>
<td>497</td>
</tr>
<tr>
<td>falling due after more than one year</td>
<td>13</td>
<td>239</td>
<td>239</td>
<td>-</td>
</tr>
<tr>
<td>Cash at bank and in hand:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>14</td>
<td>2,888</td>
<td>2,888</td>
<td>2,946</td>
</tr>
<tr>
<td>FRRP Legal Costs Fund</td>
<td>14</td>
<td>2,012</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,900</td>
<td>4,982</td>
<td>2,888</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,288</td>
<td>5,479</td>
<td>4,276</td>
</tr>
<tr>
<td>Creditors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts falling due within one year</td>
<td>15</td>
<td>(2,208)</td>
<td>(1,741)</td>
<td>(2,185)</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td>4,080</td>
<td>3,738</td>
<td>2,091</td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td></td>
<td>5,279</td>
<td>4,973</td>
<td>3,290</td>
</tr>
<tr>
<td>Creditors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts falling due after more than one year</td>
<td>16</td>
<td>(1,158)</td>
<td>(1,005)</td>
<td>(1,158)</td>
</tr>
<tr>
<td>Provisions for Liabilities</td>
<td>17</td>
<td>(1,449)</td>
<td>(2,278)</td>
<td>(1,449)</td>
</tr>
<tr>
<td>Net Assets</td>
<td></td>
<td>2,672</td>
<td>1,690</td>
<td>683</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated surplus/(deficit)</td>
<td>11</td>
<td>683</td>
<td>(310)</td>
<td>683</td>
</tr>
<tr>
<td>FRRP Legal Costs Fund</td>
<td>8 &amp; 11</td>
<td>1,989</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,672</td>
<td>1,690</td>
<td>683</td>
</tr>
<tr>
<td>Approved by the Board of Directors on 24 May 2006 and signed on its behalf by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir Christopher Hogg, Chairman</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul Boyle, Chief Executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The notes on pages 44 to 53 form part of these financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Consolidated cash flow statement
Year ended 31 March 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</td>
<td>18</td>
<td>(312)</td>
</tr>
<tr>
<td>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td></td>
<td>275</td>
</tr>
<tr>
<td>TAXATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation Tax paid</td>
<td></td>
<td>(50)</td>
</tr>
<tr>
<td>CAPITAL EXPENDITURE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for fixed assets</td>
<td>(250)</td>
<td>(1,217)</td>
</tr>
<tr>
<td>Contributions from sponsors towards capital expenditure</td>
<td>250</td>
<td>1,217</td>
</tr>
<tr>
<td>Proceeds from disposal of fixed assets</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>NET CASH (OUTFLOW)/INFLOW BEFORE AND AFTER FINANCING</td>
<td></td>
<td>(82)</td>
</tr>
<tr>
<td>(DECREASE)/INCREASE IN CASH IN THE YEAR</td>
<td>14</td>
<td>(82)</td>
</tr>
<tr>
<td>RECONCILIATION OF MOVEMENT IN NET FUNDS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net funds at 1 April 2005</td>
<td>4,982</td>
<td>2,737</td>
</tr>
<tr>
<td>(Decrease)/Increase in cash in the year</td>
<td>(82)</td>
<td>2,245</td>
</tr>
<tr>
<td>Net funds at 31 March 2006</td>
<td>4,900</td>
<td>4,982</td>
</tr>
<tr>
<td>Net funds consist solely of cash at bank</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The notes on pages 44 to 53 form part of these financial statements.
1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group’s financial statements.

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

b) Accounts presentation
In order to reflect more fairly that the group's expenditure is met by contributions from sponsors, the Directors have presented the Income & Expenditure Account to focus initially on the group’s net operational expenditure and funding requirement and thereafter on the various contributions received from its sponsors. Further categories have been included to provide a better and fairer picture of the accounts.

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

d) Contributions from Sponsors
Contributions from sponsors towards general operational expenditure, FRRP legal costs (note 8), AIDB case costs and AIU costs are credited to the Income and Expenditure account when they become receivable.

Contributions from sponsors towards capital projects are included as deferred income and are credited to the Income and Expenditure Account over the expected useful life of the relevant tangible fixed assets on a basis consistent with the depreciation policy applied in respect of those assets.

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

f) Depreciation
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, over their expected useful lives, as follows:

<table>
<thead>
<tr>
<th>asset type</th>
<th>useful life</th>
<th>method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>3 years</td>
<td>straight line basis</td>
</tr>
<tr>
<td>Fixtures, Fittings &amp; Furniture</td>
<td>5 years</td>
<td>straight line basis</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>term of lease</td>
<td>straight line basis</td>
</tr>
</tbody>
</table>
g) Leased Assets
Total rentals payable under operating leases are charged to the Income and Expenditure account over the term of the lease on a straight line basis.

h) Dilapidations
Provision is made for the estimated costs of dilapidation repairs spread over the period of the company's tenancy of its leasehold property. Estimated costs of removing leasehold improvements are provided and capitalised in accordance with FRS15, such expenditure being amortised over the term of the lease.

