

Confidence in Pensions





## The challenge for trustees

“ As the landscape we regulate continues to evolve – and we prepare for our new responsibilities from 2012 – our focus will be on ensuring our risk-based approach to regulation remains fit for purpose. ”

**Pensions Regulator, former Chief Executive Tony Hobman – January 2010**

Today's pensions landscape is markedly different from that which has gone before. The scandals of the nineties and the deficits of defined benefit schemes since 2000, have generated new legislation and regulations that have created a complex and highly regulated industry. These challenges will continue into the new decade of 2010 and beyond, exacerbating the demands placed on trustees.

The issues arising from the 1995, 2004 and 2008 Pension Acts and other developments that now demand the attention of the trustee include:

- risk management and improved governance
- assessment of employer's financial strength, or covenant
- ensuring robust funding levels
- using increasingly complex investment models
- review of ongoing pension provision in association with employers.

The attitude of the state has also changed with a clear shift towards private pension provision and the prospect of ever diminishing state benefits.

This is evident in the proposed introduction of the National Employment Savings Trust (NEST) which will have an impact on occupational schemes provided by employers.

Trustees, now more than ever, must find ways to protect the interests of their members and preserve their pension rights whilst meeting the needs of the sponsoring employer. Obtaining the right advice at the right time from specialist service providers is vital if trustees are to achieve this goal.



# Audit and assurance

In making an auditor appointment, trustees should look for a firm that can provide technical expertise, help the trustees understand the issues and maintain professional independence.

## Baker Tilly's Pensions Group:

- is a recognised specialist with a proven commitment to pension scheme audits
- acknowledges the need for separate skills in this discipline and maintains dedicated pension audit departments and teams
- keeps abreast of developments in the pensions world and is able to advise trustees and other professionals on current practice and regulatory requirements
- has strong connections with other pension specialists – actuaries, administrators, lawyers, investment managers, investment advisers and custodians
- has a thorough understanding of the needs of the scheme trustees and members.

## Audit approach

Our risk based audit methodology utilises methods and techniques to cover all types of schemes. The approach is tailored according to the specific needs of each scheme. We therefore provide assurance that all key risks are adequately covered efficiently. If required, we can provide additional assurance as appropriate on areas such as benefit calculations, transition between investment managers and the valuation of complex investments.

As part of our audit work, we add value by alerting trustees to existing and potential problems, giving positive input into the running of a scheme. Our post audit reports also provide the trustees with details of the latest developments in the pensions industry and comment on best practice.

## Technical expertise

Our Pensions Group consists of partners and specialist staff who have considerable hands-on experience of pension scheme audits and have had direct involvement in a vast range of accounting and audit issues.

Experience is shared through regular training sessions attended by everyone involved in the audit of pension schemes. We are actively involved in the Institute of Chartered Accountants in England and Wales (ICAEW), PRAG, NAPF and PMI - attendance and participation at external courses and conferences adds to our overall technical expertise.

We share our expertise externally by the production of regular newsletters ('Trust e-matters') and provide ad-hoc updates for our pension scheme clients, trustees and others as appropriate. These address detailed technical issues as well as explaining best practice. We also hold regular seminars on topical issues and host a very well attended annual conference involving well known external industry speakers.

A photograph of a shower head spraying water against a clear blue sky. In the foreground, a single yellow flower with a dark center is in focus, with water droplets on its petals. The background is a bright blue sky with a shower head spraying water from the top right corner. The water droplets are captured in mid-air, creating a dynamic and refreshing scene.

“ Baker Tilly’s dedication to client service has been evident throughout our relationship. In particular their expert advice, knowledge and commitment to improving the audit process year on year through proactive communication has meant they continue to be our preferred audit partner. ”

**Anita McCarthy, Chair and Director, SP/OBS (UK) Pension Scheme**

# Employer covenant review

Our Covenant Assessment Services (CAS) Group is a well-established and highly-respected team of professionals, offering independent and bespoke reviews of the sponsoring employer's covenant UK wide. Whatever the scale, the same quality of input and output is assured.

