

DISCUSSION DOCUMENT

ASSURANCE REPORTING ON PENSION TRUSTEES

(December 2011 AAF Pension Trustee Supplement¹ to ICAEW AAF 02/07)

Background

The Occupational Pension Schemes (Independent Trustee) Regulations 2005² require the Pensions Regulator (the Regulator) to compile and maintain a register of independent trustees that satisfies certain legislative conditions³ (the Trustee Register). These conditions are that the applicant:

- has sufficient relevant experience of occupational pension schemes;
- is a fit and proper person to act as a trustee of an occupational pension scheme;
- operates sound administrative and accounting procedures; and
- has adequate indemnity insurance cover.

The Trustee Register has been in place since 2005 and the Regulator may use it to appoint independent trustees (Independent Trustees) to pension schemes 'usually, on expedient or protective grounds, to ensure that the scheme is properly administered and the members protected when its employer is insolvent⁴.' Both individual and corporate Independent Trustees may apply to be on the Trustee Register, the decision is voluntary and being on the Trustee Register does not guarantee appointments.⁵

In December 2009, the Regulator consulted on proposed changes to how it assesses some of the conditions for inclusion on the Trustee Register. These changes were proposed to 'reflect the Regulator's experience of the trustee sector and aim to ensure that best practice and standards are increased and maintained by trustees on the Trustee Register⁶.'

One of the conditions that the Regulator proposed to amend and is covered within this Supplement is how the Regulator assesses whether an Independent Trustee operates and continues to operate 'sound administrative and accounting procedures.' Prior to the proposed amendment, Independent

¹ This supplement is issued on an interim basis with a view to incorporate good practice that is expected to evolve over time.

² SI 2005/703.

³ See section 23(4) of the Pensions Act 1995 (the Act) and regulation 3(b)(iii) of SI 2005/703.

⁴ *Consultation on the Pension Regulator's Trustee Register*, the Pensions Regulator, December 2009. p.4. Readers should note that Audit and Assurance Faculty or ICAEW has not been involved in the Regulator's consultation or the analysis of the consultation responses.

⁵ For further information, see <http://www.thepensionsregulator.gov.uk/trustees/about-the-trustee-register.aspx>.

⁶ See above, p. 3.

Trustees were required to demonstrate compliance with this condition by answering a series of questions set out by the Regulator in the application form for inclusion on the Trustee Register.

The consultation paper explained that the Regulator was intending to require all Independent Trustees to obtain an independent assurance report from a practitioner with regard to, amongst other things, the soundness of administrative and accounting procedures before they can be considered for acceptance on to the Trustee Register. It was also proposed that an annual assurance report would be required to remain on the Trustee Register.

The Regulator's report on the consultation responses reported that 'most respondents were in favour of the adoption and the use of assurance based approach' and intended to adopt it.⁷ Upon further discussions with the Audit and Assurance Faculty, ICAEW, the assurance reporting framework will be based on AAF 02/07 *A framework for assurance reports on third party operations*⁸ and not AAF 01/06 *Assurance reports on internal controls of service organisations made available to third parties* to which the Regulator's consultation initially referred.

The rationale for this change is that, in the light of the publication of International Standard on Assurance Engagements (ISAE) 3402 *Assurance reports on controls at a service organisation* by the International Auditing and Assurance Standards Board (IAASB), AAF 01/06 has increasingly been focusing on internal controls that relate to financial reporting notwithstanding that it is currently covers a wider range of internal controls. In contrast, AAF 02/07 sets out high-level guidance for practitioners who provide assurance reports on services and operations provided by expert third parties.

The Regulator will require the Independent Trustees to report on their internal control procedures (control procedures) to ensure 'sound administrative and accounting procedures' are in place, and to obtain an assurance report from a practitioner on the control procedures measured against a set of control objectives as criteria⁹. Assurance reports are intended to become part of the Regulator's process to check that the Independent Trustee operates sound administrative and accounting procedures.

In developing the Supplement, the Regulator discussed with ICAEW the development of a reporting model including a set of suitable criteria for use by Independent Trustees and by practitioners in evaluating the control procedures of an Independent Trustee's administrative and accounting procedures. Relevant explanations and illustrative control objectives are set out in paragraphs 15-19 and Appendix 1 of the Supplement respectively.

The Regulator has now indicated that trustees who offer pensions trustee services generally (including Pension Trustees who do not wish to be on the Trustee Register) may find it useful to evaluate the soundness of their administrative and accounting processes by voluntarily following the same reporting model¹⁰. This is because the guidance in the Supplement and the assurance reporting framework envisaged may help the service providers consider the importance of accepting responsibility for their own internal controls including their design, implementation and operation and to provide a written report evaluating the effectiveness of its control procedures for the relevant period. In the Supplement (including appendices) both the Independent Trustees and the other trustees are referred to collectively as 'Pension Trustees.'

For the purposes of assurance reporting on administrative and accounting processes the Regulator has determined that the control objectives Appendix 1 of this Supplement, which were developed by ICAEW in association with the Regulator, are suitable criteria as defined in paragraphs 37 to 41 of AAF 02/07 with respect to control procedures of Pension Trustees. Each control objective is

⁷ *Changes to our Trustee Register*, the Pensions Regulator, May 2010, page 8.