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

2. STAFF COSTS (INCLUDING DIRECTORS) £'000  £'000

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent staff:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>5,578</td>
<td>3,805</td>
</tr>
<tr>
<td>Social security costs</td>
<td>595</td>
<td>451</td>
</tr>
<tr>
<td>Other pension costs</td>
<td>287</td>
<td>242</td>
</tr>
<tr>
<td></td>
<td>6,460</td>
<td>4,498</td>
</tr>
<tr>
<td>Seconded staff (inclusive of all related employment costs)</td>
<td>313</td>
<td>389</td>
</tr>
<tr>
<td>Fees to operating body and committee members</td>
<td>560</td>
<td>499</td>
</tr>
<tr>
<td>Other costs</td>
<td>137</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>7,470</td>
<td>5,482</td>
</tr>
</tbody>
</table>

The Group does not operate a pension scheme. Other pension costs comprise payments to personal pension schemes.
The average monthly number of employees during the year was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td>ASB</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>AIU</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>APB</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>FRRP</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>POBA</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>AIDB</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Support Services and Corporate</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>62</td>
<td>54</td>
</tr>
</tbody>
</table>

3. DIRECTORS’ EMOLUMENTS

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Fees (included in staff costs)</td>
<td>247</td>
<td>155</td>
</tr>
</tbody>
</table>

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

4. OTHER OPERATING CHARGES

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Depreciation (note 12)</td>
<td>284</td>
<td>115</td>
</tr>
<tr>
<td>Auditors’ remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- group audit fees</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>- other services</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Operating leases (note 1g)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- office equipment</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td>- land and buildings</td>
<td>448</td>
<td>796</td>
</tr>
<tr>
<td>(Gain)/Loss on disposal of fixed assets</td>
<td>(3)</td>
<td>8</td>
</tr>
</tbody>
</table>

The amount charged to the parent company in respect of audit fees was £5,000 (2004/05: £4,000). The amount of auditors’ remuneration is stated inclusive of the irrecoverable element of Value Added Tax charged.
5. CHARGE FOR ONEROUS LEASE AND RELATED INCOME

In 2004/05 the company assumed the obligations attaching to the leasehold property formerly occupied by the Accountancy Foundation, whose activities were transferred to the company as from 1st April 2004. This property is no longer occupied by the company and accordingly full provision was made in 2004/05 for the value of future net obligations. The provision has been discounted to present value at a rate of 3.3%. The provision is re-assessed every year and any adjustments are either charged or released to the income and expenditure account. In the year ended 31 March 2006, £188,000 has been released.

6. REGULATION OF THE ACTUARIAL PROFESSION

The Morris Review of the Actuarial Profession, published in March 2005, recommended that the FRC should establish a new regime to set actuarial standards and oversee the regulation of the actuarial profession. The costs incurred during 2005/06 in setting up the new regime were not covered by existing funding arrangements. It was agreed with HM Treasury to recover these costs through the funding arrangements for actuarial standards and regulation which were consulted upon and finalised during 2005/06. The Directors believe that the recovery of these costs is highly probable as HMT have secured the necessary Parliamentary approvals to under-write the FRC’s costs during 2005/06.

7. INTEREST RECEIVABLE

From 1 April 1993 interest, including interest on the Legal Costs Fund has been used to offset general operating costs.

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank interest - general</td>
<td>184</td>
<td>104</td>
</tr>
<tr>
<td>Bank interest - FRRP Legal Costs Fund (note 8)</td>
<td>91</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>275</strong></td>
<td><strong>195</strong></td>
</tr>
</tbody>
</table>
8. **FRRP LEGAL COSTS FUND**

Contributions have been received to enable the Financial Reporting Review Panel to take steps to ensure compliance with the accounting requirements of the Companies Act 1985, including applicable accounting standards, and to investigate departures from those standards and requirements. Those funds may be used only for this purpose and may not be used to meet other costs incurred by the Group. The Financial Reporting Review Panel may be liable to repay the balance on the Legal Costs Fund to the contributors if it ceases to be authorised by the Secretary of State for Trade and Industry for the purposes of section 245B of the Companies Act 1985.

Since the costs of Review Panel investigations in a financial year cannot be forecast with sufficient certainty, sponsors’ contributions to make good drawings on the Legal Costs Fund are sought in the financial year following the drawings.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>£’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>2,012</td>
<td>2,036</td>
</tr>
<tr>
<td>Amounts due (to)/from parent company</td>
<td>-</td>
<td>(13)</td>
</tr>
<tr>
<td>Taxation payable</td>
<td>(23)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>The Fund is represented by:</strong></td>
<td><strong>1,989</strong></td>
<td><strong>2,000</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>£’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions from sponsors</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Costs of Review Panel investigations</td>
<td>(11)</td>
<td>-</td>
</tr>
<tr>
<td>(Deficit)/Surplus for year</td>
<td>(11)</td>
<td>8</td>
</tr>
</tbody>
</table>

9. **CONTRIBUTIONS FROM SPONSORS - CORE OPERATING COSTS**

Contributions from sponsors towards core operating costs include £273,000 (2005: £94,000) of deferred income released in accordance with note 1(d).

10. **TAXATION**

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>£’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation Tax at 26% (2004/05: 26%) on general interest received</td>
<td>53</td>
<td>27</td>
</tr>
<tr>
<td>Corporation Tax at 25% (2004/05: 25%) on interest received by the FRRP Legal Costs Fund (note 8)</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td><strong>Tax is payable only on interest and analogous income.</strong></td>
<td><strong>76</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>
11. **SURPLUS/(DEFICIT) OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR**

The Company has taken advantage of the exemption conferred by section 230 of the Companies Act 1985 not to present its own individual income and expenditure account in these financial statements. The Company’s surplus for the year was £993,000 (2004/05: £736,000 deficit). Changes in the Company and Group’s capital and reserves were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Company &amp; Group</th>
<th>Group</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Fund</td>
<td>FRRP Legal Costs Fund</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>At 31 March 2005</td>
<td>(310)</td>
<td>2,000</td>
<td>1,690</td>
</tr>
<tr>
<td>Surplus/(Deficit) for 2005/06</td>
<td>993</td>
<td>(11)</td>
<td>982</td>
</tr>
<tr>
<td>At 31 March 2006</td>
<td>683</td>
<td>1,989</td>
<td>2,672</td>
</tr>
</tbody>
</table>

Contributions from Government in 2005/06 were £3,100,000 (2004/05 £4,083,000, including a £1,000,000 contribution towards onerous lease costs).