The quality of our services has been and continues to be recognised not only by our clients but also by our industry peers. In 2009, we were delighted that we won both:

- the Sponsor Covenant Assessment Provider of the Year at the UK Pensions Awards
- the Covenant Review Provider at the Pension and Investment Provider Awards.

## How can we help?

Six reasons why you might commission an independent employer covenant review by Baker Tilly:

- To enable the trustees to satisfy The Pensions Regulator's guidelines – the Regulator has said it is essential for the trustees to form their own objective assessment of the employer's financial position, prospects and willingness to continue to fund the scheme's benefits
- Scheme Specific Funding review – testing the employer's financial durability and its ability and willingness to meet its financial commitments to the scheme including negotiation of a suitable recovery plan
- Ongoing monitoring of the covenant – always required but under increasing regulator focus and particularly pertinent during difficult trading conditions for the sponsoring employer

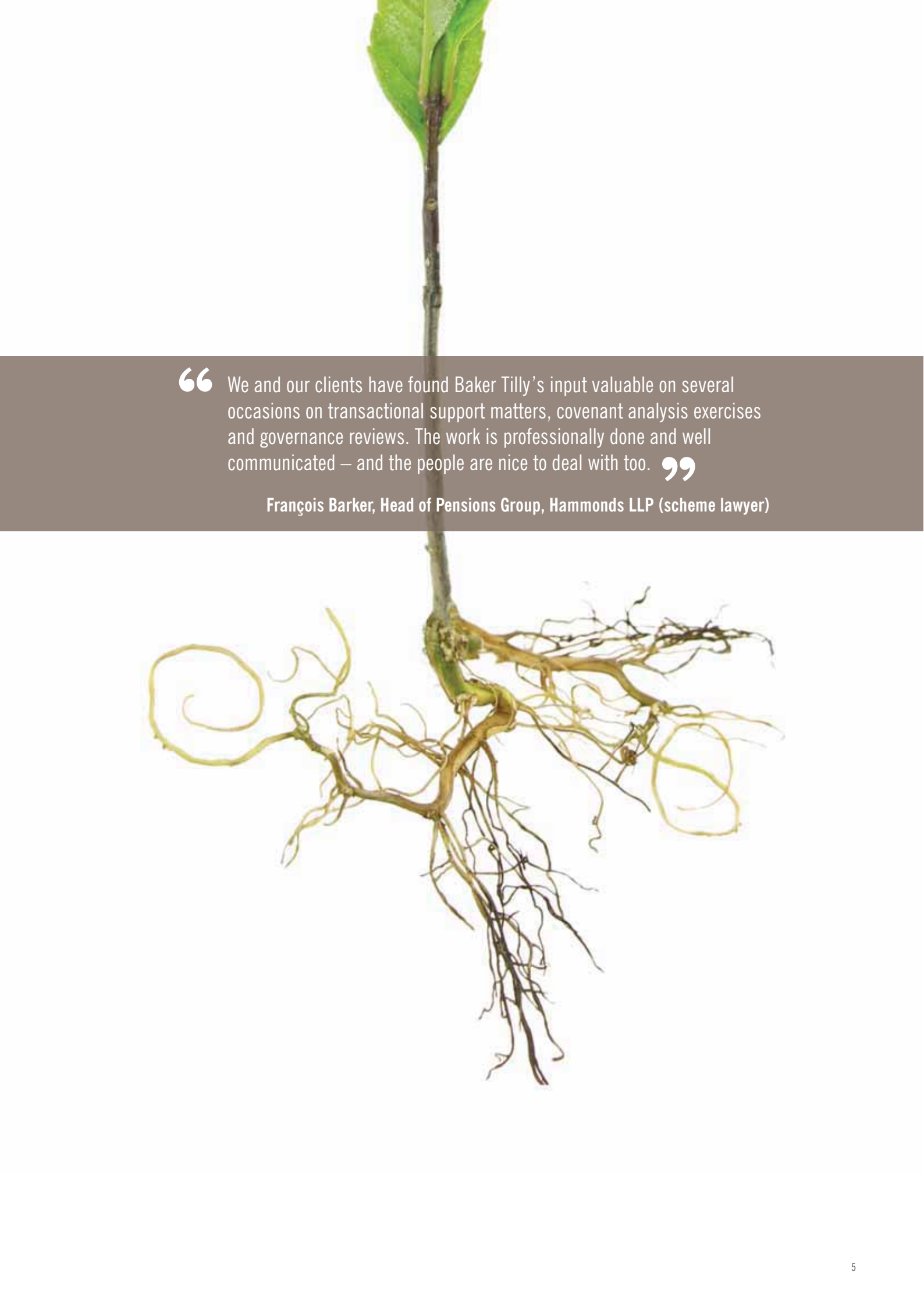
- A one-off corporate transaction or event – likely to have a significant impact on the strength of the covenant offered to the scheme
- To alleviate possible conflicts of interest – are all trustees objective enough to carry out an objective review of the covenant?
- Reducing the risk – that trustees face in terms of potential personal liability for a fund's shortfall in the event that the sponsoring employer fails.

