NEWS FROM THE PENSIONS TEAM AT
ENSORS CHARTERED ACCOUNTANTS

NOVEMBER 2021

PENSION PROFILE

Implementation Statement – one year on...

The implementation statement is a short report which should have been included in the scheme's annual report from the 1st of October 2020. It explains how the trustees have acted on the principles contained within the Statement of Investment Principles (SIP). There was also the requirement to publish the implementation statement on a publicly accessible website by the 1st of October 2021.

So, after the initial rush to complete accounts by 30th September 2020 last year to delay doing these, where are we now, one year on? Has this led to greater transparency for members? Or is it just another administrative burden?

The aim was to help trustees and their wider stakeholders explain the activities and outcomes of the investment decisions by looking at policies and reports, engagement activity and voting data.

Do the trustees feel that their policies and procedures have been effectively put into practice? And is the implementation statement helpful in explaining that?

We have generated a poll on our website and would be interested to hear your views.

Follow this link to take part
www.ensors.co.uk/pensions-poll

Ensors

Making you more than just a number

Taskforce on Climate-related Financial Disclosures

As the focus on ESG considerations continue, the proposed regulations, (part of the Pension Schemes Act 2021), require trustees to look at climate-related risks and opportunities in more detail. This is in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

The regulations, due to come into force in October, initially target trustees of larger schemes (£5 billion or more in assets, master trusts and collective defined contribution schemes).

From October 2022, this will apply to schemes with £1 billion or more in assets and by 2023, it is expected that this will be rolled out to smaller schemes.

We are certainly seeing that some schemes are already getting up to speed on the way climate-related risks and opportunities affect the employer's covenant and have included climate change in their integrated risk management framework.

Early engagement with these regulations is advised.

Risks and the Statutory Audit – New Irregularities Statement

For accounting periods commencing on or after the 15th of December 2019, revisions to auditing standards (ISA (UK) 700) extended the requirement of auditors to include an explanation in the audit report, explaining to what extent the audit was considered capable of detecting irregularities, including fraud.

Whilst this isn't a new area, the requirement to report this is. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

From an understanding of the legal and regulatory framework that the scheme operates in and from discussions with trustees, knowledge and experience of the pensions sector, auditors will focus on the areas that may give rise to intervention from the Pensions Regulator or maybe of concern to HMRC as a UK registered scheme.

The OPS (Governance) (Amendment) Regulations 2018 came into effect in January 2019 and the Regulator has been reviewing their codes of practice to incorporate this and combine the content of 10 current codes of practice to form a single, shorter code.

Single Code of Practice

Whilst these codes aren't statements of law, they detail what's expected for good governance to comply with Pensions law.

These new codes were developed in phases, and the draft content for the first phase of the new code of practice was issued for consultation earlier this year.

Risk management is a key area in the new code, and it includes:

- Identifying and assessing risk
- Managing risk using internal controls
- Assurance of governance and internal controls
- Continuity planning
- Conflicts of Interest
- Own risk assessment

The code states:

"It is not necessary, nor possible, to eliminate all risks from a pension scheme. Governing bodies should use risk management as a tool to identify risk and develop internal controls"

Trustees are expected to have an effective system of governance, including internal controls proportionate to the nature of the scheme.

CYBER RISK

Cyber risk is wrapped up in the new single code of practice.

The management of internal controls need to include measures to reduce cyber risk. In assessing cyber risk, trustees should not only consider the vulnerability to a cyber incident of the scheme's key functions, systems, and assets, but also the vulnerability of service providers involved in the running of the scheme.

Many schemes use third party organisations to run their scheme and many have included a statement on their website of how they've continued to work and operate effective controls during the pandemic. Many also have audited Type 2 reports (AAF 01/06 and SAS70) on their controls.

The code usefully breaks down the guidance into practical steps of assessing and managing cyber risk. These are reproduced below and the full draft of the code can be found here: www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/full-draft-new-code-of-practice.ashx

ASSESSING CYBER RISK

- Ensure the governing body has knowledge and understanding of cyber risk.
- Understand the need for confidentiality, integrity and availability of the systems and services for processing personal data, and the personal data processed within them.
- Have clearly defined roles and responsibilities to identify cyber risks and breaches, and to respond to cyber incidents.
- Ensure cyber risk is on the risk register and regularly reviewed.
- Assess, at appropriate intervals, the vulnerability to a cyber incident of the scheme's key functions, systems and assets (including data assets) and the vulnerability of service providers involved in the running of the scheme.
- Consider accessing specialist skills and expertise to understand and manage the risk.
- Ensure appropriate system controls are in place and are up to date (e.g. firewalls, anti-virus, and anti-malware products).

MANAGING CYBER RISK

- Ensure critical systems and data are regularly backed up.
- Have policies for the use of devices, and for home and mobile working.
- Have policies and controls on data in line with data protection legislation (including access, protection, use and transmission).
- Take action so that policies and controls remain effective.
- Have policies to assess whether breaches need to be reported to the information commissioner (www.ico.org.uk).
- Maintain a cyber incident response plan in order to safely and swiftly resume operations. Learn more in Continuity Planning.
- Satisfy themselves with service providers' controls (see Managing advisers and service providers).
- Receive regular reports from staff and service providers on cyber risks and incidents.

Meet the team

Pension specialists

Our pensions team have considerable experience in providing a wide range of services to pension schemes, including audit, preparation of statutory financial statements, pensioner payroll services and employer covenant reviews. Unlike many other companies which provide accounting services to pension schemes, we are also registered auditors.

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"I have worked with Ensors for over thirty years as an Independent Trustee and a Benefits Consultant and have enjoyed a consistently solid no nonsense service at very competitive fees. Ensors, focus on the key audits issues offering practical solutions via a relatively stable team with significant pension scheme experience."

Geoff Ashton – Capital Cranfield Pension Trustees

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