12. **TANGIBLE ASSETS**

<table>
<thead>
<tr>
<th></th>
<th>Leasehold Improvements</th>
<th>Office Equipment</th>
<th>Fixtures, Fittings &amp; Furniture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Cost at 1 April 2005</td>
<td>655</td>
<td>371</td>
<td>346</td>
<td>1,372</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>159</td>
<td>91</td>
<td>250</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(6)</td>
<td>-</td>
<td>(6)</td>
</tr>
<tr>
<td>Cost at 31 March 2006</td>
<td>655</td>
<td>524</td>
<td>437</td>
<td>1,616</td>
</tr>
</tbody>
</table>

Depreciation at 1 April 2005

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42</td>
<td>72</td>
<td>23</td>
<td>137</td>
</tr>
<tr>
<td>Charge for year</td>
<td>65</td>
<td>144</td>
<td>75</td>
<td>284</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(4)</td>
<td>-</td>
<td>(4)</td>
</tr>
<tr>
<td>Depreciation at 31 March 2006</td>
<td>107</td>
<td>212</td>
<td>98</td>
<td>417</td>
</tr>
</tbody>
</table>

**Net book value at 31 March 2006**

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>548</td>
<td>312</td>
<td>339</td>
<td>1,199</td>
</tr>
</tbody>
</table>

**Net Book Value at 31 March 2005**

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>613</td>
<td>299</td>
<td>323</td>
<td>1,235</td>
</tr>
</tbody>
</table>
13. **DEBTORS: amounts falling due within one year**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount falling due within one year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>96</td>
<td>-</td>
<td>96</td>
<td>-</td>
</tr>
<tr>
<td>Amount due from subsidiary undertaking</td>
<td>-</td>
<td>-</td>
<td>335</td>
<td>155</td>
</tr>
<tr>
<td>Other debtors</td>
<td>731</td>
<td>314</td>
<td>396</td>
<td>286</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>322</td>
<td>183</td>
<td>322</td>
<td>69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,149</td>
<td>497</td>
<td>1,149</td>
<td>510</td>
</tr>
</tbody>
</table>

Amounts falling due after one year:

| Other debtors: | 239 | - | 239 | - |

14. **CASH AT BANK AND IN HAND**

<table>
<thead>
<tr>
<th></th>
<th>Company &amp; Group</th>
<th>Group FRRP</th>
<th>Group Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General accounts</td>
<td>Legal Costs Fund accounts</td>
<td>£’000</td>
</tr>
<tr>
<td>At 31 March 2005</td>
<td>2,946</td>
<td>2,036</td>
<td>4,982</td>
</tr>
<tr>
<td>Net cash outflow in 2005/06</td>
<td>(58)</td>
<td>(24)</td>
<td>(82)</td>
</tr>
<tr>
<td>At 31 March 2006</td>
<td>2,888</td>
<td>2,012</td>
<td>4,900</td>
</tr>
</tbody>
</table>

Cash in the general accounts includes £783,000 (2005: £957,000) which may only be used to meet the costs of the onerous lease obligation referred to in note 5. The amount in the FRRP Legal Costs Fund accounts may be used only for the purposes described in note 8.
15. **CREDITORS**: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>283</td>
<td>347</td>
</tr>
<tr>
<td>Corporation Tax payable</td>
<td>76</td>
<td>50</td>
</tr>
<tr>
<td>Due to subsidiary company</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accruals</td>
<td>908</td>
<td>631</td>
</tr>
<tr>
<td>Deferred income</td>
<td>302</td>
<td>231</td>
</tr>
<tr>
<td>Other creditors</td>
<td>639</td>
<td>482</td>
</tr>
<tr>
<td></td>
<td>2,208</td>
<td>1,741</td>
</tr>
</tbody>
</table>

16. **CREDITORS**: amounts falling after more than one year

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Accruals</td>
<td>366</td>
<td>120</td>
</tr>
<tr>
<td>Deferred income</td>
<td>792</td>
<td>885</td>
</tr>
<tr>
<td></td>
<td>1,158</td>
<td>1,005</td>
</tr>
</tbody>
</table>

17. **PROVISIONS FOR LIABILITIES AND CHARGES**

<table>
<thead>
<tr>
<th>Group and Company</th>
<th>Lease Obligations</th>
<th>Leasehold Improvements</th>
<th>Dilapidations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Balance at 31 March 2005</td>
<td>2,087</td>
<td>110</td>
<td>81</td>
<td>2,278</td>
</tr>
<tr>
<td>(Credit)/charge to income and expenditure account</td>
<td>(188)</td>
<td>-</td>
<td>11</td>
<td>(177)</td>
</tr>
<tr>
<td>Unwinding of the discount</td>
<td>67</td>
<td>-</td>
<td>-</td>
<td>67</td>
</tr>
<tr>
<td>Cash payment in the year</td>
<td>(719)</td>
<td>-</td>
<td>-</td>
<td>(719)</td>
</tr>
<tr>
<td>At 31 March 2006</td>
<td>1,247</td>
<td>110</td>
<td>92</td>
<td>1,449</td>
</tr>
</tbody>
</table>

