



Accountants &
business advisers



**Superannuation Arrangements of the
University of London (SAUL)**

**Assurance Report on Internal
Controls (AAF 01/06)**

March 2011

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Important note addressed to all parties other than pensions administration clients of SAUL

PKF (UK) LLP ("PKF"), the author of the report at section 6 of this report has, on certain conditions below, allowed clients and potential clients (together "Clients") to have access to the report ("the report").

Accordingly, as a condition of the Clients (or any third parties) obtaining access to the report, they are on notice that:

1. The work performed by PKF was performed in accordance with instructions provided by the Trustee of SAUL and was performed for the Trustee of SAUL's sole benefit and use. The report was not prepared for any clients or third parties benefit.
2. The report was prepared at the direction of the Trustee of SAUL and may not include all procedures deemed necessary for the purposes of the clients or third parties.
3. PKF, its partners, employees and agents neither owe nor accept any duty or responsibility to clients or third parties, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), or howsoever otherwise arising. PKF make no representations regarding this report or the accuracy of the contents including that the information has not changed since the date of this report. PKF shall not be liable, and clients and third parties shall not bring any action, proceeding or claim in respect of any loss, damage or expense of whatsoever nature which results from any use clients or third parties may choose to make of this report, or any reliance they may seek to place on it, or which is otherwise consequent upon the provision of this report to you, which use or reliance is made or placed entirely at their own risk.
4. The report cannot in any way serve as a substitute for enquiries and procedures which clients of third parties will or should be undertaking for the purposes of satisfying themselves regarding SAUL's administration procedures or for any matter arising out of the report.

This report is not to be referred to or quoted, in whole or part, in any document and may not be distributed without PKF's prior written consent.

1 Introduction

SAUL Trustee Company (STC, the Company), Trustee of the Superannuation Arrangements of the University of London ("SAUL") is pleased to present this assurance report which describes the control environment within the organisation.

The report is based upon the framework for pension administration as set out in the guidance issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales in June 2006, "Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties" (AAF 01/06).

A strong internal control environment is a key element in delivering high quality administration services to our growing portfolio of clients. The main purpose of this report is to share information about how we operate and the control environment we have in place.

PKF has evaluated our internal controls against each of the relevant control objectives set out in the guidance issued by the Audit and Assurance Faculty and against other control objectives deemed appropriate to provide strong internal control. Whilst such a review cannot consider the individual circumstances of each stakeholder of SAUL, STC or STC Pension Management Ltd (STC PML), its aim is to provide an independent assessment of how we work to deliver our pensions services to employers, members of the scheme and third party clients, and the control environment that we have in place.

We are a specialist administration company, built on trustee values. We provide benefit administration to SAUL which is a UK Tax Registered occupational pension scheme that provides pension and life assurance benefits to employees of the prestigious Colleges and Institutions of the University of London, the University of Kent, Imperial College of Science Technology and Medicine, the Royal College of Art and associated bodies. In addition, we provide third party administration services via our wholly owned subsidiary company STC Pension Management Ltd.

Our core business is the administration of SAUL (the Scheme), and the provision of trusteeship to SAUL. To that end the Company is divided into the following areas:

1. Administration

Responsible for benefits administration involving: calculation of scheme benefits in all circumstances; record keeping; and communication with members and employers;

2. Technical

Responsible for the provision of technical advice to the employers and the Administration section; provision of technical advice to the Board of STC; data management, including audit;

3. Support Services

Responsible for all non-pension specific work including: provision of accounts for the company and Scheme; pensioner payroll; systems; office management; project management; and human resources;

4. Executive

Responsible to the Board for: the work of the whole company; administration for and support to all Committees of the Scheme and Company;

5. Third Party Administration

Development of the Third Party Administration business is a key strategic aim for the Board as it provides benefits in terms of cost reduction.

The Trustee of SAUL has decided to have our administration procedures reviewed by external auditors and has appointed PKF (UK) LLP as our reporting accountants. This report covers the operation of our procedures and controls for the period 1 April 2010 to 31 March 2011. This report should provide assurance to our clients and their auditors with regard to the controlled environment in which we work.

Mrs Penny Green

Chief Executive, SAUL Trustee Company

Managing Director, STC Pension Management Ltd.

2 Report of the Trustee of SAUL

As Trustee we are responsible for the identification of control objectives relating to Scheme and clients' assets and liabilities and related transactions in the provision of pensions administration and the design, implementation and operation of the control procedures of SAUL to provide reasonable assurance that the control objectives are achieved.

In carrying out those responsibilities we have regard not only to the interests of members and clients, but also to the general effectiveness and efficiency of the relevant operations.

We have evaluated the effectiveness of SAUL's control procedures having regard to the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06 and the relevant criteria for the work that is done.

We set out in this report a description of the relevant control procedures together with the related control objectives which operated during the period 1 April 2010 to 31 March 2011 and confirm that:

1. The report describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 1 April 2010, or as amended during the period to 31 March 2011.
2. The control procedures described are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily.
3. The control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the specified period.

The Trustee also recognises that our administration processes involve a combination of people following procedures and the use of computer systems. Therefore it is important to have well trained people to follow and monitor our procedures.

As University pension provision develops over the coming years, the Trustee sees SAUL as providing one of the solutions to the endeavours of the employers to control pension costs. This takes the form of expanding the number of employers who participate in SAUL. Such expansion is not without risks which is why the Trustee is pleased that this report provides external confirmation of the strength of the control environment and risk management processes within the organisation.

Trustee

Date: 8 September 2011

Signed on behalf of the Board of SAUL Trustee Company

3 Our Background and Structure

SAUL Trustee Company (STC) is Trustee and administrator of the Superannuation Arrangements of the University of London (SAUL – the Scheme). The Scheme started in 1976 and was set up to provide retirement benefits for non-academic employees of the University, although all staff, including academic and academically-related, are eligible to join.

SAUL is a multi-employer final salary scheme set up under trust. The benefits paid from SAUL are based on the members' pensionable salaries when they retire or leave SAUL, and on the number of years of pensionable service built up in SAUL. Members' and employers' contributions are pooled and invested to provide a fund out of which benefits are paid. SAUL had over 30,000 members and assets of over £1.5 billion as at 31 March 2011.

The Board of Directors of STC is made up of five Directors appointed by the Council of the University of London and four Directors appointed by appropriate Trade Unions (two by UNISON and two by Unite). The Board may also include up to three co-opted Directors who are appointed by the Board in association with the SAUL Negotiating Committee.

There are a number of Committees established by the Board to which various functions (although not ultimate responsibility) have been delegated:

- Investment Committee

Membership of this Committee is drawn from Board members who have particular expertise in investment matters. The Investment Committee reports to the Board of Directors of STC and advises the Directors on all matters relating to the investment of the Scheme's assets.

- Audit Committee

Membership of this Committee is drawn from Board members who have particular expertise in operational and accounting matters.

This Committee reviews in detail, on an annual basis, the Risk Register and associated Action Plan on behalf of the Board. It reviews regular reports from the Internal Auditors and Compliance Manager to satisfy itself as to the successful implementation (or otherwise) of internal controls. The Committee reviews annually the Financial Statements with the External Auditors and makes recommendations to the Board.

- Staffing Committee

Membership of this Committee is drawn from Board members who have particular expertise in Human Resource matters.

This Committee reviews and approves staff terms and conditions of employment, sets salaries and reviews recommendations for staffing levels in the company.

- Nominations Committee

This Committee has three members comprising an employer-appointed Director, a Director appointed by a union and a Co-opted Director.

Its role is to make recommendations to the Board about Co-opted Director appointments, appointments to the Investment Committee, and appointments to the Chair of the Board.

In addition, there is a Deed Committee, a Complaints Committee and the SAUL Negotiating Committee. The functions of these Committees relate exclusively to the Scheme.

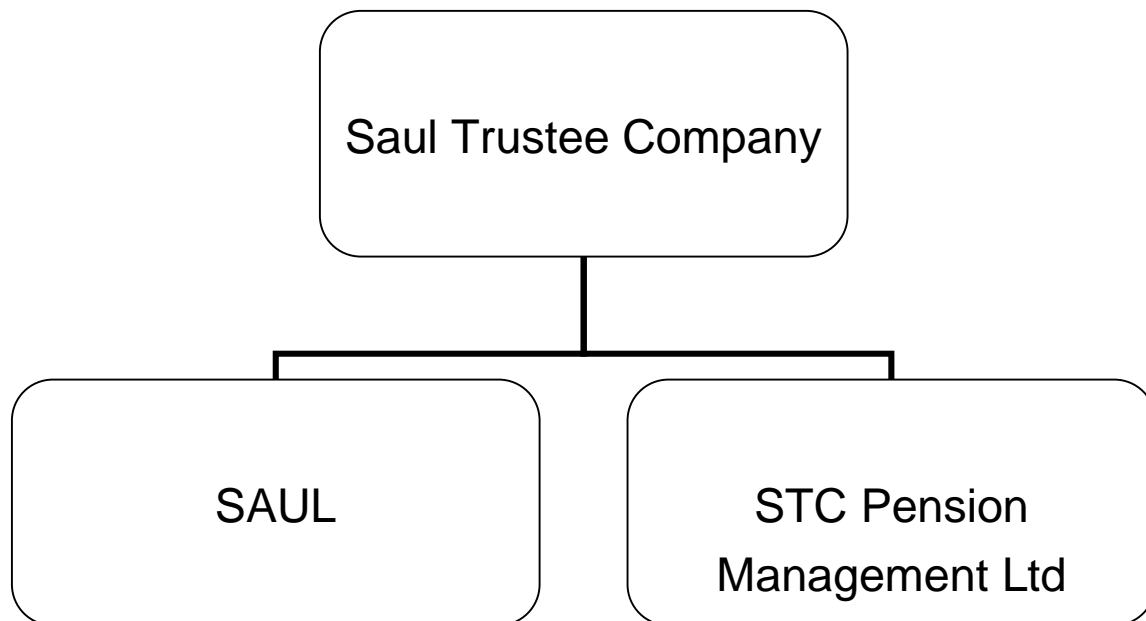
Other Committees may be formed by the Board if and when a need occurs.

The Board is chaired by Dr Dennis Buckley, an employer-appointed Director.

Appendix B - lists all current Board members.

Appendix C - describes the roles and responsibilities of our Board and team members.

SAUL Trustee Company has established STC Pension Management Ltd as a trading company through which pension administration and ancillary services can be provided, for a profit, to third parties connected neither with SAUL nor with the SAUL employers. The structure of the organisation is as set out below:



4 Our Administration Services

Our aim is to provide our clients with a first class pension administration service with a personal and tailored approach. This applies whether the client is a client of SAUL or of STC PML.

We achieve our aim by striking an appropriate balance between technology and people skills.

Technology has an important role to play in providing an accurate, efficient and secure service which is risk managed and cost effective. Our pension administration software suite, PensionsOffice™ has been developed by IT experts with a background in pensions and is driven by experienced administrators in order to meet these goals.

Our well-trained and qualified staff are highly motivated and, perhaps most importantly, take pride in their work and aim to achieve the highest standards.

In addition, each client's needs are met by a team of administrators who take responsibility for all aspects of the administration of the pension scheme. Developing client relationships at all levels and "knowing our client" is an extremely important part of our service-based approach.

Our administrators have a thorough understanding of our clients' requirements and can provide a fully integrated service. They have a full range of experience and expertise in order to provide an efficient and cost effective service to our clients. The administration team is effectively managed to ensure that all work is completed within the required timescales and that administrators with the appropriate expertise are available to check the work of less experienced administrators.