⁸ AAF 02/07 is available from www.icaew.com/index.cfm/route/157906.

⁹ Consultation paper, p.17.

¹⁰ <http://www.thepensionsregulator.gov.uk/trustees/assurance-reporting-framework.aspx>

accompanied by a principle that the Regulator developed to provide the context and to facilitate the application of control objectives in the light of 'sound administrative and accounting procedures' in individual circumstances.

Assurance reporting on the internal control procedures of Pension Trustees

The Pension Trustee Supplement to AAF 02/07 has been jointly developed by ICAEW and the Regulator for both Pension Trustees and practitioners engaged to issue an independent assurance report whereby:

- Pension Trustees report on the description, design, and operating effectiveness of its control procedures related to the control objectives set out in this Supplement; and
- Practitioners undertake procedures to issue a reasonable assurance report on the description, design and operating effectiveness of the Pension Trustee's relevant control procedures related to the control objectives set out in this Supplement.

AAF 02/07 was issued to provide a framework for performing assurance engagements on various aspects of operations provided by external organisations (third party operations) and which may be subject to external examination. It sets out the key elements of an assurance report including a conclusion in an agreed form. For the purposes of reporting on Pension Trustee's administrative and accounting procedures, the assurance report should cover:

- (a) The description of the control objectives and control procedures;
- (b) The design effectiveness of the control procedures to meet the control objectives; and
- (c) The operating effectiveness of the control procedures.

The control objectives against which the detailed control procedures may be evaluated are set out in Appendix 1. Appendix 1 contains of 22 control objectives and the table in paragraph 25 of the Supplement sets out their applicability depending on the purpose of reporting by the Pension Trustee.

Readers note that not all of the Pension Trustee's business activities need be considered when evaluating whether their control procedures meet the specific control objectives. It is sufficient for the control procedures to be considered to the extent they are relevant to the control objectives that relate to the Pension Trustee's own business operations providing pensions trustee services¹¹. The Pension Trustee should be able to demonstrate why its control procedures are reasonable and proportionate given both the extent of its pensions trustee service and the size of its overall business operations, and the extent to which their pension trustee appointment is undertaken alongside other trustees, as trustee appointments vary and sometimes there will be other trustees on the trustee body. The control objectives are, therefore, intended to be considered with sole and other appointments in mind, recognising that the operational effectiveness of control objectives for appointments other than sole appointments will sometimes be constrained by the constitution of the trustee body.

For the purpose of assurance reporting, the guidance in the Supplement also focuses on those aspects of the administrative and accounting processes that are relevant to the Pension Trustee's own business operations for providing pensions trustee services. Assurance reports cover control objectives that are relevant to the purpose of reporting by the Pension Trustee. The control objectives included in the Supplement relate to their own business operations for providing pensions trustee services and not in relation to a specific aspect of administrative and accounting procedures that impact an individual pension scheme.

¹¹ Means 'the work as a trustee carried out by the applicant in relation to trust schemes', regulation 1(2) of the Regulations.

Paragraphs from 37 to 41 of AAF 02/07 set out key matters relevant to the determination of suitable criteria and hence control objectives to be used as evaluation criteria. The Supplement requires that control objectives:

- are relevant, complete, reliable, neutral and understandable so as to communicate the basis of the evaluation;
- collectively reflect the level of control of the Pension Trustees to satisfy the conditions set out in the relevant regulation for those trustees who would like to be admitted on to the Regulator's Trustee Register; and
- are guidance only and not intended to be exhaustive and it remains the responsibility of the Pension Trustee to ensure that the control objectives that it describes are sufficient to satisfy the conditions and to add further objectives and supporting control procedures where appropriate. If certain criteria do not apply to a Pension Trustee, for example because the relevant activities are outsourced, the Pension Trustee explains the omission of the criteria in the directors' report.

Pension Trustees are responsible for providing information on specific control procedures in place to meet the control objectives. Suitable control procedures will vary from Pension Trustee to Pension Trustee. Therefore, the disclosure of how each objective is addressed by a Pension Trustee should be unique to the Pension Trustee.

Invitation for comment

Comments should be sent by 15 March 2012 to the address below:

Jo Iwasaki
Audit and Assurance Faculty
The Institute of Chartered Accountants in England & Wales
Chartered Accountants' Hall
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London
EC2P 2BJ

For ease of handling, please send comments by e-mail to Jo Iwasaki at jo.iwasaki@icaew.com. We may publish comments received as part of our response unless explicitly requested by you otherwise.

Specific questions on which we would welcome commentators' views are as follows:

- Question 1
Are the control objectives set out in this Supplement appropriate and relevant? If not, what are the obstacles? Are the Principles useful in applying the objective?
- Question 2
Are the control objectives complete and proportional? If not, what control objectives should we add or remove?
- Question 3
Is the guidance in the Supplement clear (i) to the Pension Trustees and (ii) to practitioners? If not, what further explanation should we provide?
- Question 4
In this paper, we suggest that an assurance opinion is given on three aspects (description, design and operating effectiveness) of the internal controls relating to the specific Pension Trustee activities. What is your opinion of the value of having these aspects separately assessed?
- Question 5
The control objectives in Appendix 1 are intended to apply to pension trustees of all sizes.
 - (i) If you are a Pension Trustee, would you say that these are appropriate and relevant to your business operations for providing pensions trustee services?
and
 - (ii) If you are a practitioner, is the guidance clear when assessing how pension trustees applied relevant control objectives?