The provision for lease obligations relates to the matter described in note 5. The cash payments during the year include £306,000 in respect of a rent deposit deed which is expected to be refunded when the obligations under the terms of the lease have been fulfilled.
Provisions have been made for obligations under the lease at Aldwych House. These are to remove the leasehold improvements and return the property at the end of the lease to its original state and to meet the tenant repairing clause for dilapidations.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2005/06 (£'000)</th>
<th>2004/05 (£'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(Deficit) on ordinary activities before taxation</td>
<td>1,058</td>
<td>(678)</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>(275)</td>
<td>(195)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>284</td>
<td>115</td>
</tr>
<tr>
<td>Release of deferred income</td>
<td>(273)</td>
<td>(94)</td>
</tr>
<tr>
<td>(Gain)/Loss on disposal of fixed assets</td>
<td>(3)</td>
<td>8</td>
</tr>
<tr>
<td>Increase in debtors</td>
<td>(891)</td>
<td>(188)</td>
</tr>
<tr>
<td>Decrease in creditors and accruals</td>
<td>(212)</td>
<td>3,098</td>
</tr>
<tr>
<td>Net cash (outflow)/inflow from operating activities</td>
<td>(312)</td>
<td>2,066</td>
</tr>
</tbody>
</table>

19. COMMITMENTS

There were no capital commitments outstanding at 31 March 2006 (2005: nil).

At the balance sheet date the annual commitment for the Group and the Company relating to the Accountancy Foundation leasehold property was £421,000 (2005: £421,000) and has been provided for (see note 5). This lease extends beyond five years.

At the balance sheet date the annual commitment for the Group and the Company relating to its Aldwych leasehold property was £615,000. This lease expires within five years.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2005/06 (£'000)</th>
<th>2004/05 (£'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leases which expire within one year</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>
20. **SUBSIDIARY UNDERTAKINGS**

Contributes to confidence in corporate reporting and governance by:

The Accounting Standards Board Limited (“ASB”)

Establishing and improving standards of financial accounting and corporate reporting

The Financial Reporting Review Panel Limited (“FRRP”)

Seeking to ensure that the provision by public and large private companies of financial information and other information falling within its remit complies with relevant reporting requirements

The Auditing Practices Board Limited (“APB”)

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

The Accountancy Investigation and Discipline Board Limited (“AIDB”)

Providing an independent body to investigate the conduct of members or member firms of the professional accountancy bodies and take disciplinary action in public interest cases - matters which raise or appear to raise important issues affecting the public interest

The Professional Oversight Board for Accountancy Limited (“POBA”)

Strengthening the independence and transparency of the regulatory regime for auditing and for the accountancy profession.

21. **LIABILITY OF MEMBERS**

The members of the Company have undertaken to contribute a sum not exceeding £1 each to meet the liabilities of the Company if it should be wound up.
Annex B - Membership of Council, operating bodies and committees

THE FINANCIAL REPORTING COUNCIL

Chair
Sir Christopher Hogg from 1 January 2006
Sir Bryan Nicholson GBE to 31 December 2005

Deputy Chair
The Hon Barbara Thomas Judge Chairman, UK Atomic Energy Authority, Deputy Chairman, Friends Provident

Directors
Paul Boyle Chief Executive, FRC - from 14 December 2005
Tim Breedon Group Chief Executive, Legal and General
Paul Druckman Chairman, Clear Group
John Sunderland President of the CBI and Chairman, Cadbury Schweppes

Members
Sir John Bourn KCB (ex officio) Chair POBA
Richard Fleck (ex officio) Chair APB
Mike Fogden CB (ex officio) Chair AIDB
Bill Knight (ex officio) Chair FRRP
Ian Mackintosh (ex officio) Chair ASB
Paul Seymour (ex officio) Chair BAS
Charles Allen-Jones Formerly Senior Partner, Linklaters
John Alty Director General, Fair Markets, DTI - from 26 September 2005
Sir Victor Blank Chairman, GUS plc and Lloyds TSB Group plc
Sir David Clementi Chairman, Prudential plc
Don Cruickshank Chairman of Formscape Group Ltd and Clinovia Ltd. Non Executive Director of Qualcomm Inc.
Paul Deighton Chief Operating Officer, Goldman Sachs - from 23 May 2005 to 28 March 2006
Sir Christopher Gent Chairman of GlaxoSmithKline plc - from 1 November 2005
Sir Derek Higgs Senior Advisor in the UK, UBS Investment Bank - to 25 May 2005
Baroness Hogg Chairman, 3i Group plc
Anthony Inglese Solicitor and Director General Legal Services, DTI - to 25 September 2005
Douglas Kerr Group Finance Director, CPL Industries Ltd
Sir George Mathewson CBE Chairman, The Royal Bank of Scotland Group plc
Rory Murphy  Joint General Secretary, UNIFI - to 30 June 2005  
Colin Perry  Chairman, LTE Scientific Ltd  
Ian Robertson  Group Chief Executive, Wilson Bowden plc, past President ICAS  
Sir Nigel Rudd  Chairman, Boots Group plc and Pilkington plc - to 12 May 2005  
Hector Sants  Managing Director, Wholesale & Institutional Markets, Financial Services Authority  
Vincent J. Sheridan  Chief Executive, VHI Healthcare  
Ed Sweeney  Joint Deputy General Secretary, Amicus - from 1 September 2005  
Rosemary Thorne  Group Finance Director, Ladbrokes plc  
Lindsay Tomlinson  Vice-Chairman, Barclays Global Investors  
Graham Ward CBE  Senior Partner Global Energy and Utilities, PricewaterhouseCoopers LLP  
Anthony Watson  Director, Vodafone Group plc, Hammerson Group plc and Witan Investment Trust.