Our services include:

- Membership record keeping
- Annual benefit statements
- Dealing with enquiries
- Benefit calculations including leavers, retirements, and transfer values
- Benefit payments including electronic payments
- Pensioner payroll including:
 - periodic payrolls
 - tax calculations and payments
 - annual pension increases, and
 - year end procedures.
- All regulatory reporting including e-filing and scheme returns
- Full cash and accounting services including
 - handling all cash transactions

- regular bank reconciliations
 - cashflow forecasts
 - drafting the Annual Report and Financial Statements in accordance with regulatory requirements
 - preparation of tax returns
-
- Data audits and data cleansing exercises, particularly where data originates from multiple sources
 - Internet functionality with links to other systems (such as HM Revenue & Customs)
 - Periodic comprehensive stewardship reports
 - Trustee secretarial services, including the management of Board and Committee meetings

5 Our Management of Investments

The Trustee has delegated much of the investment function to the Investment Committee. The Investment Committee reports to the Board of Directors of STC and advises the Directors on all matters relating to the investment of the Scheme's assets. The Committee consists of the Chairman of the Board of Directors, who also acts as Chairman of the Investment Committee, and not more than eight other members. At least three must be members of the Board (including at least one Union Director and one Employer Director) and not more than five others may be nominated by the Board. The Committee meets at least once every quarter. The quorum is four members of the Committee.

The Committee has written Terms of Reference and Delegated Authority.

The Investment Committee has an annual work programme – the Investment Committee Business Plan – which it follows in addition to the Statement of Investment Principles for SAUL. This Plan sets out the detail behind the asset allocation strategy, and also covers the intended work programme for the Investment Committee over the next 12 months. A dedicated internal resource, the Head of Investments – Kevin Wade, assists the Board and the Committee in implementing the Investment Committee Business plan and in monitoring the investment managers' performance.

Investment Objectives

The Trustee's primary investment objectives as set out in the Statement of Investment Principles (SIP) are:

Long-Term

Keeping contribution rates for employers and members stable;

Ensuring that the assets are sufficient to cover the ongoing liabilities of the Scheme; and

Not forcing the Scheme to buy and sell shares at particular times.

As a supplement to these objectives the Trustee aims to maximise the money earned by the investments over the long term, while at the same time limiting the level of risk.

Risk

Because no-one can predict the future, all pension schemes are exposed to various risks. The risks the Trustee has considered are set out in the SIP, and are reviewed regularly.

Achieving the Objectives

SAUL is a relatively immature defined benefit pension scheme. The Trustee has reached this conclusion using a number of measures. Of particular relevance to the investment strategy is the fact that the investment horizon is approximately 15 years.

Taking this into consideration the Trustee has developed a number of measures to determine whether or not it is likely to meet the investment objectives. The main measure of success is over the longer-term whether or not the investment return has equalled or exceeded the growth in the liabilities. However, a long-term measure is not sufficient because shorter-term indicators of the likely long-term

return are needed to make sure that the strategy is right for the liability profile. Accordingly the Trustee uses long, medium and short-term measures to assess the success of the investment strategy.

Short-term measures are:

- Each investment manager is set a benchmark that is either a market-related index, or a composite manager specific benchmark that is a combination of market benchmarks. All active managers are set targets in excess of their benchmarks. Passive managers are expected to deliver returns that match the benchmarks with a minimal amount of deviation.
- Some active managers have absolute-return or absolute-return-type benchmarks.
- These market-related benchmarks and targets are manager specific. In addition to the manager specific benchmarks, managers will be compared against other relevant market and peer group returns.
- The fund itself will be considered both in totality and in its two separate elements (Risk Reducing and Return Seeking) over the same measure as for the medium and long-term measures, but the Trustee will expect to see significant volatility in the short-term which is why the manager return is the focus for short-term performance measurement. The Return Seeking element of the portfolio will also be measured against Global Equities, again, recognising that there will be significant volatility around this measure.

Medium-term measures are:

- Over the medium term the total portfolio will be measured against Index-linked gilts accepting there will be volatility of returns around the measure as the measure is long-term (over 10 years or more).
- The Risk Reducing part of the portfolio will be measured against Index-linked gilts also, in the expectation that it will out-perform this measure by 1.4% p.a. over a period of five years or longer.
- The Return Seeking part of the portfolio will be measured against a global equity mandate in the expectation that this part of the portfolio will out-perform this measure by 0.6% p.a. over a period of five years or longer.

Long-term measure:

- Over the long-term the most important measure is how the total portfolio has performed in relation to the liabilities. This is assessed at three yearly intervals, the most recent being that ended 31 March 2008 by the Scheme Actuary. However, in the interim, the closest market index that is a proxy for the liabilities is the Over 15 Year Index-linked Gilt index. Therefore, over the long-term the portfolio should exceed the growth in that index.

Performance Monitoring

The Investment Committee receives quarterly reports from the investment managers and from an independent measuring service (BNY Mellon Asset Servicing). Performance is reviewed on a quarterly basis to look for trends. If a manager's performance is slipping then deeper analysis using resources in the STC office and at the Investment Consultant are utilised to see if the fall-off in performance is as a result of external or internal factors, or cannot be explained. The short-term performance measures of each manager are also intended to be used as a method for determining drivers of performance.

On an annual basis, unless otherwise required, an in-depth manager monitoring report will be received on each investment manager from the Head of Investments. . In addition an annual meeting is held with most managers so that the Committee can understand what has been happening with the portfolio, the manager's investment process and what the portfolio is likely to look like over the coming months. For investment managers whose mandate is particularly long-term and less liquid these meetings may be delegated to the STC office and the Committee may meet the manager less frequently than annually.

SAUL has financially strong employers. This means that some investment volatility is acceptable as long as it leads to better long-term investment returns. The Trustee is concerned to make sure that the asset allocation is appropriate to the given investment aims which are set out in the Statement of Investment Principles.

6 Report by the Reporting Accountants

Reporting accountants' assurance report on internal controls to the Trustee of SAUL

Use of Report

This report is made solely for the use of the Trustee, as a body, of SAUL, and solely for the purpose of reporting on the internal controls of SAUL, in accordance with the terms of our engagement letter dated 4 February 2009 and attached as Appendix A of your report.

Our work has been undertaken so that we might report to the Trustee those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission.

We permit the disclosure of our report (in full only) to clients and potential clients (together "clients") of SAUL using SAUL's pension administration services (as defined in the appendix to this letter), and to the auditors of such clients, to enable clients and their auditors to verify that a report by reporting accountants has been commissioned by the Trustee of SAUL and issued in connection with the internal controls of SAUL without assuming or accepting any responsibility or liability to them on our part, and on the condition that the Trustee provide all such clients a written statement at the commencement of the SAUL report in the form set out in our engagement letter.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body and SAUL for our work, for this report or for the conclusions we have formed.

Subject Matter

This report covers solely the internal controls of SAUL as described in your report for the year ended 31 March 2011. Internal controls are processes designed to provide reasonable assurance regarding the level of control over clients' assets and related transactions achieved by SAUL in the provision of pension administration services by SAUL.

Respective Responsibilities

The Trustee's responsibilities and assertions are set out on page 5 of your report. Our responsibility is to form an independent conclusion, based on the work carried out in relation to the control procedures of SAUL's pension administration function carried out at the offices of SAUL as described in the Trustees' report and report this to the Trustee of SAUL.

Criteria and Scope

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 and the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06.

The criteria against which the control procedures were evaluated are the internal control objectives developed for service organisations as set out within the Technical Release AAF 01/06 and identified by the Trustee as relevant control objectives relating to the level of control over clients' assets and related transactions in the provision of pension administration services. Our work was based upon obtaining an understanding of the control procedures as described on page 5 in the report by the Trustee, and evaluating the Trustee's assertions as described on page 5 in the same report to obtain reasonable assurance so as to form our conclusion. Our work also included tests of specific control procedures, to obtain evidence about their effectiveness in meeting the related control objectives. The nature, timing and extent of the tests we applied are detailed on pages 15 to 48.

Our tests are related to SAUL as a whole rather than performed to meet the needs of any particular member or client.

Inherent Limitations

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such control procedures cannot guarantee protection against (among other things) fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, our conclusion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

Conclusion

In our opinion, in all material respects:

1. The accompanying report by the Trustee describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 March 2011;
2. The control procedures described on pages 15 to 48 were suitably designed and tested 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
3. 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 1 April 2010 to 31 March 2011.

PKF (UK) LLP
London, UK

8 September 2011

7 Control Objectives and Procedures: Pensions Administration

7.1 Control Environment

Risk management is in place and is operating effectively

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
A risk policy is in place, detailing the risk identification, assessment and management process. This document is the responsibility of the Chief Executive for the period under audit, as is the general responsibility of risk management.	We obtained a copy of the risk management policy and confirmed that it contains appropriate details of the risk management process. No exceptions were noted.
A risk register is in place and is signed off by the Audit Committee. This document is the responsibility of the Chief Executive for the period under audit.	The risk register has been seen and the review by the Audit Committee in November 2010 evidenced at meetings. No exceptions were noted.
Risks are identified by the Full Management Team. Impact and probability scores are allocated, risk owners and mitigating actions recorded.	Our review of the risk register confirmed that it contains key risks along with associated impact and probability scores. Risk owners are assigned to risks and actions required identified. No exceptions were noted.
Roles, responsibilities and authorities are clear and provide appropriate segregation of duties	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Roles and responsibilities are set out in the summary within the corporate strategy.	We reviewed the corporate strategy to ensure that roles and responsibilities are set out therein. No exceptions were noted
Job descriptions are put in place for all positions and set out roles, responsibilities and authorities.	A sample of job descriptions was selected and reviewed. No exceptions were noted.

<p>The Pensions Administration team consists of a Team Manager, Team Leader, Senior Administrators and Pension Administrators. Authorities are clear and allow for adequate segregation of duties.</p>	<p>The team members were seen during the audit and their respective roles and responsibilities reviewed to ensure they are clear and allow for adequate segregation of duties.</p> <p>No exceptions were noted.</p>
<p>Staff receive appropriate induction, training and supervision to carry out their roles</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>All staff members are inducted using an induction framework document (a checklist) upon appointment and this includes the consideration of training needs.</p>	<p>A sample of induction checklists was reviewed.</p> <p>No exceptions were noted.</p>
<p>Staff are trained and supervised upon appointment by a suitable member of the team so that they are able to carry out their roles effectively.</p>	<p>Induction information was reviewed to ascertain that suitable training and supervision had been given to new members of staff.</p> <p>No exceptions were noted.</p>
<p>Training requirements are identified as part of the induction process and requirements for external training are reassessed at the time of appraisals. All staff members attend at least one day of training per year.</p>	<p>A sample of induction checklists, appraisals and training records were reviewed.</p> <p>No exceptions were noted.</p>
<p>Managers and staff incentives are consistent with the proper administration of the pensions</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>All staff members are set objectives linked to their work and salary increases are awarded for achieving these.</p>	<p>A sample of appraisals was reviewed and it was confirmed that the controls outlined were operating.</p> <p>No exceptions were noted.</p>
<p>Appraisals are carried out annually, with interim reviews being performed after 6 months. Objectives are set for all staff and performance is assessed against these objectives, which are also revisited at each appraisal.</p>	<p>A sample of appraisals was reviewed and it was confirmed that the controls outlined were operating.</p> <p>No exceptions were noted.</p>