Exposure draft

Assurance reporting on Pension Trustees

(December 2011 AAF Pension Trustee Supplement¹² to ICAEW AAF 02/07)

1. This Pension Trustee Supplement provides guidance on assurance reporting on the Independent Trustee's internal control procedures (control procedures). The Pensions Regulator (the Regulator) uses the assurance report to check the Independent Trustee's compliance with one of the conditions for an Independent Trustee to meet to be on the Regulator's Trustee Register. The condition is that the Independent Trustee has 'sound administrative and accounting procedures in place'¹³.
2. The Supplement may also be used voluntarily by other trustees who offer pensions trustee services. In this Supplement and in appendices, both types of trustees are referred to collectively as 'Pension Trustees' unless specified otherwise. The guidance supplements ICAEW Technical Release AAF 02/07 *A framework for assurance reports on third party operations*. The development of the guidance is based on discussions held between the Regulator and the Audit and Assurance Faculty of ICAEW. They will keep this Supplement under review.
3. AAF 02/07 was issued to provide a framework for performing assurance engagements on various aspects of operations provided by external organisations. The principles underlying the guidance are broadly applicable to Pension Trustees who are responsible for putting in place and maintaining control procedures designed to operate 'sound administrative and accounting procedures' related to Pension Trustees own business operations for providing pensions trustee services¹⁴. While this Supplement refers to specific sections of AAF 02/07, this does not replace the need to read the guidance AAF 02/07 in its entirety and apply as appropriate.
4. The Pension Trustee Supplement consists of:
 - Assurance reporting on the control procedures over the administrative and accounting procedures;
 - Guidance for practitioners;
 - Appendix 1: Principles and related control objectives on 'sound administrative and accounting procedures';
 - Appendix 2: Example paragraphs from the report by the Pension Trustee; and
 - Appendix 3: A pro forma practitioners' assurance report on the internal control procedures of the Pension Trustee.

¹² This supplement is issued on an interim basis with a view to incorporate good practice that is expected to evolve over time.

¹³ Section 23(4) of the Pensions Act 1995 and the Occupational Pension Schemes (Independent Trustee) Regulations 2005 (SI 2005/703) (the Regulations).

¹⁴ Means 'the work as a trustee carried out by the applicant in relation to trust schemes', regulation 1(2) of the Regulations.

Assurance reporting on the control procedures over the administrative and accounting procedures

The responsibility of Pension Trustees

5. In accordance with the Regulator's Principles set out in Appendix 1 of this Supplement¹⁵, Pension Trustees evaluate their control procedures regarding their administrative and accounting procedures by reference to the control objectives set out for each Principle. Where appropriate, e.g. to be considered for acceptance on to or remain on the Trustee Register, the Regulator requires Pension Trustees to seek an independent assurance report on their control procedures.

Assurance reporting on Pensions Trustees' administrative and accounting procedures

6. The IAASB Assurance Framework, on whose principles ISAE 3000 and AAF 02/07 are based on, sets out five elements of an assurance engagement. These five elements are:
 - Three party relationship;
 - An appropriate subject matter;
 - Suitable criteria;
 - Sufficient appropriate evidence; and
 - A written assurance report in the form appropriate to the type of assurance engagement.

Certain aspects of these elements are likely to require specific consideration in the context of this Supplement. These are three party relationship, an appropriate subject matter and suitable criteria and are discussed below.

Three party relationship

7. Assurance engagements involve three parties: a responsible party, intended users, and a practitioner.

Responsible party

8. The responsible party performs operations or provides information for the benefit of the intended user and hence is responsible for the subject matter over which assurance is sought. The responsible party is the Pension Trustee in the context of this Supplement. Pension Trustees are responsible for their administrative and accounting procedures.
9. The Pension Trustee prepares a written report setting out its responsibilities and describing the control procedures in place to support the control objectives set out in this Supplement. The report also includes the Pension Trustee's conclusion on the description, design and operating effectiveness of those control procedures. When making this statement in their report, Pension Trustee states that it is referring to the control objectives in this guidance¹⁶ and whether they intend to submit the practitioner's report to the Regulator in support of their application to be on or to remain on the Trustee Register.
10. Example paragraphs from an illustrative Pension Trustee's report are set out in Appendix 2.

Intended users

11. The intended users of an AAF 02/07 report are typically the recipients of services, relating to assets or information of the responsible party. Depending on the purpose of reporting by the Pension Trustee, the intended users would vary and this Supplement considers two different

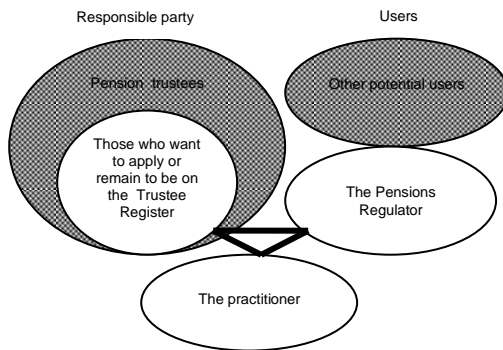
¹⁵ Developed in 2011. For further information, see footnote 18.