Observers  
Richard Dyson  Deputy Chairman CCAB, Vice President, ICAEW - from 1 July 2005  
Dr Clive Grace  CCAB, CIPFA representative  
Mary Keegan  Managing Director, Government Financial Management at HM Treasury  
Ian Michael  Advisor, Accounting Issues, Bank of England - to 31 December 2005  
Ian Morris  Deputy Chairman CCAB, Vice President, ICAEW - to 30 June 2005

Secretary  
Michael Lewington
The number of meetings individual Council members attended out of those which they were eligible to attend was as follows.

<table>
<thead>
<tr>
<th>Member</th>
<th>Attendance</th>
<th>Member</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Christopher Hogg</td>
<td>1/1</td>
<td>Richard Dyson</td>
<td>3/4</td>
</tr>
<tr>
<td>Sir Bryan Nicholson GBE</td>
<td>4/4</td>
<td>Sir Christopher Gent</td>
<td>2/2</td>
</tr>
<tr>
<td>The Hon Barbara Thomas Judge</td>
<td>4/4</td>
<td>Clive Grace</td>
<td>3/4</td>
</tr>
<tr>
<td>John Sunderland</td>
<td>2/4</td>
<td>Baroness Sarah Hogg</td>
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<td>Paul Druckman</td>
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<td>Mary Keegan</td>
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<td>Sir George Mathewson CBE</td>
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<td>Sir John Bourn KCB</td>
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<td>Ian Michael</td>
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<td>Richard Fleck</td>
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<td>Ian Morris</td>
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<td>Rory Murphy</td>
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<td>Bill Knight</td>
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<td>Ian Mackintosh</td>
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<td>Ian Robertson</td>
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<td>Hector Sants</td>
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<td>Charles Allen-Jones</td>
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<td>Vincent J. Sheridan</td>
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<td>Ed Sweeney</td>
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<td>Sir Victor Blank</td>
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<td>Rosemary Thorne</td>
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<td>Sir David Clementi</td>
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<td>Lindsay Tomlinson</td>
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<td>Don Cruickshank</td>
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<td>Paul Deighton</td>
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<td>Anthony Watson</td>
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**COMMITTEE ON CORPORATE GOVERNANCE**

*Chair*
Sir Christopher Hogg - *from 1 January 2006*
Sir Bryan Nicholson GBE - *to 31 December 2005*

*Members*
The Hon Barbara Thomas Judge
Charles Allen-Jones
John Alty - *from 26 September 2005*
Tim Breedon
Sir Victor Blank - *from 12 May 2005*
Paul Deighton - *from 23 May 2005 to 28 March 2006*
Sir Derek Higgs - *to 25 May 2005*
Colin Perry
Sir Nigel Rudd - *to 12 May 2005*
Graham Ward CBE
THE ACCOUNTING STANDARDS BOARD

Chair
Ian Mackintosh

Members
Mike Ashley Partner, KPMG LLP. Member of EFRAG
Marissa Cassoni Formerly Group Finance Director, Royal Mail plc
- from 1 April 2005
Anthony Good Independent Equity Research Consultant - to 31 March 2006
Andrew Lennard Technical Director, ASB - to 13 February 2006
David Loweth Acting Technical Director and Secretary ASB
- from 20 March 2006
Roger Marshall Partner, PricewaterhouseCoopers LLP
Robert Overend Technical Partner, Ernst & Young LLP - from 1 January 2006
Isobel Sharp Partner, Deloitte & Touche LLP - to 31 December 2005
Jonathan Symonds Chief Financial Officer, AstraZeneca plc
Helen Weir Group Finance Director, Lloyds TSB - from 1 May 2005
Peter Westlake Formerly Head of Research, Deutsche Asset Management

Observers
Geoff Dart Director, Corporate Law & Governance,
Company Law & Investigations, DTI
Ian Drennan Chief Executive Officer, Irish Auditing and Accounting
Supervisory Authority - from 9 February 2006
Mary Keegan Managing Director, Government Financial Management at
HM Treasury
Professor Geoffrey Whittington CBE Liaison member of the IASB
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Partner, Herbert Smith

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Jon Grant Executive Director, Auditing Practices Board
Lew Hughes CB Formerly Assistant Auditor General, UK National Audit Office
Gill Laver Director of Finance and Central Services of the Archbishops' Council of the Church of England - to 31 March 2006
Keith Nicholson Partner, KPMG LLP
Ronan Nolan Partner, Deloitte Dublin - from 1 April 2005
Graham Pimlott Non-Executive Director of Provident Financial plc and Deputy Chairman of Hammerson plc
Minnow Powell Partner, Deloitte & Touche LLP
Will Rainey Partner, Ernst & Young LLP
David Thomas Group Controller, Invensys plc
Tom Troubridge Head of London Capital Markets Group, PricewaterhouseCoopers LLP
Stuart Turley Professor of Accounting, University of Manchester

Observers
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Irish Auditing & Accounting Supervisory Authority
Richard Leyland Director, Audit & Accounting Policy, DTI
Richard Thorpe FSA
PROFESSIONAL OVERSIGHT BOARD FOR ACCOUNTANCY

Chair
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Comptroller and Auditor General of the United Kingdom