7.2 Accepting Clients/New Employers

Complete and authorised client agreements are operative prior to initiating administration activity.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Accounts are only set up upon receipt of appropriate documentation. The process of accepting new clients and new employers is run as a project.</p> <p>A project and implementation plan is set up which sets out the key objectives, roles, milestones of the project, risk management procedures, deliverable breakdown structure, project timescales and project activities.</p> <p>These plans are discussed and reviewed with the client and the client agreement confirmed. The discussion and decisions are minuted.</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>
<p>Accounts are set up and administered in accordance with client agreements and applicable regulations.</p>	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Implementation of accounts is conducted in a format and timetable agreed with individual clients.</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>
<p>Pension scheme details are entered onto the system based on documentation submitted and authorised by the client.</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>

<p>Reports are made to clients in agreed format and within defined timescales in accordance with client agreements and relevant legislation (including disclosure).</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>
<p>Calculation methodologies are created and signed off by the Scheme Actuary who is working under the Scheme Rules and legislation. The authorisation of the methodology is in the form of email from the recognised Scheme Actuary.</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>
<p>Pension schemes taken on are properly established in the system in accordance with the scheme rules and individual elections.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>All information is held within the scheme documents and this is used to set the client up on the Pensions Office System (POS). The information put into the system is the information authorised by the client in a prior meeting.</p>	<p>There were no new accounts set up in the audit period. At the time of the review we understand that a new account is in the process of being set up and will be subject to review at the next audit.</p> <p>As there were no new accounts set up the control was not exercised in the year.</p>
<p>7.3 Authorising and Processing Transactions</p>	
<p>Contributions to defined benefit schemes are processed accurately and in a timely manner.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>Standard forms are in place for joiners, transfers etc. Once filled in by the employer, these are checked by SAUL and entered onto POS.</p> <p>A series of validation checks is carried out, and once checked, the details are signed off by an authorised person.</p>	<p>We selected a sample of joiners and transfers in the period. For each, we reviewed a standard joiner/transfer form. Forms were found to be completed and signed by a senior member of the employer organisation.</p> <p>We then verified that details were entered into the Pensions Office System (POS) and signed off electronically by the Administration Team Manager.</p> <p>No exceptions were noted.</p>

<p>Duplication of data is avoided by not allowing the same national insurance number to be entered twice (an IT control).</p>	<p>We attempted to enter an NI number identical to an existing one in the system and confirmed that this was rejected by the system.</p> <p>No exceptions were noted.</p>
<p>A monthly reconciliation is performed between contributions made and contributions due, with discrepancies investigated and resolved. This is filled in by the employer and signed off by an appropriate member of SAUL staff once reconciled; all discrepancies are investigated and resolved no matter how small.</p>	<p>A sample of monthly reconciliations was reviewed. We confirmed that all had been completed by the relevant employer, reconciled by SAUL and authorised as such. We confirmed that the reason for all differences had been identified and resolved.</p> <p>No exceptions were noted.</p>
<p>Every month the lists of members included on the employers' contribution schedules and the list of members on the POS are checked against each other for consistency.</p> <p>There are often differences due to the information for new joiners not being received. Once these are flagged up, the associated rejection report is sent to each employer institution, setting out any members included on the employers' contribution schedule that are not on the POS due to delays in receiving all of the required documentation from the employer institution.</p>	<p>We confirmed that lists of members included on the employers' contribution schedules and the list of members on the POS are checked against each other for consistency on a monthly basis for all employers.</p> <p>We noted that the data check is performed electronically and a rejection report is produced for any discrepancies. The report is then sent out to the relevant employer.</p> <p>Our sample testing confirmed that all controls in relation to this are operating as expected.</p> <p>No exceptions were noted.</p>
<p>Each month error reports are generated from the POS which highlight any significant variances from the current required employee (6%) and employer (13%) contributions.</p>	<p>Our testing for this year noted that this control is now in place and monthly error reports are generated from POS which highlight significant variances from the current required employee (6%) and employer (13%) contributions.</p> <p>No exceptions were noted</p>
<p>The Data Administrator manually selects 1 in 10 members with additional voluntary contributions and recalculates them. This is performed to safeguard the correct calculation of AVCs as the system cannot currently generate the appropriate error reports to perform this check.</p>	<p>We understand that AVC mismatch reports are being produced but there are no 1 in 10 recalculations checks being carried out.</p> <p>Recommendation: The Data Administrator should ensure that the 1 in 10 manual recalculation for AVC is carried out on a monthly basis.</p> <p>Management Response: The procedures have been updated to include this check. A report/tool will be developed to check all members contributing AVCs going forward.</p>

<p>Additional error reports highlighting members' salaries over £50,000 and below £1,000 are generated quarterly as a test of reasonableness against the prior period. This is done by the Data Administrator and if any variances appear they are investigated and justified. On an annual basis this test is extended to include a check of any members' salary that has increased by over 10% over the year. This report is run and any discrepancies are investigated.</p>	<p>We understand that this control is operating, however, it is not evidenced as the person who generates this report was on leave. The other team members were unable to locate these reports therefore and we were therefore unable to verify.</p> <p>Recommendation: There is a need for team members to be able to provide cover when others are absent to ensure proper continuity of work</p> <p>Management Response: We accept this recommendation. New team members have since been recruited are in training to ensure cover is in place for this activity.</p> <p>This report will be automated this year ensuring evidence of this control is available through the PensionsOfficell system.</p>
<p>Checks are performed on the contribution calculations using exception reports which identify all new joiners and changes, so that these can be reviewed in more detail.</p>	<p>We tested a sample of employers and confirmed that exception reports identifying new joiners and changes had been produced for each.</p> <p>No exceptions were noted.</p>
<p>A list of joiners is printed and this is sent to the employers on a nil responses basis. The employers are required to check that these are in fact the new joiners and are expected to contact SAUL with any discrepancies.</p> <p>The process is the same for the zero contribution report which identifies all those individuals who are on schemes but with zero contributions. This report intends to identify those people who have left the scheme but where the employer has not notified SAUL.</p>	<p>We selected a sample of employers and confirmed that joiner reports for each were sent to each if applicable.</p> <p>No exceptions were noted.</p> <p>We performed the same test in relation to zero contribution reports.</p> <p>No exceptions were noted.</p>

Benefits payable (leavers):

Benefits payable and transfer values are calculated in accordance with scheme rules and relevant legislation and are paid on a timely basis.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Completed leaver forms are received by Reception, date stamped and passed to the Pensions Administration (PA) department. The PA Team Leader (PATL) or Senior Administrator records on the form the Administrator to be responsible for processing the leaver and the POS code for the type of leaver e.g. retirement through ill health.</p> <p>The form is then scanned by the Receptionist and returned to the Pension Team Administrator to check quality of the scanning, attach to the correct record and allocate to the appropriate administrator.</p>	<p>A sample of leaver forms was selected for testing. For each, we confirmed that the leaver form was date stamped. We also confirmed that the Senior Administrator will pass the form onto the relevant Administrator to process, which is evidenced from the task history on the POS system.</p> <p>No exceptions were noted.</p>
<p>The Administrator inputs the leaver details into POS and it performs relevant calculations based on information input. POS is configured to ensure that calculations are in line with scheme rules and relevant legislation. The scheme rules are updated regularly as legislation changes and this is the responsibility of the Technical Manager.</p>	<p>For the sample of leavers selected for testing, we confirmed that details had been entered onto the POS system correctly.</p> <p>No exceptions were noted.</p>
<p>Once complete, the case is passed to a Senior Administrator or Team Leader for review. The Senior Administrator/ Team Leader performs a check of all data input to ensure accuracy, and once satisfied approves the data. The case is then transferred back to the Administrator to resolve any issues and finalise the case so that the calculated payment can be made.</p>	<p>For the sample of leavers selected, we verified that the relevant details were all signed off electronically by the Senior Administrator to evidence that they had been checked and approved.</p> <p>No exceptions were noted.</p>
<p>All activities and reviews are evidenced electronically and an audit trail can be generated on the system to show the tasks undertaken and who they were performed by. Only once the reviewer has recorded that he has performed the required checks, can the Administrator complete the process (IT control).</p>	<p>We confirmed that an electronic audit trail is in place to show the preparation and authorisation of each case. Only after final authorisation at reviewer level can the case be finalised and payments made.</p> <p>No exceptions were noted.</p>
<p>For some types of leaver circumstances, it is</p>	<p>A sample of leavers subject to manual data checks</p>

<p>more practical for the reviewer to print the relevant documentation in order to perform checks. In these instances, the data is printed by the Administrator and passed to the reviewer. The reviewer manually checks off data against information held on the system and signs to evidence that this has been performed. This documentation is scanned onto the system and the reviewer then records that the check is complete so that the electronic trail exists.</p>	<p>was selected for testing. The reviewer was found to have evidenced the carrying out of data checks and the documentation was scanned into the system to create an electronic audit trail.</p> <p>No exceptions were noted.</p>
<p>POS does not allow the performer to be the same person as the reviewer, or for the reviewer to be more junior in hierarchy than the performer (IT control).</p>	<p>We physically confirmed the existence of this control. Our sample testing of leavers provided further evidence that there is always segregation of duties between preparer and reviewer of leaver calculations. Furthermore, the reviewer was found to be more senior than the preparer in all cases.</p> <p>No exceptions were noted.</p>
<p>Transfers:</p>	
<p>Transfers are initiated through notification from the employer that a member wishes to transfer out of the scheme.</p>	<p>A sample of transfers was selected for testing. Each was confirmed to have been initiated by the relevant employer.</p> <p>No exceptions were noted.</p>
<p>Non-club transfer values are calculated using an Excel spreadsheet which was designed to reflect scheme rules and legislation. It was approved by the Technical Manager for use, and all fields except those where data needs to be input are write protected to retain the integrity of the spreadsheet.</p>	<p>We verified the existence of the Excel spreadsheet used for calculating transfer values. We confirmed that it is write protected and therefore cannot be edited by Pensions Administration staff.</p> <p>No exceptions were noted.</p>
<p>The data and spreadsheet calculations are printed by the Administrator once completed and are passed to the reviewer for checking. Both the preparer and reviewer sign and date to evidence completion of their responsibilities. The document is scanned in to evidence the work's completion.</p>	<p>We selected a sample of transfers carried out in the year, and for each, we confirmed that the calculations had been completed and signed off by the preparer before being signed off as satisfactory by the reviewer.</p> <p>No exceptions were noted.</p>
<p>Activity stages are recorded in the system as described for leavers. Only once the reviewer has electronically approved the data may the preparer send the quote and discharge form generated from the system to the transferee who completes the discharge form if happy with the quote. Once this is returned the process is completed.</p>	<p>For the sample selected, we confirmed that the controls operated as described.</p> <p>No exceptions were noted.</p>

Benefits Payable and Transfers:

Service standards are in place and these include timescales for processing leaver and transfer payments. Pension administration staff members are all responsible for monitoring timescales for their tasks to ensure payments are processed on a timely basis. In addition, the Team Leader performs checks on all leavers/transfers in progress to ensure timeframes are adhered to by the team.

We reviewed the service standards in place and confirmed that these include timescales for processing leaver and transfer payments.

We confirmed that the team leader monitors and checks all leavers/transfers in progress on a daily basis. Performance statistics against service standards are compiled on a weekly basis.

No exceptions were noted.

7.4 Maintaining financial and other records

Member records consist of up to date and accurate information and are updated and reconciled regularly.

Contributions and benefit payments are completely and accurately recorded in the proper period.

Scheme documents (deeds, policies, contracts, booklets etc) are complete, up to date and securely held.

Control Objectives and Procedures

Tests Performed by PKF (UK) LLP

Amendments to data are only made upon receipt of a duly completed and authorised data amendment form. The process of amending data records is that the employer sends in a fully signed and filled in data amendment form. This is scanned and passed to an administrator who enacts the change. Before the records are changed on the system there needs to be a secondary review in the form of a sign off by a senior administrator on the computer screen. If the sign off is enabled then the member data is amended.

