

Why your pension scheme should be thinking about Internal Audit

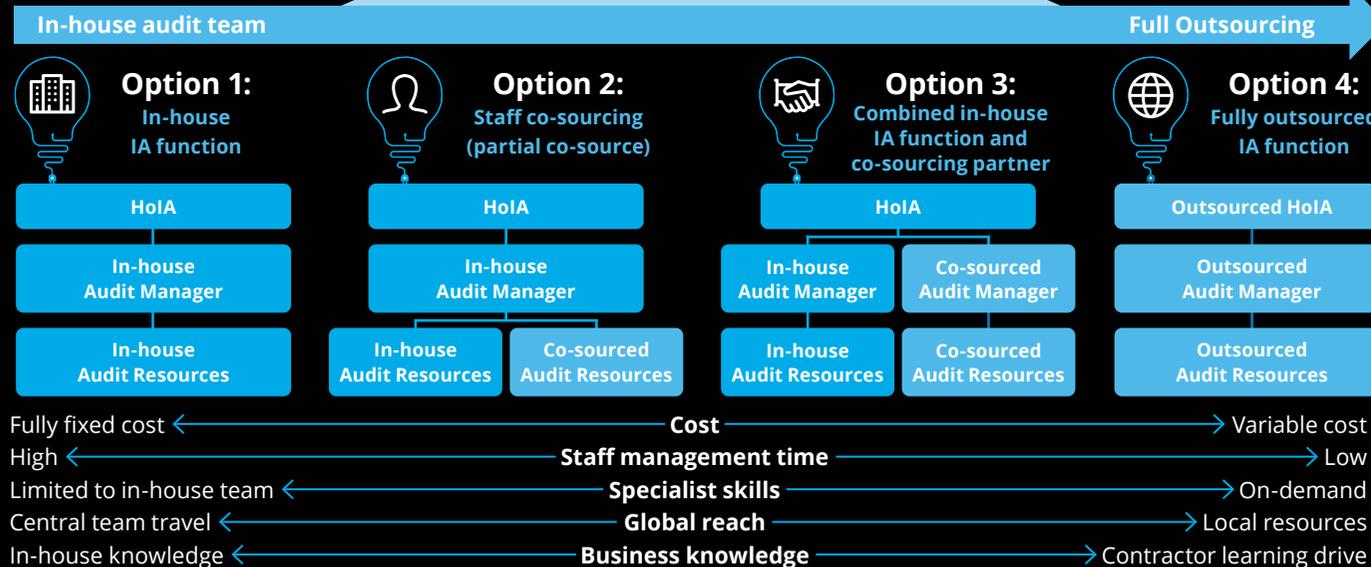
The Pensions Regulator's Single Code of Practice Consultation sets out requirements for the governing bodies of schemes to "establish and operate an effective system of governance including internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules, and with the requirements of the law." One of the assurance options referenced in the Draft Code of Practice is the appointment of an internal auditor who should have sufficient knowledge to perform an adequate assessment of all scheme operations.



Internal Audit Provision

- Striking the balance of the appropriate levels of assurance required by trustees and the costs to the scheme is often difficult, particularly in schemes which historically have not had an Internal Audit function.
- There are various options for structuring Internal Audit provision ranging from a fully in-house function through to an entirely outsourced Internal Audit function, each with its own advantages and disadvantages as shown in the diagram below.
- There are a range of options that combine the in-depth business knowledge of an in-house function with the specialist skillset and sector-wide insight of an outsourced function through the use of co-sourcing arrangements.

Internal Audit Optionality



Internal Audit Support

As a firm we have experience in supporting your peers across the range of models set out here. We are also vastly experienced in the provision of focussed assurance work in a range of specialist areas to some of the largest and most complex schemes in the UK and would be delighted to have the opportunity to discuss your Internal Audit and Assurance needs with you.

Specialist Areas include but are not limited to:

- IT Cyber Security
- Benefits Administration
- Asset Management
- Governance
- Risk Management Framework
- Operational Resilience
- GMP Equalisation
- Tax Compliance



Internal Audit Responses to Key Risks



IT Cyber Security – The cyber threat landscape has evolved over the last few years, which has impacted organisations through data breaches, security incidents, lack of skilled resources, and following the known malware and ransomware attacks on the private and public sector, organisations have re-evaluated their cyber risk appetites and capabilities. We recognise the complexity of this challenge and the range of potential capabilities needed to be secure, vigilant and resilient. Internal Audit can assess the design and effectiveness of Cyber Security controls to determine whether they are contributing to a robust internal cyber security control framework, which is fit for purpose and aligned to industry good practice.



Benefits Administration – The fundamental principle of any pension scheme is to pay the right benefits to the right person at the right time. Benefit calculations and administrative processes can be complex and our experience is that many pension schemes have errors and inefficiencies in their administration. Internal Audit can review pension benefits and administration processes and controls to provide assurance to pension scheme trustees and organisations that benefits paid to members are correct and are being administered efficiently and robustly in line with the Scheme Rules and legislative and regulatory requirements. Efficiencies in processes can be realised to reduce costs and improve member experience, as well as reducing the financial and reputational risks of ineffective pension administration.



Asset Management – Schemes commonly use a range of investment managers and custodians to manage the pension scheme assets, therefore oversight is essential. Internal Audit can evaluate the governance arrangements in place around setting and monitoring the investment strategy document and Statement of Investment Principles. Internal Audit can also assess the design and implementation of controls in place to select the investment manager and monitor ongoing compliance with ESG policy, risks and performance reporting.



Governance – In addition to the Draft Code of Practice requiring the implementation of an effective system of governance, the introduction of the 21st Century Trusteeship and the Senior Manager and Certification Regime (for FCA regulated firms) have also seen the expectations around how trustees and management undertake their duties increase, with the need for trustees to be able to demonstrate how the governance of the scheme supports decision making. Internal Audit can assist through the provision of post implementation SMCR reviews as well as providing assurance over ongoing compliance against the requirements of the regime.



Risk Management Framework – The expectations as to how trustees identify, mitigate, monitor and report on the risks their schemes face have increased over recent years with greater focus on the management of risks, both known and emerging. Internal Audit can provide assurance over the design and operating effectiveness of the Risk Management Framework and can provide benchmarking and broad industry insight into leading risk management practices.



Operational Resilience – Operational resilience refers to the ability of firms and the sector as a whole to prevent, respond to, recover and learn from operational disruption. Schemes require an approach to operational resilience that includes preventative measures as well as the capabilities to adapt and recover when things go wrong. Internal Audit can provide an assessment of a scheme's operational resilience capabilities from the identification of risk tolerances, ongoing monitoring and reporting and the ability to recover from incidents.



GMP Equalisation – GMP Equalisation is likely to be one of the most complex projects trustees will have ever undertaken and it will typically impact a significant proportion of the scheme's membership, with any errors in the calculation or payment likely to be extremely costly. Internal Audit can assess the quality and integrity of the data on which GMP Equalisation will be based, test the calculated GMP Equalisation uplifts and assess the processes, procedures and controls in place to update the administration platform for the scheme's equalised benefit structure.



Tax Compliance – Tax is a potential exposure area for schemes that could impact investment returns and global obligations. Tax has a wide range of touch points throughout a scheme's operations. Internal Audit can assess the appropriateness of the design of tax processes, procedures and controls in place to determine whether they are conducive to ensuring effective administration and management of tax, and are therefore fit for purpose, as well as benchmarking against good practice.

Contacts

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