Members
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Formerly Chief Investment Manager of Standard Life in Edinburgh
Tim Barker Director, Drax Group plc and Electrocomponents plc. Chairman
Robert Walters plc. Formerly Vice Chairman of
Dresdner Kleinwort Benson
David Crowther Formerly Senior Partner, PricewaterhouseCoopers LLP, responsible for quality assurance and risk management.
Non-Executive Director, TT Electronics plc. Member of the Board of the Financial Ombudsman Service
Hilary Daniels Chief Executive, West Norfolk Primary Care Trust - from 1 April 2005
Roger Davis Formerly a partner and Head of Professional Affairs,
PricewaterhouseCoopers LLP. Member of the Competition Commission
Stella Fearnley Professor of Accounting, University of Portsmouth
Paul George (ex officio) Director, POBA
Michael Jones Head of Management Services & Administration,
Trades Union Congress
Anne Maher Chief Executive, The Pensions Board for Ireland.
Member of the Irish Accounting and Auditing Supervisory Authority

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John Grewe
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Deputy Chair
Ian Brindle  Formerly Chairman, PricewaterhouseCoopers LLP

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Rupert Beaumont  Formerly Partner, Slaughter and May
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Stephen Box  Formerly Finance Director, The National Grid Group plc
Michael Brindle QC  Barrister
David Cairns  IFRS Consultant and Visiting Professor, London School of Economics - from 1 January 2006
Anthony Carey  Partner in RSM Robson Rhodes LLP and Chairman of the RSM International IFRS Executive Committee - from 1 January 2006
Richard Delbridge  Formerly Group Chief Financial Officer, NatWest Group
Martin Eadon  Partner, Deloitte & Touche LLP
Christopher FitzGerald  Former Chair, FSA Regulatory Decisions Committee - from 1 January 2006
John Grieves  Formerly Senior Partner, Freshfields
Gordon Hamilton  Partner, Deloitte & Touche LLP
Robert Hildyard QC  Barrister
Stephen Hodge  Deputy Chairman of the Franchise Board & Chairman of the Audit Committee, Lloyds of London. Chairman, Shell Pensions Trust - from 1 January 2006
Alun Jones  Partner, PricewaterhouseCoopers LLP - from 1 January 2006
Nigel Macdonald  Formerly Partner, Ernst & Young LLP
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Brian Pomeroy  Management Consultant, formerly Senior Partner, Deloitte Consulting
Andrew Popham  Partner, PricewaterhouseCoopers LLP
John Reizenstein  Chief Financial Officer, Co-operative Financial Services Limited - from 1 January 2006
George Rose  Finance Director, BAE Systems plc
Rosemary Thorne  Group Finance Director, Ladbrokes plc
Colin Walklin  Chief Financial Officer, Barclaycard
Tony Wedgwood  Formerly Partner, KPMG LLP

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Carol Page  Director, Panel Operations
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Deputy Chairman Civil Service Appeal Board, formerly Chairman, National Blood Transfusion Service

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Reporting Member of the Competition Commission

Chris Lainé
Formerly President of ICAEW & formerly Chairman Allied Textile Companies plc

Elizabeth Llewellyn-Smith CB
Formerly DTI and Office of Fair Trading, then Principal of St Hilda's College, Oxford

Stuart McKee
Corporate Finance Partner, PricewaterhouseCoopers LLP

James Miller
Member of the Institute of Chartered Accountants of Scotland - from 1 August 2005

Laurance Shurman
Formerly Managing Partner, Kingsley Napley and Banking Ombudsman

David Thomas
Corporate Director and Principal Ombudsman of the Financial Ombudsman Service

Executive Counsel
Cameroon Scott

Secretary
Anne McArthur
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Lawrence Churchill  Chairman, Pension Protection Fund. Independent Director, The Children's Mutual and Monkton Group
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Dianne Hayter  Board Member, National Consumer Council
Julian Lowe  General Insurance (GI) Actuarial Director, Aviva plc
Jerome Nollet  Corporate advisor in Risk and Capital Reinforcement
Tom Ross  Senior Independent Director of Royal London Mutual Insurance Society
Sir Derek Wanless  Chairman of the Audit and Risk Committees of Northern Rock plc, Vice Chairman, Statistics Commission
Martin Weale  Director, National Institute of Economic and Social Research.

Observers
Peter Askins  Head of Policy for Defined Benefit Pension Schemes, Department of Work and Pensions
Jim Kehoe  Consulting Actuary - representing Groupe Consultatif Actuariel Européen
Sue Rivas  Head of Policy and Guidance, The Pensions Regulator
Paul Sharma  Head of Department for Prudential Standards, FSA
ACCOUNTING STANDARDS BOARD COMMITTEES

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Peter Chidgey Partner, BDO Stoy Hayward LLP
Matthew Curtis Director, Ernst & Young LLP - from 2 March 2006
Una Curtis Professional Standards Director, KPMG, Dublin
David Devlin Partner, PricewaterhouseCoopers LLP, Dublin - to 31 August 2005
Howard Evans Finance Director, Misys plc
Rona Fairhead Chief Financial Officer, Pearson plc
Peter Holgate Senior Accounting Technical Partner, PricewaterhouseCoopers LLP
Guy Jubb Investment Director, Head of Corporate Governance, Standard Life Investments
Marian MacBryde Director, Makinson Cowell Limited
John McDonnell Partner, PricewaterhouseCoopers LLP, Dublin - from 1 September 2005
David Nish Finance Director, Scottish Power plc - to 31 May 2005
Christopher Nunn Formerly Professional Standards Partner, Arthur Andersen
Robert Overend Technical Partner, Ernst & Young LLP - to 31 December 2005
Brian Shearer Technical Partner, Grant Thornton UK LLP
Andy Simmonds Technical Partner, Deloitte & Touche LLP
Andrew Vials Partner, KPMG LLP