We tested a sample of data amendments in the audit period. In all cases, a data amendment form was found to have been completed and authorised appropriately. Data within the POS was found have been updated accordingly by an administrator and approved by a senior administrator.

No exceptions were noted.

On a monthly basis, a data administrator prepares a reconciliation report which includes details of contributions for each member to ensure that the contributions recorded by SAUL reflect the accurate details stated within the employer's records.

A sample of reconciliations was reviewed and we confirmed that they had been reconciled as described.

No exceptions were noted.

<p>The reports are sent to the employers to agree the information. They must sign the report to confirm that the information is correct, or record any discrepancies identified. Justification must be provided as to why there is a difference if there is one.</p>	<p>For the sample selected, all reports were found to have been signed off by the relevant employers to confirm that the information within them is correct.</p> <p>No exceptions were noted.</p>
<p>A detailed timetable is in place, this includes details of dates as to when employers return the reports back to SAUL, and this report is updated by the data administrator on an ongoing basis. The data administrator is responsible for ensuring that reports are returned by all employers.</p>	<p>The data administrator maintains a detailed log in excel for each employer for each month to ensure that they return the reports as required. Once a report is received the date it was received is entered onto the spreadsheet. It is his responsibility to chase the documents. This detailed spreadsheet has been reviewed and is fit for achieving the control objectives.</p> <p>There is no set timetable for the return of the reports.</p> <p>Recommendation: A detailed timetable is put in place. This would include details of dates as to when employers return the reports back to SAUL. This timetable should be circulated to all relevant administration staff to ensure that SAUL reports are being chased and received as needed.</p> <p>Management Response: This recommendation is accepted. The timetable will record when reports have been issued, responses will be actively chased, with referral to the Head of Benefits where reports are outstanding for longer than a two month period.</p>
<p>Annually benefits statements are generated for active members from POS by the Technical Projects Manager and sent out to each member. Any discrepancies reported are recorded on a spreadsheet and investigated and resolved as quickly as possible. These annual benefits statements include full information on members. Any amendments are completed by an administrator and authorised by a manager on the related query form.</p>	<p>For a sample of members, we confirmed that annual benefits statements were generated. The speed of addressing the queries arising was reviewed and all were followed up promptly.</p> <p>Any amendments are noted through the amendments forms.</p> <p>No exceptions were noted.</p>
<p>The system to calculate benefits has been tested and validated by system providers and IT.</p>	<p>The Release Acceptance Certificate formally accepting the system was signed off by the Head of IT.</p> <p>No exceptions were noted.</p>

Scheme documents are reviewed and updated whenever there is relevant change to either the scheme rules or legislation. Updates are made by the Team Leader. For third party clients, the updates to booklets etc are dictated by the client. For SAUL, updates to booklets are done as soon as there is a change.		The technical team has verified the control's existence by evidencing this through the February 2011 Board Meeting minutes where legislative changes were discussed. No exceptions were noted.
7.5 Safeguarding Assets		
Member and scheme data is appropriately stored to ensure security and protection from unauthorised use.		
Control Objectives and Procedures		Tests Performed by PKF (UK) LLP
There is controlled access to scheme data. The reception is staffed and key pad access is required to the area where data is held. Paper files are stored in locked cupboards overnight and only appropriate persons have access to these cupboards.		We physically verified the operation of this control. No exceptions were noted.
The system has tiered access and can only be accessed using an allocated username and password. The system forces a password change every 30 days.		The system user name and password screen was verified along with compulsory password change every 30 days. No exceptions were noted.
Cash is safeguarded and payments are suitably authorised and controlled.		
Cheque request forms must be prepared by an administrator and authorised by a senior administrator or manager. In practice, the Assistant Accountant creates a batch header with all relevant details and the Accounts Manager or other authorised senior administrator/manager (per the authorised signatories listing) signs the batch header form.		For a sample of cheques issued, we confirmed that the controls operated as described. No exceptions were noted.
The cheque is prepared and authorised by appropriate signatories according to procedure.		For a sample of cheques issued, we confirmed that the controls operated as described. No exceptions were noted.
Bank reconciliations are undertaken monthly by the Assistant Accountant and these are checked by the Accounts Manager who signs to evidence this check once satisfied.		We tested a sample of bank reconciliations and confirmed that they had been carried out and approved as described. No exceptions were noted.

<p>BACS exception reports and statistics and movement reports are run to identify any unusual data and to ensure no unauthorised changes have been made. Exception criteria for the exception reports include a tax refund exceeding £300, tax exceeding 50%, deductions exceeding 50% of taxable pay, zero net pay, net pay exceeds £1,200.</p>	<p>For a sample of months, BACS reports were reviewed. We confirmed that for each report, all exceptions were identified and marked off as resolved.</p> <p>No exceptions were noted.</p>
<p>There is password protection for the smartcard used to initiate BACS transactions. BACS payments are scheduled by the Accounts Assistant and authorised by the Accounts Manager. The password is held by the Accounts Manager and the smart card is held in the safe</p>	<p>We physically verified the operation of this control.</p> <p>No exceptions were noted.</p>
<p>7.6 Monitoring Compliance</p>	
<p>Contributions are received in accordance with scheme rules and relevant legislation.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>The Technical Manager reviews all legislative changes relating to pension schemes and impacting on SAUL, as SAUL must be compliant with the Pensions Act. This is a standing item on the quarterly Board meeting agenda where the Technical Manager provides an update to the Board on any changes that need to be made. If there is a large and complicated legislative change, the Technical Manager writes a more detailed report for the board to ensure that the trustees understand the issues.</p>	<p>We reviewed board meeting minutes and confirmed that a paper written by the Technical Manager in relation to legislative changes was received and considered by the board.</p> <p>No exceptions were noted.</p>
<p>Contributions are reconciled regularly by an administrator and any outstanding amounts are followed up. All outstanding amounts are logged onto a spreadsheet.</p>	<p>We tested a sample of reconciliations and confirmed that they had been carried out as expected.</p> <p>No exceptions were noted.</p>

Services provided to pension schemes are in line with service level agreements.	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Service level agreements are put in place for all clients and schemes are administered in accordance with them. Service level agreements are prepared by the Technical Manager to ensure that the schemes are complying with them.	We reviewed a sample service level agreement to confirm its existence. We established that each service level agreement is prepared by the Technical Manager. No exceptions were noted.
Transaction errors are rectified promptly and clients treated fairly.	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
System errors discovered by administrators during processing are logged, investigated, prioritised and resolved as quickly as possible.	We found forms being completed for noting system errors. There was also a spreadsheet log being maintained but did not find the two being synchronised. The log numbers on the forms did not correspond to the spreadsheet log. The Deputy Head of Benefits is working towards better aligning the process in order to provide clear evidence trail. Recommendation: The Deputy Head of Benefits timetables an implementation to align the spreadsheet error log and the forms in order for a clear trail of evidence. Management response: The recommendation is acknowledged. The process for dealing with system errors, including those that are found by the administration team and their resolution by the IT team is an area that is currently under review.
A complaints process is in place whereby complaints are acknowledged within two working days, and responded to within a specified time frame. The complaint is then logged onto a spreadsheet. Very serious complaints are given to the administration manager to be dealt with as a matter of urgency.	We confirmed that a complaints procedure is in place as described. Complaints are not received frequently. In the audit period we noted there were 3 complaints. These were all acknowledged within 2 days and were all resolved within the required timeframe. No exceptions were noted.

7.7 Reporting to Clients	
Periodic reports to participants and scheme sponsors are accurate and complete and provided within required timescales.	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Two reports are produced each month (one paper-based and one electronic) and sent to the employer institutions. Reports detail individual contribution amounts for each employee, the number of active members and overall totals for employee, employer and AVCs, and a reconciliation of any differences in the amounts payable per the schedule / the amount included in their monthly cheque.	For a sample of employers, we confirmed that reports had been sent to them as described. No exceptions were noted.
Annually, benefits statements are generated from POS by the Technical Projects Manager. These are sent out to each member, and each employer for all their members. Monthly, quarterly and annual stewardship reports are also produced for third party clients as required.	We selected a sample of members, and for each, we ensured that an annual benefit statement has been distributed to them in the last year. We also ensured that a statement has been sent to each relevant employer. No exceptions were noted.
Annual reports and accounts are prepared in accordance with applicable law and regulations. Regulatory reports are made if necessary.	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Annual accounts are prepared and are externally audited.	Annual accounts have been prepared and audited by PricewaterhouseCoopers for all relevant entities. No exceptions were noted.
The Technical Manager is responsible for ensuring compliance and making any reports, if necessary. She attends training courses and receives updates and regularly checks that SAUL is operating within the confines of the law.	Compliance reports are produced on a monthly basis to confirm compliance with regulations. We noted that the Technical Manager attends training courses and receives updates to ensure that SAUL is operating within the confines of the law. No exceptions were noted.

8 Control Objectives and Procedures: Information Technology

8.1 Restricting access to systems and data

Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Access to computer networks, IT equipment etc. is restricted by general controls over access to the office premises. The office area is protected at both entrances by a security lock that requires a specific code for an individual to gain access. Visitors can only access the main reception area if the receptionist releases the door.</p>	<p>PKF observed the controls over access to the office premises. Controls were found to be operating as expected.</p> <p>No exceptions were noted.</p>
<p>The computer room is located in a secure area and houses the servers and network equipment. The computer room is locked using a physical key, which is kept securely and accessed by the members of the IT Team only.</p>	<p>PKF confirmed that a secure computer room exists and verified the method by which it is secured. Controls were found to be appropriate</p> <p>No exceptions were noted.</p>
<p>Logical access to computer systems, programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.</p>	
<p>Only the IT Team have the system administrator access to create a new user profile.</p>	<p>We verified that only the IT Team have system administrator access through review of user access permissions.</p> <p>No exceptions were noted.</p>
<p>When a new member of staff joins SAUL, the appropriate team leader sends an email to the IT Team requesting them to set up a user profile and indicating the level of access privileges to be granted. Users have access to common network facilities and their own directories that correspond to their particular areas of responsibility. The IT Team confirms that the access privileges are consistent with the requirements of their job and sets up the access.</p>	<p>Our testing of new starters found that e-mails were sent through from the respective team leaders.</p> <p>No exceptions were noted.</p>

<p>System access is password controlled and users are automatically required to change their passwords every 30 days. Passwords must be between 5 and 8 characters long and alphanumeric in format. All new users are required to change their password at the first log-in. A password history is maintained that prevents the reuse of any of the last twelve passwords.</p>	<p>PKF observed the operation of password controls and attempted to set up a four character, non-alphanumeric password to ensure that this was rejected by the system. The password was rejected as expected.</p> <p>No exceptions were noted.</p>
<p>The IT Team are notified immediately of all leavers and their access to the system is disabled.</p>	<p>We tested a sample of leavers to confirm that they were disabled from the system promptly when they left SAUL.</p> <p>No exceptions were noted.</p>
<p>Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.</p>	
<p>Only the IT Team have system administrator access. Pension administrators are not set up as system administrators and similarly, system administrators do not have access to perform pension administration or processing functions.</p>	<p>We confirmed by testing that pension administrators do not have system administrator access. IT do have access to all parts of the system including pensions system. The audit trail of activity will be able to pick up accessibility to records thus being transparent.</p> <p>No exceptions were noted.</p>
<p>8.2 Providing integrity and resilience to the information processing environment commensurate with the value of the information held, information processing performed and external threats.</p>	
<p>IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.</p>	
<p>Bulk processing is authorised by the relevant senior staff and is scheduled on a timely basis.</p> <p>Checks are carried out prior to bulk processing in order to ensure as far as possible that problems do not arise. A suite of exception reports are then run once processing is complete and these are used to identify and remedy errors.</p> <p>Any changes required are made by a member of the admin team and authorised by a manager.</p>	<p>The only bulk processing carried out by SAUL is the monthly staff and pensions payroll.</p> <p>This is scheduled to take place at a set time each month and therefore enables other activities to be scheduled around it.</p> <p>The Accounts Manager is responsible for scheduling the payroll each month and the Head of Finance authorises it.</p> <p>No exceptions were noted.</p>

Data transmissions between the service organisation and its counterparties are complete, accurate, timely and secure.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Member data is not sent by email except on rare occasions (approximately once a year). On these occasions, data is password protected and encrypted. The password is supplied to the recipient by telephone and is not included with the data.</p> <p>Virtually all data (the exceptions being those occasions described above where data is emailed) is sent via a program called OWL. OWL is an encrypted website where the receiver owns an account through which they can receive documents.</p> <p>SAUL employees place files and information into the relevant employer's OWL account as and when required. The receiver then logs in using their user name and password and retrieves the information.</p>	<p>We confirmed through discussion that member data is not generally sent by email. However, as no emails were sent in the period under audit, we were unable to test the operation of this control.</p> <p>We physically verified the existence of OWL and reviewed the staff procedure document which sets out details of how to carry out secure data and document transfer.</p> <p>No exceptions were noted.</p>

Appropriate measures are implemented to counter the threat from malicious electronic attack (e.g. firewalls, anti-virus etc).