## Outputs

Our conclusions on the strength of the employer covenant are graded using an indicative five-level scale ranging from strong to weak, with conclusions fully explained. The grading of the covenant strength then feeds our guideline matrix of relevant actions recommended for implementation, including:

- Setting funding and investment risk parameters (in conjunction with scheme actuaries)
- Negotiating and agreeing affordable contribution levels and a deficit recovery period
- Requesting and obtaining formal security or other contingent assets
- Establishing the level and focus of monitoring activity required on an ongoing basis.

We believe in providing a joined-up approach for our clients, seeking to work closely with the scheme actuaries and solicitors to provide real value.



“ We and our clients have found Baker Tilly’s input valuable on several occasions on transactional support matters, covenant analysis exercises and governance reviews. The work is professionally done and well communicated – and the people are nice to deal with too. ”

**François Barker, Head of Pensions Group, Hammonds LLP (scheme lawyer)**

# Governance

The current emphasis on scheme governance is raising the bar for standards to be achieved by trustees. A review of scheme governance will assist trustees in considering whether their scheme is following best practice.

Our Good Governance Toolkit is designed to facilitate discussions with the trustee board on a wide range of matters. The output is a plan setting out the actions to be undertaken to improve scheme governance. The 'modules' in the Governance Toolkit comprise the following:

- board effectiveness
- assessment of advisers
- relationship with the employer
- risk management and controls
- compliance with legislation
- communication strategy.

Under each of these headings, there are a series of issues for trustees to consider such as:

**Board effectiveness** – board members need to consider whether the board has clear objectives and whether conflicts of interest are managed effectively.

**Assessment of advisers** – as well as considering compliance with Key Performance Indicators (KPIs), trustees must establish whether the KPIs are effective. For example, KPIs should cover accuracy as well as the time taken for specified activities.


**Relationship with the employer** – in the current environment, this is likely to focus on the strength of the covenant, but other aspects of the relationship such as conflicts of interest should not be ignored.

**Risk management and controls** – trustees need not only to identify the key risks faced by the scheme, but also prioritise them and establish an action plan which should be subject to regular testing and reviewed on an ongoing basis.

**Compliance with legislation** – under this heading, trustees need to consider the Trustee Knowledge and Understanding (TKU) requirement. It is also important to remember that compliance with legislation does extend to the trust deed and rules.

**Communication strategy** – the trustee board needs to consider all aspects of communication which includes that of communication to members, the employer and the flow of relevant information to the trustees themselves to enable them to govern the scheme effectively.

The toolkit can complement our Risk Management Toolkit and, when used together, can assist trustees to ensure their scheme operates more efficiently and risk is managed effectively.



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## Internal audit and internal control reporting

The need for trustees to operate internal controls is enshrined in the Pensions Act 2004 and the Regulator has published a specific code of practice on internal controls. Good risk management of any scheme will identify the risks to the scheme and ensure there are robust internal controls.

It is important to monitor how controls are operating in practice to ensure maximum efficiency, effectiveness and reliability. This monitoring could include developing an internal audit function and regularly reviewing controls information from third party organisations which provide services to the trustees.