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David Loweth Secretary, ASB

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John Coombs Managing Partner, Simpkins Edwards
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Sara Harvey  Partner, Hines Harvey Wood
Melvyn Howell  Formerly Senior Manager, Midland Bank Plc
Kenneth McDowell  Partner, Chiene and Tate - from 29 September 2005
Liam McQuaid  Partner, Duignan Carthy O’Neill
Dr Richard Roberts  Head of SME Research, Barclays Plc
Danielle Stewart  Client Partner, Vantis - to 31 August 2005

Observer
Valerie Carpenter  Company Law and Investigations Directorate, DTI

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Duncan Russell  Project Director, ASB - to 31 January 2006
Alan O’Connor  Project Director, ASB - from 1 February 2006

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Deborah Chesworth  Manager, Prudential Standards Division Financial Services Authority
Julian Hance  Formerly Group Finance Director, Royal & SunAlliance Insurance Group plc
Rajan Kapoor  Group Chief Accountant, Royal Bank of Scotland
James MacLeod  Chairman, Martin Currie High Income Trust plc and Collective Assets Trust plc
Lynn Pearcy  Partner, KPMG LLP
Derek Stevens  Formerly Chief Financial Officer, British Airways plc

Observers
Ben Higgin  Company Law and Investigations Directorate, DTI - from 1 September 2005
Andrew Watchman  Company Law and Investigations Directorate, DTI - to 31 August 2005

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David Creed  Chairman, The Housing Finance Corporation Limited
Martin Daynes  Director, National Audit Office
Pesh R Framjee  Partner and Head of Non Profits, Deloitte & Touche LLP
Virginia Grace  Resources Director, Parchment Housing Group
Ieuan Griffiths  Director of Finance, Driver & Vehicle Licensing Agency
Michael Hathorn  Partner, Moore Stephens
Lynn Hine  Partner, PricewaterhouseCoopers LLP
Richard Laughlin  Professor of Accounting, King's College London
Pam Nelson  Director of Finance, London Metropolitan University
Sean Nolan  Assistant Director Technical & International, Chartered Institute of Public Finance and Accountancy - to 4 August 2005
John Stanford  Assistant Director Technical & International, Chartered Institute of Public Finance and Accountancy
Steve Warren  District Auditor, Audit Commission

Observers
Raymond Jones  Senior Accountant, Charity Commission for England and Wales
David Watkins  Accounting Policies Manager, Central Accountancy Team, HM Treasury

Secretary
Duncan Russell  Project Director, ASB - to 31 January 2006
Alan O'Connor  Project Director, ASB - from 1 February 2006

ADVISORY PANEL ON PENSIONS

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Andrew Lennard  Director of Research, ASB

Members
John Ashcroft  Head of Strategy, The Pensions Regulator
Nigel Biggs  Head of UK Pensions, Unilever UK
David Blackwood  Group Treasurer ICI PLC
Claire Bouch  Partner, Deloitte & Touche LLP
Paul Boyle  Chief Executive, FRC
Bob Bridges  Managing Director, Capital Cranfield Pension Trustees Ltd
Roger Cobley  Chairman, Stamford Associates Ltd
Stephen Cooper  UBS Limited
Sarah Deans  Vice President Accounting & Valuation Corporate Research, J P Morgan
Andrew Evans  Partner, PricewaterhouseCoopers LLP
Robert Hails  Watson Wyatt Limited
Gary Hibbard  British Petroleum Co plc
Nicki Mortimer  Director, Group Pensions, AstraZeneca plc
Lynn Peary  Partner, KPMG LLP
Derek Scott  Vice-Chairman, NAPF Investment Council
John Smith  Chief Operating Officer & CEO, BBC Worldwide
Jeremy Stone  N M Rothschild & Sons Ltd

AUDITING PRACTICES BOARD COMMITTEES

INVESTMENT CIRCULARS SUB-COMMITTEE

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Tom Troubridge  Head of London Capital Markets Group, PricewaterhouseCoopers LLP and member of APB
James Anderson  Manager, Primary Markets, Financial Services Authority
Kevin Desmond  Director, PricewaterhouseCoopers LLP
Laura Gallagher  Partner, KPMG (Dublin)
Stephen Hextall  Director, Transaction Advisory Services, Ernst & Young LLP
Dudley Hilton  Director, Deloitte & Touche LLP
Peter Hughes  Partner, KPMG LLP
Malcolm Lomers  Partner, Corporate, Herbert Smith
Susan Nyman  Director, Grant Thornton LLP
Graham Pimlott  Non-Executive Director of Provident Financial plc, Deputy Chairman of Hammerson plc and member of APB
Jeff Ward  Client Partner and Head of Transaction Services, Vantis Numerica Corporate Finance Ltd

Secretary
Steven Leonard  Project Director, APB
SME AUDIT SUB-COMMITTEE

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Richard Fleck Chair, APB

Malcolm Bacchus Executive Director, Pathfinder Developer EIS companies
John Brace Managing Partner, Harwood Hutton
Jayne Clifford Partner, Martin Aitken & Co
Alan Donaldson Partner, Scott-Moncrieff
Alan Farrelly Managing Partner, Farrelly Dawe White
David Finch Director, David Finch Limited
Jane Grant Partner, Winningtons
Jon Grant Executive Director, APB
Robert Holland Partner, James & Cowper
Peter Hollis Hollis & Co
James Hunt Partner, Chantrey Vellacott DFK, Belfast
Craig Jenkins Managing Director, Total Solutions UK Limited
Martin Longmore Partner, Monahans
Neil Marriott Professor of Accounting and Finance, Glamorgan University
Valerie Steward Director, PCP Limited