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Initial connection into the SAUL network is to a separate Linux DMZ firewall system. In addition, anti-virus and intrusion detection software is installed. Anti-virus software is loaded onto the servers and updated and synchronised on a daily basis across all workstations.</p>	<p>We verified the existence of the firewall and anti-virus software.</p> <p>No exceptions were noted.</p>
<p>To mitigate the risk of virus intrusion still further, only the IT Manager, executive management and certain authorised persons are allowed to receive emails with attachments. Receipt of attachments by any other member of staff requires approval from executive management.</p>	<p>We reviewed the list of staff authorised to receive email attachments to confirm that they were of an appropriately senior level. We also confirmed that in the audit period, no members of staff who are unauthorised to receive attachments have made a request to receive an email with an attachment.</p> <p>No exceptions were noted.</p>

<p>There is an automatic scan on all external media entered onto a PC and any computer media which requires loading onto the SAUL Trustee Company ("STC") IT Network must first be virus checked by a member of the IT Team using a standalone machine.</p>	<p>We confirmed that an automatic scan is carried out on all external media loaded onto the Network. Sophos software is used in order to do this. We also confirmed that a manual virus check is carried out prior to loading using a standalone machine.</p> <p>No exceptions were noted.</p>
<p>The use of data sticks is disallowed. Although the USB ports are not disabled, within contracts of employments, unauthorised use of data sticks constitutes gross misconduct.</p>	<p>Through discussion with IT management, we established that this policy is in place and enforced. The HR Manager was able to provide evidence of this policy in relation to use of USB sticks which is contained in the Staff Handbook.</p> <p>No exceptions were noted.</p>
<p>The physical IT equipment is maintained in a controlled environment.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>The computer room is fitted with a smoke alarm that is linked to the main building security alarm system. This in turn is connected to a 24 hour monitoring system.</p>	<p>We physically verified that a smoke detector is in place within the computer room. The contract for the 24 hour monitoring system was reviewed to ensure its existence.</p> <p>No exceptions were noted.</p>
<p>The computer room is temperature controlled. There are carbon dioxide and water cylinders located outside the room, and sprinklers are installed. When outside office hours, if a fire is detected in the computer room then this system is set up to operate and alert the relevant authorities.</p>	<p>We physically verified that the temperature control panel, carbon dioxide/water cylinders and water sprinklers are in place in the computer room.</p> <p>No exceptions were noted.</p>

8.3 Maintaining and developing systems hardware and software

Development and implementation of new systems, applications and software, and changes to existing systems, applications and software, are authorised, tested, approved and implemented.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Any amendments to IT systems, applications and software can only be made by the IT Team, who have the appropriate access privileges to undertake such a task. Adequate authorisation from executive management must be obtained for all changes.	Only one amendment to an application has been made in the audit period. We verified that the amendment was authorised by executive management. No exceptions were noted.
The Configuration Team assess requests for system changes from the Pensions Administration team, Technical Manager and Admin Support Manager at monthly meetings. (The status of projects already underway is also reviewed at the monthly Configuration Team meetings and outstanding items are monitored by management.) If deemed to be justified, changes are authorised by the Configuration Team and this is recorded in meeting minutes.	Due to the upgrade of the POS system the Configuration team meetings only happened on a needs only basis. The main reason was for the major project not to fall behind schedule. It is our understanding that these meetings have now restarted in the new financial year and will be subject to review in our next audit. During the audit period this control could not be tested. Audit testing could not be performed in the audit period.
Significant changes to platforms and programmes are initiated as projects and are in almost all cases performed in conjunction with Northgate, since in practice these relate to the POS and Northgate is the POS software provider.	We reviewed the records of testing carried out on the system and the log of reporting errors. We ensured that appropriate sign offs had been obtained at each stage of the process. No exceptions were noted.
Whenever any amendments to the Pensions Office System (POS) are made, they are completed in a test environment away from the live system. This allows errors to be identified and amended.	The PO2 upgrade was a major change in the audit period. We reviewed the arrangements to test the system prior to it going live. No exceptions were noted.
A test pack of data is prepared and authorised by the Admin Support Manager and the Deputy Benefits Manager. The POS release is copied to the test environment and a release checklist is initiated showing a selection of tests that need to be performed in relation to the release.	The test pack of data used was that which has been in use for some time. No new authorisation of the data was required as it had not changed. Control was not operated in the year.

<p>Staff members are responsible for performing tests as shown on the checklist including functionality tests using a specialised software tool, the IBM Rational Robot. The completion of these checks is confirmed and signed off by the Systems Manager.</p>	<p>The release checklist was reviewed and confirmed that it was being used as intended and signed off by the Systems Manager.</p> <p>No exceptions were noted.</p>
<p>Once the Technical Manager is satisfied that all checks have been satisfactorily completed in the test environment, a release to the live environment is authorised.</p>	<p>We ensured the Acceptance Certificate had been approved by Northgate prior to the system going live.</p> <p>No exceptions were noted.</p>
<p>The software is then installed. The IT Team load software to the server and ensure that the software is available to the relevant users.</p>	<p>Our discussions with the Head of IT confirmed that the software is loaded on to the central POS server where the individual PCs feed their information from.</p> <p>No exceptions were noted.</p>
<p>Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.</p>	
<p>Data migration and modification takes place on occasion as required.</p> <p>The activity is authorised, tested and once performed, reconciled back to the source data.</p>	<p>We confirmed through discussion that these controls are in operation. However, no data migration or modification has taken place in the audit period and we were therefore unable to test the operation of these controls.</p>
<p>8.4 Recovering from processing interruptions</p>	
<p>Data and systems are backed up regularly, retained offsite and regularly tested for recoverability.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>The System Administrators are responsible for backing up the IT Network. The backup process is automated and scheduled every night.</p> <p>Veritas software is used for the main server and email server, whereas Unix software is used to backup the Pensions Office server.</p> <p>All three servers holding live data have a tape drive attached, and tapes are inserted physically each day. A Systems Administrator reviews back up logs online each morning to ensure successful completion of all tasks. In addition the system is set up to send an email to alert the Systems Administrators if the backup fails.</p>	<p>The Systems Administrator was observed reviewing the back up log one morning during our fieldwork. A copy of the back up log was obtained and found to be complete.</p> <p>There are no records of any backup failures in the year and the operation of the email alert if the back up fails could therefore not be tested.</p> <p>No exceptions were noted.</p>

<p>A manual log is completed showing all the backups that have been completed successfully for each server and giving a brief description of any fault that occurred during the process. However if a serious error occurs within Pensions Office during the backup the fault is raised with the supplier of the software.</p>	<p>A formal log of the whereabouts of back up tapes was obtained and reviewed. This was found to include the requisite information and to have been completed.</p> <p>No exceptions were noted.</p>
<p>Back up tapes are held in a locked fire resistant safe located in the IT office area. On a weekly basis the tapes are taken home by the System Administrators responsible for backups, for off site storage. These are brought back in the following week. This process ensures that in the event of the loss of an office, the maximum amount of data that can be lost is seven days.</p>	<p>The safe containing the back up tapes was found to be suitable.</p> <p>No exceptions were noted.</p>
<p>A mirror image of PC set up is kept offsite at Planet Computer Solutions on CD Rom. A further mirror image of the network PC set up is stored on an External Hard Disk; this is held in the computer room.</p> <p>To prevent loss of data from power failure, an Uninterrupted Power System is running at all times.</p>	<p>We reviewed the contract in place with Planet Computer Solutions and confirmed that extensive support arrangements are in place.</p> <p>We physically verified that a mirror image of the network PC set up is stored on an External Hard Disk and that this is held in the computer room.</p> <p>We also confirmed that an Uninterrupted Power System is running at all times and it was physically verified that this was operating.</p> <p>No exceptions were noted.</p>
<p>IT hardware and software issues are monitored and resolved in a timely manner.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>System faults can be reported by any member of staff to the IT Team. All calls are logged centrally into a spreadsheet and users are kept informed of the status of their fault. The majority are simple queries that can be resolved almost immediately by the IT Team.</p>	<p>The systems log was reviewed on screen and found to record all key details such as the nature of the fault, the date it was reported and the date resolved. Our sample testing indicated that issues are resolved in a timely manner.</p> <p>No exceptions were noted.</p>
<p>The Pensions Office server is covered by four hour response hardware maintenance. This arrangement is with Sun Systems.</p>	<p>We reviewed an email from Northgate Arinso to SAUL, confirming SAUL's cover through Sun Systems' service plan. We also reviewed service plan details and confirmed that the chosen plan provides four hour response hardware maintenance.</p> <p>No exceptions were noted.</p>

<p>An annual support agreement with Northgate Arinso (UK) Ltd. is in place for software support and maintenance purposes.</p>	<p>We reviewed an invoice for the current year and confirmed that payment in full had been made to Northgate Arinso (UK) Ltd. for these services.</p> <p>No exceptions were noted.</p>
<p>An arrangement is in place with Planet Computer Solutions who can provide additional technical support to the network when required.</p>	<p>We obtained the contract held with Planet Computer Solutions and confirmed that a support agreement is in place. The contract was found to be signed by both parties on 9th March 2007. Under the agreement, the contract remains valid until terminated by either party.</p> <p>No exceptions were noted.</p>
<p>Business and information systems recovery plans are documented, approved, tested and maintained.</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>SAUL has a business continuity contract with a recovery company called ICM. In the event of a major disaster the business continuity plan is expected to be invoked.</p> <p>A fully serviced office facility, with ten workstations, is available at any time SAUL requires it through services provided by ICM. SAUL has tested these workstations to ensure they would be effective if called for.</p>	<p>The agreement with ICM was obtained and reviewed. The contract was found to confirm that business continuity arrangements are in place with ICM. The contract was found to be signed by both parties in April 2009 and to be effective for a minimum of five years from that date.</p> <p>No exceptions were noted.</p>
<p>As part of the ICM agreement, SAUL carries out a full system restore at the ICM site annually.</p>	<p>We confirmed with the Head of IT that the last business continuity rehearsal (full system restore) was successfully carried out on the 29th of October 2009. Since then there has not been any follow up exercise.</p> <p>Recommendation: IT ensure that a Business Continuity rehearsal is carried out and regularly followed through annually thereafter.</p> <p>Management Response: The rehearsal has been deferred due to significant changes to software; annual tests will resume this year</p>

8.5 Monitoring compliance	
Outsourced activities are properly managed and monitored.	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
SAUL does not currently outsource any core IT activities to third party suppliers other than business recovery support. (This is addressed elsewhere in this report.)	There is no outsourcing and therefore no testing has been performed.