### Internal audit

An independent internal audit service provides trustees with assurance on the effectiveness of the system of internal control. We can provide this service for you and ensure all areas of high risk are reviewed annually whilst reviewing other risk areas on a cyclical basis. Our presentations to trustees and audit committees are supported with clear, constructive reports which give an opinion on the system of internal control within each area being reviewed.


Crucially, our familiarity with controls and processes enables us to provide an internal audit function that enhances the trustees' monitoring and review of the processes and procedures that they have established.

### AAF 01/06 internal control reporting

Trustees will be concerned to ensure that the controls operated by service organisations complement those that they operate themselves and that they are operating effectively.

Some third party organisations will publish a report which summarises a review of their internal controls and which may provide the trustees with some assurance on these outsourced controls. These reports will normally be produced under guidance issued by the Institute of Chartered Accountants in England and Wales '(ICAEW) Assurance reports on internal controls made available to third parties – Technical Release AAF 01/06'.

We are well informed with this guidance and can act as the reporting accountant in the production of such reports. Our experience and understanding of trustees' needs also mean that we are able to help produce reports that their customers will value. We help trustees understand and interpret the information that has been provided in the context of their scheme and so help them gain maximum benefit.



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# Risk management and internal controls

Trustees have a statutory obligation to establish, operate and monitor internal controls, to ensure the sound management of their scheme. With the increasingly litigious society in which we live, ensuring you manage and monitor risk and internal controls are key elements of the trustee role.

## Effective risk management

It is a common misconception that the financial risks, such as under-funding and scheme deficits, are all that trustees should be concerned with. These risks may have the highest profile, but quite often it is the operational risks and the lack of strong internal controls which produce the claims. Our approach to risk management encompasses all areas of risk.

Effective risk management will, therefore, include the high profile risk areas together with others, including:

- composition of the trustee board
- relationship with the sponsoring employer
- administration
- member communication and reputation
- scheme advisers
- external regulation and economic factors.

Another common misconception is that the closure of a defined benefit scheme to future accrual and its replacement by a trust based, defined contribution scheme is a way of avoiding future risk. This may apply to the funding risk of the employer, but these actions merely change, or add to, the overall risks of the scheme trustees. When major changes occur, risk management becomes more important than ever.


## Risk management best practice

Trustees need to establish a process that enables all aspects of the scheme's operations to be assessed in order to identify the specific risks of their scheme. Our Risk Management Toolkit provides a framework for such a process and we have assisted numerous trustee boards to review their risks and develop action plans. The process and outcome is unique for each trustee board.

The toolkit provides trustees with a step by step approach to:

- clarify objectives
- identify key risk areas
- assess and grade the risks
- identify current controls
- propose and prioritise control improvements
- establish a regular process of ongoing risk and control review.

We work with trustee boards to help them recognise the risks that they face and to agree and help implement action plans to manage these risks.



“ We appointed Baker Tilly as our auditors last year. We were looking for a company with extensive pensions experience to carry out our pension plan audit as we felt there would be added value. We were correct in this and we have found our Baker Tilly team to be extremely professional and a pleasure to work with. ”

**David Coldwell, Chairman, The InBev UK Ltd Pension Plan**

## Accounting and accountancy support

We are able to assist trustees and scheme management with all aspects of accounting, book-keeping, pensioner payroll and financial management including the preparation of budgets and cash flows.

We understand the requirements of the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (SORP) and the practical implications of all the revisions made to it.

There are decisions to be made on disclosure and valuation and we provide trustees with guidance. The annual accounts should clearly disclose the financial transactions of the scheme for the period and demonstrate the trustees' stewardship of the scheme.

The content of the trustees' report is of equal importance to accounts, especially the actuarial information to be disclosed. We help trustees consider the overall content of their annual report to ensure that appropriate disclosures are made and the right messages conveyed to the users.

We also specialise in the preparation of summary reports and newsletters.

Trustees running schemes on a 'business-like' basis need to be aware of the expected financial transactions of the scheme in order to anticipate changes in future cash flow needs. The preparation of budgets and cash flows will enable trustees to make effective decisions on investments and liquidity. Our accounting teams can provide support in this area.