¹⁶ AAF 01/06 Appendix 1(g) provides criteria related to information technology that may provide useful reference.

forms of the three-party relationship below. Depending on which three-party relationship applies, the control objectives and supporting control procedures of the Pension Trustee would vary accordingly (see paragraph 25).

12. Where the Pension Trustee intends to allow the Regulator to have sight of and rely on the report for the purposes of the Trustee Register, considerations related to the relationship envisaged in Figure (a) below apply.

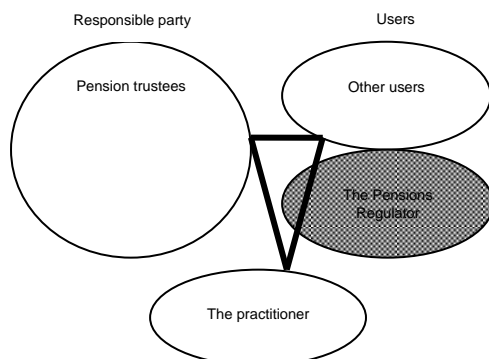
(a) Where the Pension Trustee wishes to be on the Trustee Register



13. Those Independent Trustees need to be aware that the control objectives and supporting control procedures are designed to assist the Regulator in assessing whether Pension Trustees have 'sound administrative and accounting procedures'¹⁷, and communicate the fact to the practitioner. The practitioner should also be mindful that there remains the possibility that the Pension Trustee could intend to allow a third party (other than the Regulator) to have sight of the report or might do so at a later date. Control objectives required at minimum by the Regulator consists of (i) and (ii) in the table in paragraph 25. The Pension Trustee may include those from (iii), if it considers them relevant and appropriate.

14. Where the Pension Trustee intends to allow a third party (other than the Regulator) to have sight of the report or might do so at a later date, considerations related to the relationship envisaged in Figure (b) below apply.

(b) Where the Pension Trustee voluntarily applies control objectives



15. The purpose of reporting by the Pension Trustee on its control objectives and supporting control procedures may be to enhance the confidence of management over their procedures related to administrative and accounting procedures or to increase the confidence of current and possibly prospective users. The Pension Trustee communicates to the practitioner the purpose of its report and the associated assurance reporting need. Relevant control objectives

¹⁷ See *Background of Consultation* paper, p.4.

are under (i) in the table in paragraph 25 but the Pension Trustee may include those from (ii) and (iii) voluntarily if the Pension Trustee considers them relevant and appropriate.

Practitioner

16. The practitioner performs the assurance engagement on the Pension Trustee's reporting on their control procedures. Relevant, generic guidance for the practitioner is set out in AAF 02/07 in the section entitled (a) *Engagement with the responsible party* within *Third party operations* (paragraphs 13 – 15) and *Where the responsible party is the client* in AAF 02/07 (paragraphs 58 - 61). As the Supplement covers different purposes of Pension Trustee reporting, practitioners consider AAF 04/06 *Assurance engagements: Management of risk and liability* to determine a suitable form of engagement accordingly. Further guidance for the practitioner is set out in the next section.
17. Where a Figure (a) type relationship exists, the practitioner notes that the intended user is the Regulator as the Pension Trustee will submit a copy of the assurance report when it applies to be on the Trustee Register to accompany the application form to the Regulator. The practitioner needs to also clarify if there is any additional purpose for which the assurance report is being sought, the potential party (or parties) seeking to benefit from the assurance report, and the use that may be made of the assurance report [and refer to considerations related to a Figure (b) type relationship].
18. When requested to provide an assurance report in a Figure (b) type relationship, the practitioner needs to clarify the purpose for which the assurance report is being sought, the party (or parties) seeking to benefit from the assurance report, and the use that will be made of the assurance report.

An appropriate subject matter

19. The subject matter in assurance reporting envisaged in this Supplement is the control procedures related to the Pension Trustee's administrative and accounting procedures. The Pension Trustee prepares a written report describing the control procedures it has designed and implemented to deliver its trustee service at a given date or for a given period having regard to appropriate criteria including the control objectives set out in this Supplement and any other control objectives deemed relevant to administrative and accounting procedures by the Pension Trustee.
20. Not all of the Pension Trustee's business needs be considered when evaluating whether the Pension Trustee's control procedures meet the control objectives. It is sufficient for the control procedures to be considered to the extent they are relevant to the control objectives that relate to the Pension Trustee's own business operations for providing pensions trustee services. Paragraph 25 sets out the applicability of control objectives to different purposes of reporting by Pension Trustees.
21. Trustee appointments vary and sometimes there will be other trustees on the trustee body. The control objectives are, therefore, intended to be considered with sole and other appointments in mind, recognising that the operational effectiveness of control objectives for appointments other than sole appointments will sometimes be constrained by the constitution of the trustee body.
22. Where administrative services of the Pension Trustee's own business operations are outsourced, the Pension Trustee may wish to obtain an appropriate assurance report from the service organisation to which the Pension Trustee has outsourced these services as part of their evidence of monitoring those outsourced activities.