9 Control Objectives and Procedures: Investment Management

9.1 Control Environment

Fund manager selection processes take account of the established investment risks to SAUL

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Advice and guidance is provided to SAUL by Mercer Investment Consulting in relation to the selection of new fund managers.</p> <p>Mercer provides a list to SAUL of possible fund managers, with the requisite skill and experience, based on their extensive research which may be supplemented by STC/IC. This includes an assessment of their suitability for SAUL.</p>	<p>The fund manager selection process was reviewed and the information supplied by Mercer Investment Consulting was also reviewed.</p> <p>No exceptions were noted.</p>
<p>Additional information is requested from listed fund managers. This is considered by the Investment Committee Chairman, the Chief Executive and the Investment Consultant, and a shortlist is drawn up. The shortlist is then included in the Investment Committee (or a properly authorised sub-committee) agenda for consideration.</p>	<p>We reviewed the agendas of two Investment Committee meetings and ensured that the short list was included for consideration.</p> <p>No exceptions were noted.</p>
<p>Candidates are then interviewed by the Investment Committee and a decision is made by the Committee as to which fund manager to appoint.</p>	<p>This appointment process was tested and we noted that the shortlisted candidates were interviewed by the Investment Committee and the decision made regarding appointment was minuted by the Committee.</p> <p>No exceptions were noted.</p>

Complete and authorised agreements are operative prior to initiating investment activity	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Investment activity is only initiated after formal legal agreement is reached and the appropriate documentation is signed by two signatories, the Chief Executive and Chairman or a Director. There is a register of authorised signatories in place which enables verification of this. Progress on completion of the formal agreement is reported to the Board.	Investment activity has only been initiated with one new organisation in the year to date. We obtained a copy of the contract and confirmed that the agreement had been signed by the Chief Executive and a Director. No exceptions were noted
Investment guidelines and restrictions are established, approved and communicated	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
The funds within the investment portfolio are to be invested in accordance with the Scheme Rules and SAUL's agreed Statement of Investment Principles (SIP) throughout the year. The SIP and the investment objectives for the portfolio are considered and recommended to the Board by the Investment Committee following advice provided by SAUL's Investment Consultant.	The February 2010 Investment Committee and Board records were reviewed in respect of the approval and dissemination of the SIP. No exceptions were noted.
The responsibility for updating the SIP and reviewing it on a yearly basis (as required by law) is with the Board of SAUL Trustee Company with assistance from the Investment Committee. Once updated it is reviewed by the Compliance Officer.	February 2010 Investment Committee and Board minutes demonstrated that the SIP was reviewed annually. We noted that during our review it was noted that the SIP was discussed for the current year. No exceptions were noted.
To ensure that the investment managers are fully aware of the SIP, the Trustee Services Co-ordinator sends the investment managers a new copy of the SIP every time it is updated.	There have been no updates to the SIP in the year under review. The current SIP is available on the SAUL website. Control could not be tested.

9.2 Authorising and processing transactions

Investment transactions are properly authorised and executed in a timely and accurate manner

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Quarterly reports are submitted to SAUL by both the custodian (Northern Trust) and the fund managers. The custodian reconciles any differences between their records and those of the fund managers. Some transactions will be in transit, and the reconciliation is not precise as a result.</p> <p>The trustees have set a variance tolerance level to deal with this. The custodian, after performing their reconciliation with the fund manager, sends an email to SAUL to confirm that amounts have been agreed, have been reconciled or are within the tolerance limit.</p>	<p>We reviewed a sample of reports received in the audit period from fund managers. These were found to provide a detailed account of performance in the relevant quarter.</p> <p>An email report from the custodian was reviewed. This was found to show a reconciliation of each fund's market value per the custodian and per the relevant fund manager.</p> <p>The variance noted and the agreed tolerance level were also reported, and in all cases variances were found to be within the agreed tolerance levels, or have satisfactory reasons for variances (e.g. accruals of a specific value not taken into account by one party).</p> <p>The Head of Investments reviews the reconciliations before submitting to the Investment Committee. These were not signed off to confirm that these checks have in fact been completed.</p> <p>Recommendation: The Head of Investments to review and sign off the reconciliations as being correct before being submitted to the Investment Committee.</p> <p>Management Response: We accept the recommendation that the Head of Investments formally sign off reconciliations, however these are not then submitted to the Investment Committee. If a major issue was identified within the reconciliation process this would be raised by the Head of Investments at the Investment Committee meeting.</p>

The use of counterparties by fund managers is monitored

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>The Investment Committee reviews the use of counterparties, if any, at their meetings with the Investment Managers throughout the year.</p>	<p>We selected a sample of fund managers and ensured that the Investment Committee had received their internal control reports to confirm that they had satisfactorily reviewed their counterparty risk.</p>

<p>Since SAUL does not invest directly with counterparties, SAUL requires fund managers to review their counterparty risk and include this in their internal control reports.</p> <p>The Investment Committee satisfies itself that its fund managers have reviewed their counterparty risk by establishing that they have appropriate internal control reporting (AAF01/06 or equivalent) in relation to this.</p>	<p>No exceptions were noted.</p>
<p>Commission levels and transaction costs are monitored</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>Commission levels are agreed when fund managers are appointed.</p>	<p>We reviewed the contracts of each of the new managers appointed within the year and confirmed that commission levels are agreed therein.</p> <p>No exceptions were noted.</p>
<p>Mercer, as part of their package of services, provides transaction cost analysis on a regular basis. Their reports are sent to the Chief Executive and Head of Investments for review, and any issues are flagged up at this time if Mercer believes there is a problem.</p>	<p>The action in respect of the IMA Level 2 transactional reports was reviewed. No exceptions were noted</p> <p>Recommendation: IMA Level 2 reports be submitted to the Investment Committee.</p> <p>Management Response: The Chief Executive or the Head of Investments meet with Mercer Sentinel to review the results of Mercer Sentinel analysis. We will then work with managers on any issues and advise the Committee of any major issues coming out of the analysis. We agree it makes sense to make the process of advising the Committee of any issues more formal, but do not believe it is necessary to send the full detailed report to the Committee.</p>
<p>Investment and related cash transactions are completely and accurately recorded</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>A summary of most reports is provided to the Investment Committee, which includes details of the portfolio, targets and benchmarks to be achieved.</p>	<p>We confirmed through our review of Investment Committee minutes that a variety of information is provided to the Investment Committee for consideration.</p> <p>No exceptions were noted.</p>

<p>The Investment Committee has regular meetings with Investment Managers to review their actions. The Committee considers the background to Managers' decisions and the reason for the investment performance.</p>	<p>We selected a sample of Investment Committee meeting minutes and confirmed that an in depth discussion with representatives from fund managers are held with appropriate frequency.</p> <p>No exceptions were noted.</p>
<p>An analysis service provided by BNY Mellon also helps ensure that these costs are minimised by performing benchmarking exercises and providing details to SAUL.</p>	<p>A sample of reports was reviewed and it was confirmed that benchmarking exercises were carried out and reported to SAUL.</p> <p>No exceptions were noted.</p>
<p>The performance of fund managers is monitored and appraised</p>	
<p>Control Objectives and Procedures</p>	<p>Tests Performed by PKF (UK) LLP</p>
<p>The Investment Committee sets individual benchmarks and targets for Fund Managers when they are appointed.</p>	<p>We reviewed the existence of benchmarks and targets for a sample of fundholders.</p> <p>No exceptions were noted.</p>
<p>Each fund manager's actual performance is assessed against these benchmarks and targets by the Investment Committee at quarterly performance review meetings.</p> <p>To support the Investment Committee's assessment process, each quarter (prior to review meetings), the Head of Investment provides a report outlining any fund manager underperformance and how badly they underperformed.</p>	<p>We reviewed an Investment Committee paper and meeting minutes for the February 2011 Investment Committee meeting to confirm this review is being carried out.</p> <p>No exceptions were noted.</p> <p>This paper sets out details of fund managers' performance against benchmarks. Each fund manager is given a 'traffic light' rating and recommended actions are recorded for any receiving amber or red ratings.</p> <p>No exceptions were noted.</p>
<p>Fund Managers provide quarterly performance reports to the Investment Committee detailing progress on investments, and these are used as the basis for review discussion. The reports are reviewed and initialled by the Accounts Manager before they are sent to the Investment Committee.</p>	<p>We reviewed a sample of fund manager performance reports and confirmed that these are submitted to the Investment Committee for consideration.</p> <p>No exceptions were noted.</p>
<p>Fund managers are dismissed if their performance is not deemed sufficient following review.</p>	<p>We confirmed that this control is operating. This was evidenced in the minutes of the Investment Committee.</p> <p>No exceptions were noted.</p>

9.3 Maintaining financial and other records

Investment income is accurately recorded in the proper period

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>SAUL has investments split between a number of Fund Managers; it therefore has appointed Northern Trust to be the master record keeper to achieve consistency across the entire investment portfolio.</p> <p>On a quarterly basis the Accounts Manager receives portfolio statements from Northern Trust detailing the current investments held. The statements include data such as currency gain/losses, expiration of options, future commissions, future deliverables, principal pay downs, fixed income, cash and cash equivalents, fixed income, etc.</p>	<p>We tested the receipt of the quarterly portfolio statement and confirmed that it contains the appropriate information.</p> <p>No exceptions were noted.</p>
<p>The statement information is put onto the accounting system by the Accounts Manager, who then re-checks that information has been correctly recorded and initials the statements to evidence their review and input into the system.</p>	<p>We tested the evidence of the check and re-check of statement information to the accounting system.</p> <p>No exceptions were noted.</p>
<h4>Investments are valued using current prices obtained from independent external pricing sources</h4>	
Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Pricing from Fund Managers is reviewed by the Custodian to ensure correct prices are used. The Head of Finance receives, on a monthly basis, an email confirmation from the Custodian confirming that managers have agreed to the Custodian's valuations – "sign offs".</p> <p>This control changed partway through the year, confirmation from the Custodian is now received by the Head of Investments.</p>	<p>A sample of the relevant emails received from the Custodian was obtained and reviewed. We verified that these confirmed the "sign offs" for all fund managers.</p> <p>No exceptions were noted.</p>

Cash and securities positions are completely and accurately recorded and reconciled to third party data

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
A comparison of investment managers' quarterly reports is prepared to enable the Investment Committee to review the performance of investments.	We tested a sample of quarters and confirmed that comparison reports had been produced for the Investment Committee. No exceptions were noted.

Investment management fees and other account expenses are accurately calculated and recorded

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
Fund managers fees are set by the Investment Committee when they are appointed.	We reviewed a sample contract and verified that fees are set out within it, and that the contract is signed by both parties. SAUL signatories are members of the Investment Committee. No exceptions were noted.
The Head of Finance checks each time she receives an invoice that the fees invoiced are being correctly calculated in line with the agreement. This control changed after the appointment of the Head of Investments. From August 2010 the Head of Investment checks each time he receives an invoice that the fees invoiced are being correctly calculated in the line with the agreement. He signs the invoice and it goes to Finance where it is paid.	We reviewed the spreadsheet used to recalculate the expected fees. A sample of fund manager invoices was selected for testing and we confirmed that amounts agreed to expected fees. No exceptions were noted.
Once checked and agreed, the Trustee Services Co-ordinator fills in an F56 form to authorise payment of the invoice, which the Head of Investment authorises. This then goes to Finance where the invoice is paid.	For the sample of fee invoices selected above, we confirmed that an F56 had been duly completed and was authorised in all cases by the Head of Investment. No exceptions were noted.