To provide further support, we are also able to offer trustees the use of our dedicated payroll professionals to operate the pensioner payroll requirements of their scheme.



“ Trustees running schemes on a ‘business-like’ basis need to be aware of the expected financial transactions of the scheme in order to anticipate changes in future cash flow needs. ”

## Taxation services

In an ever changing tax environment, we support trustees and their appointed administrators to help them minimise the impact of taxation. We achieve this by establishing an efficient and effective partnership with the trustees, the employer and their other advisers.

Compliance with the Finance Acts and the specific reporting requirements of HM Revenue and Customs is an important function of trustees and their administrators. We are familiar with the detail and can provide input and support when it is needed.

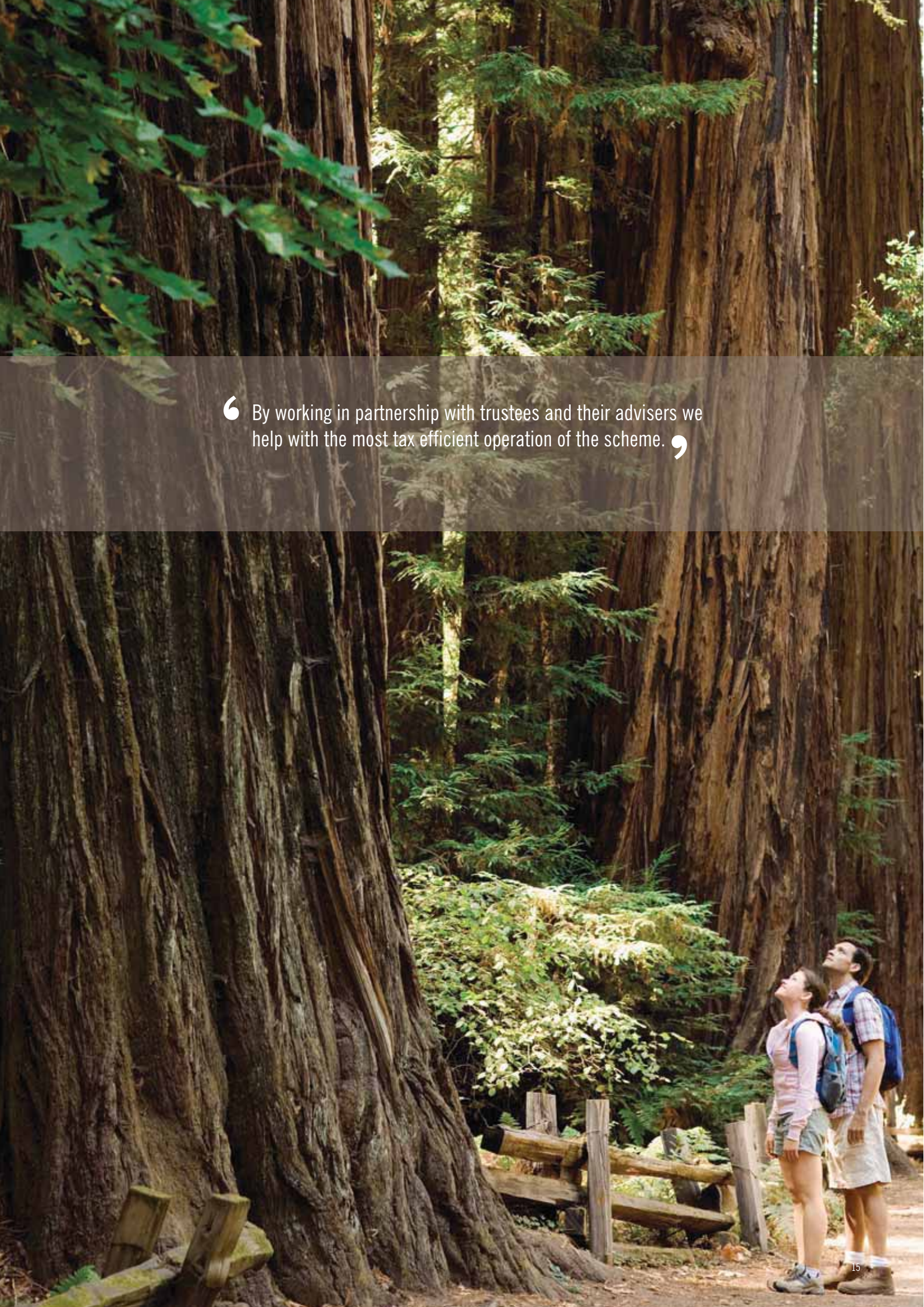
Taxation matters that affect pension schemes are, however, more than just those of a compliance nature. Trustees need to ensure that there is no taxation leakage from either direct or indirect taxes. As investment strategies evolve, it is essential that the tax implications are understood and properly factored into investment decisions being made.