Secretary
Hazel O'Sullivan APB Project Director

PUBLIC SECTOR SUB-COMMITTEE

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Lew Hughes CB Formerly Assistant Auditor General, UK National Audit Office

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Jon Grant Executive Director, APB
Robert Alexander Director of Finance & Information, Kent & Medway Strategic Health Authority
John Buckley Office of the Comptroller and Auditor General, Republic of Ireland
Kieran Donnelly Assistant Auditor General, Northern Ireland Audit Office
Janet Eilbeck Head of Public Sector Audit, PricewaterhouseCoopers LLP
Nicholas Elphick Director of Audit, KPMG LLP
Martin Evans Managing Director, Audit, Audit Commission
Russell Frith  Director of Audit Strategy, Audit Scotland
Rita Greenwood  Executive Director, Finance and Planning, London Borough of Havering
Nigel Johnson  Partner, Deloitte & Touche LLP
David Richards  Principal, Finance Office, National Assembly for Wales
Martin Sinclair  Assistant Auditor General, National Audit Office
Ian Summers  Compliance and Policy Adviser, Wales Audit Office

Observers
David Cruden  HM Treasury

Secretary
David Aldous  Audit Commission

OTHER FRC COMMITTEES

TURNBULL REVIEW GROUP - ended October 2005

Chair
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Members
Stuart Bridges  Group Finance Director, Hiscox plc
John Coombe  Formerly Chief Finance Officer, GlaxoSmithKline plc
Michael Hughes  UK Chairman of Audit, KPMG LLP
Rosemary Martin  General Counsel and Company Secretary, Reuters Group PLC
Michael McLintock  Chief Executive, The M&G Group
John Mew  Executive Partner, Grant Thornton UK
Graham Pimlott  Non-Executive Director of Provident Financial plc and Deputy Chairman of Hammerson plc
Alec Richmond  Head of Group Audit, Cadbury Schweppes plc
Paul Walsh  Chief Executive Officer, Diageo plc
Anthony Watson  Chief Executive, Hermes Pension Management Limited

Secretary
Robert Hodgkinson  ICAEW
Assistant Secretary
Jonathan Hunt ICAEW

Observers
Chris Hodge FRC
Stephen Spivey DTI

FRC STANDING ADVISORY GROUP ON PROACTIVITY

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Bill Knight Chair, FRRP
Eric Anstee Chief Executive, The Institute of Chartered Accountants in England and Wales
Kari Hale Director Finance, Strategy and Risk Review Division, FSA
Alistair Ross Goobey Hermes Pensions Management Ltd
Richard Greenhalgh Formerly Chairman, Unilever UK
Huw W. Jones Director of Corporate Finance, M&G Investment Management Limited
David Knox Managing Director, Cazenove & Co Ltd
Lynn Pearcy Technical Partner, KPMG LLP
Christopher Rawlins Director Policy Co-ordination Market & Policy Initiatives Division, Office of Fair Trading
Andrew Watchman Accountancy Advisor, DTI - to 31 August 2005
Annex D - Abbreviations

AIDB  Accountancy Investigation and Discipline Board
AIU   Audit Inspection Unit
APB   Auditing Practices Board
ARC   Audit Registration Committee
ASB   Accounting Standards Board
BAS   Board for Actuarial Standards
C(AICE)  Companies (Audit, Investigations & Community Enterprise) Act 2004
CCAB  Consultative Committee of Accountancy Bodies
CESR  Committee of European Securities Regulators
CGU   Corporate Governance Unit
DTI   Department of Trade and Industry
EFRAG European Financial Reporting Advisory Group
FRC   Financial Reporting Council
FRRP  Financial Reporting Review Panel
FRS   Financial Reporting Standard
FRSSE Financial Reporting Standard for Smaller Entities
FSA   Financial Services Authority
HMT   Her Majesty’s Treasury
IAASB International Auditing and Assurance Standards Board
IAS   International Accounting Standard
IASB  International Accounting Standards Board
ICAEW Institute of Chartered Accountants in England and Wales
ICAI  Institute of Chartered Accountants in Ireland
ICAS  Institute of Chartered Accountants of Scotland
IFRS  International Financial Reporting Standard
IFRIC International Financial Reporting Interpretations Committee
ISA   International Standard on Auditing
OFR   Operating and Financial Review
PCAOB Public Company Accounting Oversight Board
POBA  Professional Oversight Board for Accountancy
SIR   Standards for Investment Reporting
UITF  Urgent Issues Task Force
Annex E - Additional material available on the FRC website

The FRC website gives details of:

Our organisation

- our Regulatory Strategy
- our Plan & Budget for the current year and previous years
- the membership and activities of our six operating bodies
- our funding arrangements

Our publications

- Press Notices
- Discussion papers
- Reports
- Standards and guidance notes

In relation to our Annual Report 2005/06, the website includes:

- a supplementary report on our progress in relation to each of the work streams included in our Plan & Budget 2005/06
Annex F - Contact details

Questions about the Annual Report should be sent to:

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

e-mail: enquiries@frc.org.uk

Telephone: 020 7492 2300
Fax: 020 7492 2301

For general information about the work of the FRC, please see our website at: www.frc.org.uk.

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