9.4 Trustee Training

Trustees have the right "skills set" and receive appropriate training in order to perform their duties effectively.

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>The Nomination Committee is responsible for the appointment and re-appointment of certain Board and Committee members. The Nomination Committee consists of four independent members who appoint the trustees.</p> <p>Meetings are held with proposed Board and Committee members and the Committee decides upon and elects/reappoints each member. The decision is minuted.</p>	<p>The Nominations Committee only met in October 2010 in the year. Through the minutes we were able to establish that the right quorum was reached and the decision was minuted.</p> <p>No exceptions were noted</p>
<p>Formal training is carried out twice yearly for Board and Committee members in January and June. This is carried out both in house and externally.</p> <p>Board and Committee members may also attend additional training if they see fit and if it is approved. Fund manager organisations circulate relevant courses available to Board and Committee members and they may request attendance at these.</p> <p>They may also approach the Chief Executive if they wish to become more informed on a particular area.</p>	<p>Board and Committee members were trained in June 2010 and January 2011. Where Board and Committee members were unable to attend the slides were forwarded onto them. We reviewed the training agenda for appropriateness and confirmed the attendees from the attendance list maintained by the external provider.</p> <p>No exceptions were noted.</p>

9.5 Safeguarding Assets

Un-invested cash is managed with due regard to diversification of risk and security of funds

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>Un-invested cash is invested/"swept" to a higher rate bank deposit account and in pooled money market funds (BlackRock fund).</p> <p>There are three bank accounts; a current account, an overnight high interest account and also a long term savings account which is held with BlackRock.</p> <p>Overnight all amounts in the current account are swept into the overnight high interest account.</p> <p>There is an amount of free cash that the business needs, equal to £260,000 and any surplus amounts are put in the BlackRock savings account.</p> <p>The transfer of surplus cash from the current to the high interest is not automatic but must be actioned by the Assistant Accountant (Payroll Administrator if Assistant Accountant is unavailable) who reviews the cash position daily, and obtains authorisation for any transfer from the Chief Executive or Deputy Chief Executive.</p>	<p>We confirmed the existence and use of the three bank accounts.</p> <p>We tested fund transfers in February and March and found that the Chief Executive or Deputy Chief Executive have signed to give the authority to transfer to liquidity funds. We tested for cases where excess funds were being held in the account.</p> <p>If the Chief Executive or the Deputy Chief Executive are not available the funds get swept automatically into the high interest deposit account.</p> <p>No exceptions were noted.</p>

9.6 Monitoring Compliance

Investment decisions are in accordance with the investment guidelines

Control Objectives and Procedures	Tests Performed by PKF (UK) LLP
<p>The day to day running of investments is delegated to a number of Fund Managers (specialist investment managers). A professional custodian (Northern Trust) is also employed to look after assets in the portfolio.</p> <p>The Board has established an Investment Committee to oversee portfolio management. The Committee is advised by investment specialist Mercer Investment Consulting.</p> <p>A Corporate Governance policy is in place and Fund Managers must comply with it.</p>	<p>The existence of these arrangements was verified through testing.</p> <p>The Corporate Governance policy (within the Corporate Strategy) was obtained and found to contain guidance on a range of governance matters such as Board balance, the role of the Board, Audit Committee, Executive management team, and Management team.</p> <p>No exceptions were noted.</p>
<p>Specialists in corporate governance for fund managers (Pensions and Investment Research Consultants or PIRC) provide the Committee with a monitoring service and corporate governance advice.</p>	<p>We established that SAUL are registered to receive updated guidance from PIRC and reviewed an email to SAUL from PIRC that notifies them that a new PIRC report being available.</p> <p>No exceptions were noted.</p>
<p>On an annual basis the Investment Committee or its delegates hold meetings with different Fund Managers to discuss investments. This ensures that Fund Managers are complying with the SIP. Quarterly reports from Fund Managers are used for in-year monitoring.</p>	<p>Minutes for yearly meetings between the Investment Committee and the Investment Manager were reviewed. Whilst they do not specifically refer to compliance with the SIP, the minutes provide evidence that appropriate discussion is held to enable the Committee to satisfy itself that this is the case.</p> <p>The minutes of the Investment Committee also provided evidence that quarterly reports from the Fund Manager were being reviewed as part of the in-year monitoring.</p> <p>No exceptions were noted.</p>
<p>The Investment Committee and Chief Executive report to the Board and provide it with reports and recommendations for action.</p>	<p>We reviewed a sample of Board meeting minutes and confirmed that the Investment Committee and Head of Investments (previously Chief Executive) reported to the Board in relation to investment matters with recommendations for action where relevant.</p> <p>No exceptions were noted.</p>

<p>SAUL seeks to comply with the Myners code of practice and the Board receives reports on the extent to which SAUL complies with this.</p>	<p>We reviewed the reports on compliance provided to the Board for appropriate coverage of Myners Code of practice compliance. None had been provided in the year as the Board receives reports in relation to the Myners code of practice only if changes occur to either the code or how it affects SAUL. This has not been applicable in the audit period.</p> <p>No exceptions were noted.</p>
<p>Each fund manager is required to confirm formally that they have appropriate internal controls in place over the transactions that they may process on SAUL's behalf as a condition of their appointment.</p>	<p>We tested the fund managers internal control reports, which are provided annually and reviewed by the Audit Committee.</p> <p>No exceptions were noted.</p>

Appendix A – Letter of Engagement



The Directors
SAUL Trustee Company
5th Floor, Glen House
200-208 Tottenham Court Road
London
W1T 7PL

Our ref: RW/KH/SAUL/1015172

4 February 2009

Dear Sirs

**SAUL Trustee Company
Assurance Reports on Internal Controls**

We are pleased to accept appointment by SAUL Trustee Company ("SAUL") to provide assurance reports on internal controls to be made available to third parties, carried out under the ICAEW Technical Release AAF 01/06.

The purpose of this letter together with the attached general terms and conditions and service appendix ("the engagement letter") is to set out our terms for carrying out the work and to clarify our respective responsibilities. We draw your attention to the section of our general terms and conditions headed "liability".

This engagement letter forms the entire agreement between us in respect of the provision of assurance reports on internal controls under AAF 01/06 and supersedes all previous agreements and undertakings and shall take effect immediately upon your countersigning the enclosed copy of this letter and returning it to us.

Once it has been agreed, this letter will remain effective until it is replaced.

Yours faithfully

A handwritten signature in black ink that reads 'PKF'. Below the signature, the text 'PKF (UK) LLP' is printed in a black sans-serif font. A diagonal line is drawn through the signature and the printed text.

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PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487.

A list of members' names is open to inspection at Farringdon Place, 20 Farringdon Road, London EC1M 3AP, the principal place of business and registered office. PKF (UK) LLP is authorised and regulated by the Financial Services Authority for investment business activities. The PKF International Association is an association of legally independent firms.



General Terms and Conditions

1. References to "the engagement letter" are references to the letter of engagement of which these general terms and conditions form part and to any other appendix to such letter of engagement.
2. **Applicable law**
 - 2.1. This engagement letter is governed by, and construed in accordance with, English law. The Courts of England will have exclusive jurisdiction in relation to any claim, dispute or difference concerning this engagement letter and any matter arising from it. Each party irrevocably waives any right it may have to object to any action being brought in those courts, to claim that the action has been brought in an inappropriate forum, or to claim that those courts do not have jurisdiction.
3. **Client money**
 - 3.1. Client money held on your behalf will be held on trust in a client bank account which is segregated from the firm's funds. In order to avoid an excessive amount of administration, unless otherwise agreed, no interest will be paid on any monies held by us on your behalf.
 - 3.2. If the total sum of money held on your behalf exceeds £10,000 for a period of more than 30 days, or such sum is likely to be held for more than 30 days, then the money will be placed in a separate interest-bearing client bank account designated to you. All interest earned on such money will be paid to you. Subject to any tax legislation, interest will be paid gross.
4. **Commissions**
 - 4.1. If we arrange transactions for you, other than through the firm's associate, PKF Financial Planning Limited, and commission or other benefit becomes payable to us as a result, you will be notified in writing of the amount and terms.
 - 4.2. You consent to such commission being retained by us, without our being liable to account to you for it. For example, we could receive say 20% of the commission received by a stockbroker as commission on a transaction. This is only an example and may not cover all receipts in the future.
 - 4.3. If we arrange transactions for you through the firm's associate, PKF Financial Planning Limited, any commissions received from PKF Financial Planning Limited will be retained by us.
5. **Confidentiality and the operation of law**
 - 5.1. We shall take such steps as we, in good faith, think fit to preserve the confidentiality of any information concerning your affairs held in connection with the services we provide to you.



- 5.2. You agree that, otherwise than with our prior written consent, any advice, opinions, and statements, reports and other information that we provide in connection with the services (in whatever form or medium) or any document or statement which bears our name, (other than financial statements in the form in which they have been reported on by ourselves as auditors):
- (a) will be held in strict confidence by you, your officers and employees and others engaged by you;
 - (b) will not be disclosed to any third party; and
 - (c) will not be used for any purpose except as provided for in this letter.
- 5.3. You agree to indemnify us in respect of any claim against us, including the costs of defending such a claim, arising out of any unauthorised disclosure by you or anyone else engaged by you.
- 5.4. The above does not apply to any necessary disclosure to your or our professional advisers, or to our insurers or where there is a legal or regulatory right, requirement or duty to make such disclosure. In particular we may in certain circumstances have a right or a duty to report certain matters arising in the course of our professional work to relevant authorities under the Proceeds of Crime Act 2002, the Financial Services and Markets Act 2000 or other legislation without necessarily disclosing such fact to you.
- 5.5. It is possible that we may be prevented from completion of the assignment, or required to wait before acting or taking any step, by the operation of law and in that event we shall not be liable to you for the consequences of this.
- 6. Contracts (Rights of Third Parties) Act 1999**
- 6.1. Persons who are not party to this agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this letter. This clause does not affect any right or remedy of any person which exists or is available otherwise than pursuant to that Act.
- 7. Data Protection Act 1998**
- 7.1. We may obtain, use, process and disclose personal data about you in order that we may discharge the services agreed under this engagement letter, and for other related purposes including updating and enhancing client records, analysis for management purposes and statutory returns, crime prevention and legal and regulatory compliance. You have a right of access, under data protection legislation, to the personal data that we hold about you.
- 7.2. In order to ensure that the services offered by us and our associates are appropriate to your needs, you agree that information held by us may be shared between us and our associates.

Accountants &
business advisers**8. Electronic communication**

- 8.1. Internet communications are capable of data corruption and therefore we do not accept any responsibility for changes made to such communications after their despatch. It may therefore be inappropriate to rely on advice contained in an e-mail without obtaining written confirmation of it. We do not accept responsibility for any errors or problems that may arise through the use of Internet communication and all risks connected with sending commercially sensitive information relating to your business are borne by you. If you do not agree to accept this risk, you should notify us in writing that e-mail is not an acceptable means of communication.
- 8.2. It is the responsibility of the recipient to carry out a virus check on any attachments received.

9. Fees

- 9.1. Unless otherwise agreed, our fees will be charged separately for each main class of service that we provide and will be computed on the basis of time spent on your affairs by our partners and staff and on the levels of skill and responsibility involved. Our fees will be billed at appropriate intervals during the course of the year and will be due within 14 days. Any queries concerning an invoice must be raised within 30 days of the invoice date.
- 9.2. The firm reserves the right to charge interest at 4% above the Bank of England official dealing rate. The Bank of England official dealing rate at 30 June and 31 December in each year is used as a reference rate for the following six months.
- 9.3. In addition the firm reserves the right to claim compensation in accordance with the Late Payment of Commercial Debts (Interest) Act 1998.