Our team of tax experts provide advice on the most tax efficient ways to operate a pension scheme. They can also help with the recovery of any tax that either should not have been paid or, where case law permits, identify amounts to be reclaimed.

In agreeing payment plans for contributions, the tax implications need to be considered. Employers usually seek to ensure that the contributions will receive relief at the earliest opportunity. However, the relief on unusually high contributions does need to be spread and trustees should be working with employers to ensure that the relief is obtained in a time efficient manner.

This is when working in partnership is particularly valuable.

We also advise employees on the tax treatment of contributions being paid. The tax relief available for pensions contributions by higher earners has become a topical issue and it is another area where decisions must be based on all the facts.

A photograph of a forest with large trees and a couple looking up. The image is split horizontally. The top half shows a close-up of a large tree trunk with a semi-transparent dark grey overlay containing white text. The bottom half shows a couple standing on a path in a forest, looking up at the trees. The couple consists of a woman in a pink shirt and a man in a plaid shirt, both with backpacks. The forest is filled with tall, thin trees and dense green foliage.

“ By working in partnership with trustees and their advisers we help with the most tax efficient operation of the scheme. ”

## Our team of pensions specialists

Baker Tilly, one of the leading mid-tier firms of accountants and business advisers, is a forward-thinking firm with a coordinated national Pensions Group.

### Our national Pensions Group:

- has an established reputation amongst pension professionals
- devotes considerable resources to maintaining, developing and sharing and applying our substantial technical expertise in all appropriate disciplines
- understands the pensions industry and has gained appropriate pensions specific qualifications
- keeps clients aware of key developments by means of regular trustee briefings, seminars and our annual conference
- works with the pensions industry through membership of organisations including the National Association of Pension Funds (NAPF), the Pensions Research Accountants Group (PRAG), the Pensions Management Institute (PMI) and PensionChair
- has been recognised for our dedication to client service in several industry award ceremonies.

We currently work with a large number of schemes ranging from the smallest individual arrangements to those of large listed companies. In all, we work with more than 500 occupational schemes.



### Added value services for our clients

A key aspect of our service is to provide client care with timely advice on forthcoming changes. We achieve this by:

- Annual Conference: we run the largest complimentary pensions conference provided by a professional services firm for trustees. It attracts over 300 delegates and receives outstanding delegate feedback
- Health checks: we offer a range of health checks, on governance and risk management to assist trustees
- Technical literature: we produce our 'Trust e-matters' newsletter that provides a choice of clearly written topical updates
- Chairman's Forums and Pension Manager's Forums: frequent networking and discussion forum events for chairmen and pension managers to discuss issues with their peers
- Industry research: we are committed to client empowerment through thought leadership surveys that provide a benchmark for trustees.

## How we can help

Our approach is to understand the particular demands and challenges faced by our clients and to offer a tailor-made package of services to meet their specific needs.

Our national coverage and level of resource mean that there is in-house expertise to provide advice and services across a wide range of areas.

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## About Baker Tilly

Baker Tilly is a leading independent firm of accountants and business advisers that specialises in providing an integrated range of services. We provide our growing and established business clients with audit, accountancy, personal and corporate taxation, VAT, management consultancy, corporate finance, IT advisory, restructuring and recovery and forensic services. The firm has national coverage through its network of offices and is represented internationally through its independent membership of Baker Tilly International.



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