Suitable criteria

23. The control objectives in Appendix 1 are considered to be suitable criteria for the evaluation of whether the Pension Trustees have 'sound administrative and accounting procedures' in so far as they are relevant to the control objectives which relate to Pension Trustee's own business operations for providing pensions trustee services as set out in paragraph 9. The control objectives included in the Supplement relate to their own business operations for providing pensions trustee services and not in relation to a specific aspect of administrative and accounting procedures that impact an individual pension scheme.

24. Control objectives:

- need to be relevant, complete, reliable, neutral and understandable so as to communicate the basis of the evaluation;
- need to collectively reflect the level of control of the Pension Trustees to satisfy the conditions set out in the relevant regulation for those trustees who would like to be admitted on to the Regulator's Trustee Register; and
- are guidance only and not intended to be exhaustive and it remains the responsibility of the Pension Trustee to ensure that the control objectives that it describes are sufficient to satisfy the conditions and to add further objectives and supporting control procedures where appropriate. If certain criteria do not apply to a Pension Trustee, for example because the relevant activities are outsourced, the Pension Trustee explains the omission of the criteria in the directors' report.

25. The Regulator indicated that the applicability of control objectives differ depending on the purpose of the Pension Trustee's reporting on their administrative and accounting procedures and the intended users. The table below sets out the overview of applicable control objectives. Pension Trustees may exclude control objectives that are optional from the scope of reporting. Assurance reporting covers only the control objectives that Pension Trustees have reported on.

	Control objectives	Pension trustees	
		Trustees applying to be or remain on the Trustee Register ¹⁸	All other Trustees
(i)	1, 9, 11, 14-20, and 22 (Core objectives)	Applicable	Applicable
(ii)	2-7	Applicable	Optional
(iii)	8, 10, 12, 13, and 21	Optional	Optional

26. The Pension Trustee describes control procedures for a complete set of associated control objectives that are developed based on the criteria in Appendix 1. If there are omissions or misstatements with regard to the control objectives, in particular in the report by the Pension Trustee who wishes to be on the Trustee Register, the practitioner asks them to amend the description. If it is not amended the practitioner considers the need to state that fact in their report.

27. The Pension Trustee is responsible for providing information on specific control procedures in place to meet the control objectives. Suitable control procedures will vary from Pension Trustee to Pension Trustee; therefore, the disclosure of how each objective is addressed by a Pension Trustee should be unique to the Pension Trustee.

28. The Pension Trustee explains in its report and to the practitioners how its control procedures relate to the control objectives for the provision of its pensions trustee services. The Pension

¹⁸ For the purposes of the Trustee Register, applicants should note that the Regulator has advised that they will only consider those assurance reports which cover at least control objectives in (i) and (ii).

Trustee should be able to demonstrate why its control procedures are reasonable and proportionate given both the extent of its pension trustee service and the size of its business operations and the extent to which its pension trustee appointment is undertaken alongside other trustees.

Other information provided by Pension Trustees

29. Pension Trustees may include in their report information that is not a part of the description of control objectives and procedures that relate to 'sound administrative and accounting procedures' and relate to Pension Trustees' own business operations for providing pensions trustee services. If Pension Trustees include other information, they should make it clear that this information would be outside the scope of assurance reporting unless there is a specific agreement with the practitioners in the engagement letter that it should be included.

Obtaining evidence regarding operating effectiveness of controls

30. Where the practitioners are unable to test a described control procedure because, for example, it has not operated during the year, they state the fact that no tests have been carried out and the reason in their description of tests.

Guidance for practitioners

31. Practitioners refer to the principles set out in AAF 02/07. The role of practitioners in the assurance reporting framework envisaged in AAF 02/07 is set out in paragraph 29-32.
32. Practitioners refer to the section entitled *Guidance for practitioners* (paragraphs 46 – 105) and apply them as appropriate to the engagement. In particular, practitioners understand and agree the scope and purpose of assurance engagement between the parties to the engagement as set out in the sub-section entitled *Agreeing the terms of engagement*, and in doing so refer to AAF 04/06 *Assurance engagements: Management of risk and liability* discussed in paragraph 57 of AAF 02/07.
33. Practitioners note that they are governed by ethical and quality control requirements as set out in paragraphs 51–56.

Assurance report

34. Practitioners conclude on the fairness of the description and the design and operating effectiveness of control procedures in relation to a specified reporting period. Practitioners' conclusion is expressed in a written assurance report attached to the Pension Trustee's report.
35. The assurance report reflects the agreement set out in the engagement letter. The report makes it clear for whom it is prepared and who is entitled to rely upon it and for what purpose as established in accordance with AAF 04/06.
36. Control procedures have inherent limitations and accordingly errors and irregularities may occur and not be detected. Also control procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding position of authority or trust. Practitioners refer to such inherent limitations in their report.
37. A Pro-forma practitioners' assurance report on the internal control procedures of Pension Trustees is available in Appendix 3.