10. Information

- 10.1. You agree to provide us with all documents and information we may need to complete the engagement and unless stated otherwise, you confirm that the documents and information provided are complete and accurate. We will not be responsible for any losses arising due to their inaccuracy or incompleteness nor as a result of undue delay in providing the documents and information.
- 10.2. We shall not be treated as having notice of information provided to members of the firm other than those engaged in providing the service.

11. Intellectual property rights

- 11.1. We will own all copyright in any document prepared by us during the course of carrying out the engagement save where the law specifically provides otherwise.

12. Liability

- 12.1. In this paragraph 12:

"PKF" means PKF (UK) LLP and (where relevant) PKF, the



"PKF Party" partnership (now in dissolution); and means PKF, any subsidiary undertaking (as defined by Section 258 of the Companies Act 1985) of PKF and its partners, members, directors, employees and agents;

- 12.2. Where our engagement letter has set out the purposes for which our advice is given, neither PKF nor any PKF Party will be liable for losses arising out of any other use of our advice.
- 12.3. We will perform the engagement with reasonable skill and care but you agree that any liability on any PKF Party for any loss or damage resulting from the provision of the services or other work that we carry out for you, however caused and regardless of the cause of action whether in contract, tort, statute or otherwise shall be subject to the limitations set out in this paragraph 12.
- 12.4. We will not be liable for losses arising as a result of false or misleading information being provided to us or from information being withheld from us unless (and then only to the extent that) we should reasonably have been expected to be aware of such matter because it was evident from the information or documentation provided to us and required to be considered by us in providing our services.
- 12.5. The liability of the PKF Parties in respect of this engagement shall be limited to five times the fees actually received by us for such work or £500,000 if this is higher.
- 12.6. The aggregate liability of PKF shall be limited to the proportion of the total loss or damage fairly attributable to the negligence of the PKF Parties after taking into account your contributory negligence (if any) and the negligence of any other person (other than any PKF Party) which is also liable or potentially liable to you in respect of the same loss or damage (ignoring for these purposes any limitation of liability that you might have agreed with such person).
- 12.7. You agree that your relationship is solely with PKF (UK) LLP as the entity contracting with you to provide the services and that no PKF Party other than PKF (UK) LLP owes you, or will owe you, any duty of care. You agree, therefore, that you will not bring any claim or proceedings of any nature (whether in contract, tort, breach of statutory duty or otherwise and including but not limited to a claim for negligence) in any way in respect of or in connection with this contract against any of the PKF Parties other than PKF (UK) LLP.
- 12.8. Nothing in these Terms and Conditions shall have the effect of excluding or limiting our liability or that of any other PKF Party, or of requiring us or any other PKF Party to be indemnified:
- (a) for any work undertaken by us acting in the capacity as statutory auditors of a company or limited liability partnership registered under the law of any part of the United Kingdom;
 - (b) to any extent prohibited by legislation or by regulation applicable to us; or
 - (c) for death or personal injury caused by our negligence or that of any PKF Party.



- 12.9. Nothing in this letter shall have the effect of excluding or limiting the liability of any PKF Party (including PKF) for any fraudulent pre-contractual misrepresentations made by or on behalf of that PKF Party upon which you have relied, or for any fraud undertaken in the course of undertaking this engagement by that PKF Party or for which that PKF Party is responsible.
- 12.10. It is acknowledged and agreed that the PKF Parties other than PKF (UK) LLP will be entitled to rely on the provisions of this clause under the Contracts (Rights of Third Parties) Act 1999. However we shall be entitled to vary the terms of this Agreement, including the terms of this paragraph 12 by agreement with you, and to waive the application of this clause in any particular circumstance, without the agreement of any such PKF Party. No other person shall be entitled to rely on any of the provisions of this Agreement under the Contracts (Rights of Third Parties) Act 1999.
- 12.11. The provisions of sub-paragraphs 12.2 to 12.7 are cumulative. None of these sub-paragraphs shall be taken as limiting the operation of any other of them. If any of the provisions of this paragraph 12 are found by a Court to be void or unenforceable, as a result of their provisions being considered to be unfair or unreasonable, such finding shall not affect the application or enforceability of any other provision.
- 12.12. You acknowledge that the limitations in this paragraph 12 are reasonable having regard to all the circumstances, including the limited nature of our engagement.
- 13. Quality of service**
- 13.1. We aim to provide a high quality of service at all times. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact your client service partner in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild.
- 13.2. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. If you feel that we have given you a less than satisfactory service, we undertake to do everything reasonable to address your concerns. If you are still not satisfied you may take up matters with the Institute of Chartered Accountants in England and Wales.
- 14. Reliance upon reports and advice**
- 14.1. No reliance shall be placed by you on any draft reports, advice or opinions (whether written or oral) issued by us, as such draft reports, advice or opinions may be subject to further revision and other factors which may result in them being substantially different from any final report, advice or opinion issued.
- 14.2. Any reports, advice, opinions or work carried out by us is provided solely for your use and only for the purpose for which our services are being provided and to the fullest extent permitted by law we will not accept or assume responsibility or a duty of care to any third party.



15. Retention of and access to records

- 15.1. During the course of our work we will collect information from you and others acting on your behalf. Whilst certain documents may legally belong to you, unless you tell us not to, we may destroy correspondence and other papers that we store which are more than seven years old, other than documents which we consider to be of continuing significance. If you require retention of any document that belongs to you, you must notify us of that fact in writing.

16. Severability of terms

- 16.1. If any of the terms of this letter are deemed unreasonable, void or otherwise unenforceable by any court, tribunal, ombudsman, arbitrator or other person, it is the intention of the parties that the remaining terms continue to have full force and effect.

17. Termination

- 17.1. Both parties shall have the right to terminate this engagement by notice in writing to the other at any time, but termination will not affect our rights of remuneration, indemnification or any contractual provision intended to survive termination or any other accrued rights.

18. Working for other clients

- 18.1. We will not be prevented or restricted by virtue of our relationship with you, including anything in this engagement letter, from providing services to other clients.



APPENDIX A

Assurance Report on Internal Controls

Responsibilities of directors

The board of directors ("the Directors") of SAUL Trustee Company in relation to which the reporting accountants' assurance report is to be provided ("SAUL") are and shall be responsible for the design, implementation and operation of control procedures that provide adequate level of control over customers' assets and related transactions. The Directors' responsibilities are and shall include:

- acceptance of responsibility for internal controls;
- evaluation of the effectiveness of SAUL's control procedures using suitable criteria;
- supporting their evaluation with sufficient evidence, including documentation; and
- providing a written report ("Directors' Report") of the effectiveness of SAUL's internal controls for the relevant financial period.

In drafting this report the Directors have regard to, as a minimum, the criteria specified within the Technical Release AAF 01/06 issued by the Institute of Chartered Accountants in England and Wales ("the Institute") but they may add to these to the extent that this is considered appropriate in order to meet customers' expectations.

Responsibilities of reporting accountants

It is our responsibility to form an independent conclusion, based on the work carried out in relation to the control procedures of SAUL's pension administration and investment management functions carried out at your London offices as described in the Directors' report, and report this to the Directors.

Scope of the reporting accountants' work

We conduct our work in accordance with the procedures set out in AAF 01/06, issued by the Institute. Our work will include enquiries of management, together with tests of certain specific control procedures which will be set out in an appendix to our report. In reaching our conclusion, the criteria against which the control procedures are to be evaluated are the internal control objectives developed for service organisations as set out within the AAF 01/06 issued by the Institute. Any work already performed in connection with this engagement before the date of this letter will also be governed by the terms and conditions of this letter. We may seek written representations from the Directors in relation to matters on which independent corroboration is not available. We shall seek confirmation from the Directors that any significant matters of which we should be aware have been brought to our attention.

We will prepare a Work Plan, setting out the proposed approach and timing of our work, linked to the timing of the actions to be carried out by SAUL. This will be presented for approval by management and the Audit Committee. Regular updates on progress will be provided to the Audit Committee meetings.

Inherent limitations

The Directors acknowledge that control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected.



Accountants &
business advisers

Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, the opinion set out in our report will be based on historical information and the projection of any information or conclusions in our report to any future periods will be inappropriate.

Use of our report

Our report will, subject to the permitted disclosures set out in this letter, be made solely for the use of the Directors of SAUL, and solely for the purpose of reporting on the internal controls of SAUL, in accordance with these terms of our engagement.

Our work will be undertaken so that we might report to the Directors those matters that we have agreed to state to them in our report and for no other purpose.

Our report will be issued on the basis that it was performed in accordance with instructions provided by the Directors of SAUL and was performed for the Directors of SAUL's sole benefit and use. It was not prepared for the benefit of customers, potential customers or third parties and may not include all the relevant considerations and procedures for the purposes of customers, potential customers or third parties. Any reliance that customers, potential customers or third parties may seek to place on this report, or is otherwise consequent upon the provision of this report to them, is entirely at their own risk. PKF makes no representations regarding possible changes taking place since the date to which the report relates.

We permit the disclosure of our report to customers, potential customers and third parties in full only and including a copy of this engagement letter.

To the fullest extent permitted by law, we do not and will not accept or assume responsibility to anyone other than the Directors of SAUL as a body and SAUL for our work, for our report or for the opinions we will have formed.

Fees

Our fees for this assignment will be based upon our proposal dated October 2008.

Appendix B - Board members

BOARD MEMBERS AT 31 MARCH 2011

Employer Appointed

Dr Dennis Buckley (Chairman of the Board)
Mr Michael Hansen resigned on 30 June 2010
Mr Christopher Gosling
Mr Steve Large
Mr Jack Foster
Mr Graeme Robinson

Unite Appointed

Mr Ken Coventry
Mr Peter Fraser

UNISON Appointed

Mr William Causon
Mr Peter Leishman

Co-opted

Mr David Bennett-Rees
Dr Partha Dasgupta
Mr Julian Tregoning (Deputy Chairman)

Appendix C - Roles and responsibilities within STC

The role of the Board

As the head of STC the Board has an important strategic role to play. It is for the Board, having approved the objectives, to publicly sponsor them. Its role also is to encourage, through supporting STC's management, the achievement of the objectives.

The Board monitors performance of STC against its objectives and reviews whether or not they remain appropriate.

The role of the Chief Executive

The Chief Executive is the link between the Board and the rest of the staff. It is her role to ensure that the objectives are followed and that the Board is informed of progress. It is her role to ensure that the resources of STC are balanced appropriately, and, that in seeking to achieve the objectives, the core business is not over-looked.

The role of Executive Management

It is for the Executive Management to implement the objectives across their Sections, through the development of job descriptions and individual objectives as well as supporting cross-sectional project teams. The Managers report to the Chief Executive on the performance of their Sections against the corporate objectives.

The role of the Management Team

It is for the Management Team to take a lead between the Executive Management and the rest of the staff in implementing the objectives. All of the tasks that form the objectives were identified by the Chief Executive, Executive Management and Management Team. The Management Team are responsible on a day-to-day basis for monitoring team members' performances and implementation of the work required to achieve the objectives.

The role of team members

We strive to ensure that all who work for STC work as a cohesive and enthusiastic team. As individuals they need support, encouragement and understanding from their managers and they may also need on-going training. Individual job objectives (developed as part of a formal Job Evaluation exercise) have been derived from the Corporate Aims set out in the Plan and the annual appraisal provides the opportunity for each team member to discuss his or her progress, ambitions and future with a manager.