Reporting on description misstatements, design deficiencies or when control procedures are not operating effectively

38. Practitioners discuss with the pension trustees when they become aware that the control objectives in place are not in accordance with those set out in paragraph 25 so that the pension trustees may amend the description to include the specified control objective(s). If the pension trustees do not do so the practitioners add an explanation in the assurance report identifying the omitted or inappropriate control objective(s) to draw the attention of the relevant users. In addition, the wording of the conclusion paragraph may also be modified.
39. Although practitioners may qualify their conclusion on the fairness of the description of control procedures, this does not necessarily affect the suitability of design or operating effectiveness of the control procedures because the reporting accountants' conclusion relates only to the control objectives that are included in the pension trustee's description. Practitioners note that it is the responsibility of the pension trustees and not the practitioners to ensure the completeness and the reasonableness of control procedures over the 'sound administrative and accounting procedures.'
40. Where control procedures associated with stated control objectives are incomplete or inappropriate, practitioners also discuss this with the pension trustees so that the pension trustees may amend the description to include the associated control procedures. If the pension trustees do not amend the description, the reporting accountants add an explanatory

paragraph preceding the conclusion to the report identifying the omitted or inappropriate control procedures to draw the attention of the users of the report. In addition, the wording of the conclusion paragraph may be modified.

41. Where practitioners conclude that a set of control procedures are not suitably designed in relation to a specified control objective, they consider the design deficiencies in their overall assessment of the control procedures. If the practitioners determine that control procedures are not suitably designed to achieve a specified control objective, they add an explanatory paragraph preceding the conclusion to the report identifying the design deficiencies and modify the conclusion.
42. Where practitioners' tests identify exceptions to the operating effectiveness of the control procedures, they consider whether this exception means that a control objective has not been achieved. In some cases deficiencies may be so pervasive that the reporting accountants modify their conclusion on the achievement of one or more control objective or issue an adverse opinion.
43. Where significant changes are introduced during the period covered in the report, the pension trustees report this fact. If pension trustees become aware that the description on changes is missing, they request the pension trustees to amend the description. However, the omission of information related to changes in the pension trustees' control procedure does not warrant a qualification of the conclusion on the fairness of the description, provided that the directors' description of control procedures is fair as at the date of the description.

Appendices

1. Principles and related control objectives on 'sound administrative and accounting procedures'

This appendix sets out detailed control objectives for Pension Trustees referred to in paragraph 5 developed in association with the Regulator. Control objectives are accompanied by principles¹⁹ that the Regulator developed to provide the context and to facilitate the application of control objectives in the light of 'sound administrative and accounting procedures' in individual circumstances.

These control objectives are for guidance only and are not intended to be exhaustive, and it remains the responsibility of the Pension Trustee to ensure that the described control objectives are sufficient to meet the requirement to have 'sound administrative and accounting procedures.'

Pension Trustee's control procedures should be evaluated against the control objectives to the extent that the Pension Trustee considers that they are relevant to their own business operations for the provision of its pensions trustee services. A Pension Trustee considers whether these control procedures are reasonable and proportionate given both the extent of their pensions trustee services, the size of their business operations, and the extent to which their pension trustee appointment is undertaken alongside with other trustees. The control objectives are, therefore, intended to be considered with sole and other appointments in mind, recognising that the operational effectiveness of control objectives for appointments other than sole appointments will sometimes be constrained by the constitution of the trustee body.

For the purpose of assurance reporting, the guidance in the Supplement focuses on those aspects of the administrative and accounting processes that are relevant to the Pension Trustee's own business operations for providing pensions trustee services. Paragraph 25 sets out the applicability of control objectives depending on the purpose of reporting by Pension Trustees.

The control objectives specified in this appendix are intended to be a minimum set of control objectives for inclusion in the Pension Trustee's report. Exceptionally, in the event that the Pension Trustee decide not to include a particular control objective, perhaps because the control objective and all the related control procedures are outsourced, the Pension Trustee should explain in its report the fact and reasons for the omission and describes the functions and nature of the description of the activities performed by the service providers.

A. ACCEPTING BUSINESS

(i) Principle

The Pension Trustee ensures adequate processes are in place to assess the suitability of new engagements prior to taking on new business. This would include a recorded assessment and evaluation of key risks associated with new engagements including the ability of the Pension Trustee to competently service this new work and fulfil statutory duties.

Control objective

1. Prior to accepting a new Pension Trustee appointment (including those functions and services ancillary to this work), the risks associated with this appointment are identified, recorded, and assessed having regard to the issues facing the pension scheme which is the subject of the appointment, given its size and complexity.

¹⁹ These principles are developed by the Regulator in 2011 for the purpose of providing the context and facilitating the application of control objectives in the light of 'sound administrative and accounting procedures' in individual circumstances.

B. OFFICERS AND KEY PERSONS²⁰ AND PENSION REGULATOR COMPLIANCE

(ii) Principle

The Pension Trustee maintains adequate procedures to ensure that roles, responsibilities and duties of Officers and Key Persons are documented and their ongoing performance is subject to periodic quality reviews.

Control objective

2. Roles, responsibilities and duties of Officers and Key Persons in relation to Pension Trustee appointments (including those functions and services ancillary to this work) are documented and also subject to ongoing performance review.
3. Key Pension Trustee business decisions are identified, evaluated, managed and monitored. They are duly recorded, properly authorised and reviewed by someone other than the decision-maker. The review is recorded.

(iii) Principle

The Pension Trustee maintains adequate procedures for identifying, monitoring and managing conflicts of interest that could affect decision making.

Control objective

4. Officer and Key Person conflicts of interest (as well as those providing pension trustee services) are identified and addressed in accordance with the conflicts of interest policy.

(iv) Principle

The Pension Trustee develops and maintains adequate arrangements to minimise disruption in the event that a Key Person is not able to fulfil his/her role due to periods of absence.

Control objective

5. There are contingency plans in place should a Key Person be absent.

(v) Principle

The Pension Trustee maintains adequate procedures, including management information systems, for capturing and reporting information which must be notified to the Regulator.

Control objective

6. Notifications to the Regulator, including changes to Officers and Key Persons, and periodic information returns are accurately compiled and submitted on a timely basis.

(vi) Principle

The Pension Trustee maintains adequate procedures for maintaining pensions knowledge and managing training requirements.

Control objective

7. Training is conducted and training records are maintained for Officers and Key Persons (as well as those providing pension trustee services) in accordance with the training policy.

²⁰ For the definition of Key Person and Officer that appear in this Appendix, see regulations 1(2) and 3(c) of the Regulations and the Regulator's guidance at: www.thepensionsregulator.gov.uk/docs/trustee-register-corporate-guidance-notes.pdf. These definitions are to be used for the purposes of those Independent Trustees seeking to join (or

C. ADMINISTRATIVE AND ACCOUNTING

(vii) Principle

The Pension Trustee maintains a formal process for selecting and appointing advisers and service providers and should develop a set of suitable criteria to assist the appointment process.

Control objective

8. The appointment of advisers and service providers are subject to a suitable selection criteria and a documented authorisation process.

(viii) Principle

The Pension Trustee maintains a formal process for appointing and monitoring all scheme advisers, at least annually, which must include an ongoing assessment of the quality of service or advice provided to the scheme in question.

Control objective

9. The performance of advisers and service providers is subject to the contractual terms and Service Level Agreements and is monitored.
10. Investment performance generated by third party investment managers is monitored having regard to the Statement of Investment Principles and investment mandates.

(ix) Principle

The Pension Trustee maintains adequate financial management controls which ensure proper books and records are maintained and kept up to date.

Control objective

11. Pension Trustee fees and scheme expenses are accurately calculated in accordance with the terms of appointment, suitably authorised and recorded on a timely basis.
12. Scheme accounts or other forms of summarised financial information are prepared or obtained from service providers on a regular basis in a timely manner.
13. Books and records relating to the Pension Trustee appointment are maintained and kept up-to-date.

(x) Principle

The Pension Trustee maintains adequate financial management controls to segregate client assets and assets of Pension Trustees own business. All transactions are subject to authorisation procedures and these are clearly documented.

Control objective

14. Cash and other assets held by, or on behalf of, the Pension Trustee in respect of Pension Trustee appointments is segregated and safeguarded. Payments and receipts are suitably authorised and controlled.

(xi) Principle

The Pension Trustee ensures that arrangements are in place for formally recording minutes of all formal meetings held by the Pension Trustee.

remain on) the Trustee Register. For other Pension Trustees, those applicable control objectives should be applied to their equivalents.

Control objective

15. Minutes or other written records are maintained for all key meetings and decisions taken by the Pension Trustee in relation to the provision of pension trustee work (including those functions and services ancillary to this work).

D. OTHER COMPLIANCE

(xii) Principle

The Pension Trustee is able to demonstrate that they have sufficient knowledge and skills to ensure that, upon appointment, he/she will ensure that the scheme is operated in accordance with the Trust Deed and Rules and other regulatory requirements.

Control objective

16. Pension Trustee appointments are conducted in accordance with constitutional documents and relevant contracts with advisers and service providers and in compliance with applicable legal requirements and regulatory materials and codes of practice.

E. RISK MANAGEMENT

(xiv) Principle

As part of the Pension Trustee's due diligence process, the Pension Trustee maintains a risk management framework to manage and record business risks and this is subject to ongoing review and assessment (at least annually).

Control objective

17. A review of risk with respect to Pension Trustee appointments (including those functions and services ancillary to this work) is undertaken periodically (and at least annually) and risks are identified and evaluated. The risks and mitigations are recorded in a risk register.

(xv) Principle

The Pension Trustee maintains a documented process for authorising and supervising delegations.

Control objective

18. Delegations (including roles and responsibilities) within the organisation relating to Pension Trustee appointments (including those functions and services ancillary to this work) are clearly documented and authorised.

(xvi) Principle

The Pension Trustee maintains adequate risk management systems and controls in house to help identify, manage and correct financial and compliance errors on a timely basis

Control objective

19. Financial and compliance errors arising in the conduct of Pension Trustee appointments (including those functions and services ancillary to this work) are corrected promptly.

E. INFORMATION TECHNOLOGY

(xvii) Principle

The Pension Trustee maintains adequate controls which help ensure the integrity and security of its computerised information systems and databases.

Control objective

20. Computerised information systems have restricted physical and logical access including appropriate measures to counter the threat from malicious electronic attack (e.g. firewalls, anti-virus etc).
21. Maintenance and development of systems, applications and software is authorised, tested, approved and implemented.
22. Data and systems are backed up regularly and business and information recovery plans are documented, approved and maintained.

2. Example paragraphs from the report by the Pension Trustee

The following text contains example paragraphs from an illustrative Pension Trustee's report.

As [name of Pension Trustee], we are responsible for the identification of control objectives to be applied for the purpose of demonstrating 'sound administrative and accounting procedures' relating to Pension Trustee's own business operations for providing pensions trustee services work **[[for those trustees who wish to apply/remain on the Trustee Register]** and in connection with its application to be on/to remain on] the Pensions Regulator's Trustee Register (under section 23(4) of the Pensions Act 1995)] and the design, implementation and operation of the control procedures of [name of Pension Trustee] to provide reasonable assurance that the control objectives identified in pages [] to [] are achieved.

In carrying out those responsibilities, we have regard to the requirements of the business and the general effectiveness and efficiency of the relevant operations.

We have evaluated the effectiveness of the [name of Pension Trustee]'s control procedures having regard to ICAEW's Technical Release AAF 02/07 including its Pension Trustee Supplement and the criteria set out therein.

We set out in this report a description of the relevant control procedures together with the related control objectives which operated during the period [x] to [y] and confirm that:

- a. the report describes fairly the control procedures that relate to the control objectives referred to above which were in place as at [date];
- b. the control procedures described were suitably designed throughout the period [x] to [y] such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
- c. the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the specified period.

Director²¹

Date

3. Signed on behalf of [name of Pension Trustee]

²¹ See the definition in footnote 19, page 13.

3. A pro forma practitioners' assurance report on the internal control procedures of Pension Trustees

Practitioners issue an assurance report in a form suitable for the specific engagement. The report below is adapted from a pro forma assurance report (ii) (a) Appendix 2 of AAF 02/07 for the purpose of reporting in relation to the Pension Trustee's control objectives related to their 'sound administrative and accounting procedures' as set out in the Pension Trustee's report in Appendix 2 of this Supplement.

Independent practitioners' assurance report on the internal control procedures of Pension Trustees

To xxxxx (See AAF 02/07 for wording)

Use of Report

(Example wordings to describe applicable restrictions on the use of the report, together with supporting guidance on alternative forms of engagement and associated duties of care arising, are set out in AAF 02/07. However, restrictions should not exclude the Regulator's use of the report as support to the Pension Trustee's application to be on, or remain on, the Trustee Register).

Scope

We have been engaged to report on [name of Pension Trustee]'s control procedures designed to achieve the control objectives throughout the period [date] to [date] as attached to this document in Appendix [...].

Pension trustee's responsibilities

[Name of Pension Trustee]'s responsibilities and assertions are set out on page [] of your report.

Our responsibilities

Our responsibility is to form an independent opinion, based on the work carried out in relation to the control procedures of [name of Pension Trustee]'s as described in your report and report this to [name of Pension Trustee].

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 and with ICAEW Technical Release AAF 02/07 including its Pension Trustee Supplement. ISAE 3000 and AAF 02/07 require, among other things, that we comply with ethical and other professional requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the fairness of the description by [name of Pension Trustee] and the control procedures are suitably designed and operating effectively. The criteria against which the control procedures were evaluated are the control objectives developed for the Pension Trustees as set out within the Pension Trustee Supplement to AAF 02/07 and identified by the Pension Trustees as control objectives to be applied for the purpose of demonstrating 'sound administrative and accounting procedures' **[[For those Pension Trustees who wish to apply/remain on the Trustee Register]** and in connection with its application to be on/to remain on] the Pensions Regulator's Trustee Register (under section 23(4) of the Pensions Act 1995)].

Our work involved performing procedures to obtain evidence about the presentation of the Pension Trustee's description of its pension trustee services, and the design and operating effectiveness of the control procedures. Our procedures include assessing the risks that the description is not fairly presented, and that the controls procedures were not suitably designed or operating effectively.

Our procedures included testing the operating effectiveness of those control procedures identified by [name of Pension Trustee] as relevant, reasonable and proportionate in relation to its pensions trustee services and necessary to obtain reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also included evaluating the overall presentation of the description, the suitability of the objectives stated therein.

Inherent limitations

[Name of Pension Trustee]'s description was prepared to meet the common needs of a broad range of pension schemes and may not, therefore, include every aspect of control procedures that may be relevant to each individual pension scheme appointment. Also, because of their nature, control procedures at [name of Pension Trustee]'s may not prevent or detect and correct all errors or omissions in performing administrative and accounting procedures.

Our opinion is based on historical information. The projection of any evaluation of the fairness of the presentation of the description, or opinion about the suitability of the design or operating effectiveness of the control procedures to future periods would be inappropriate.

Opinion

In our opinion, in all material respects:

- i. the accompanying Pension Trustee's report describes fairly the control procedures that relate to the control objectives referred to above which were in place as at [date];
- ii. the control procedures described on pages [] to [] were suitably designed such that there is reasonable but not absolute assurance that the specified control objectives would have been achieved if the described control procedures were complied with satisfactorily; and
- iii. The control procedures that were tested, as set out in the attachment to this report, were operating with sufficient effectiveness for us to obtain reasonable but not absolute assurance that the related control objectives were achieved in the period [x] to [y].

[Name of firm]
Chartered accountants
[Location]
[Date]