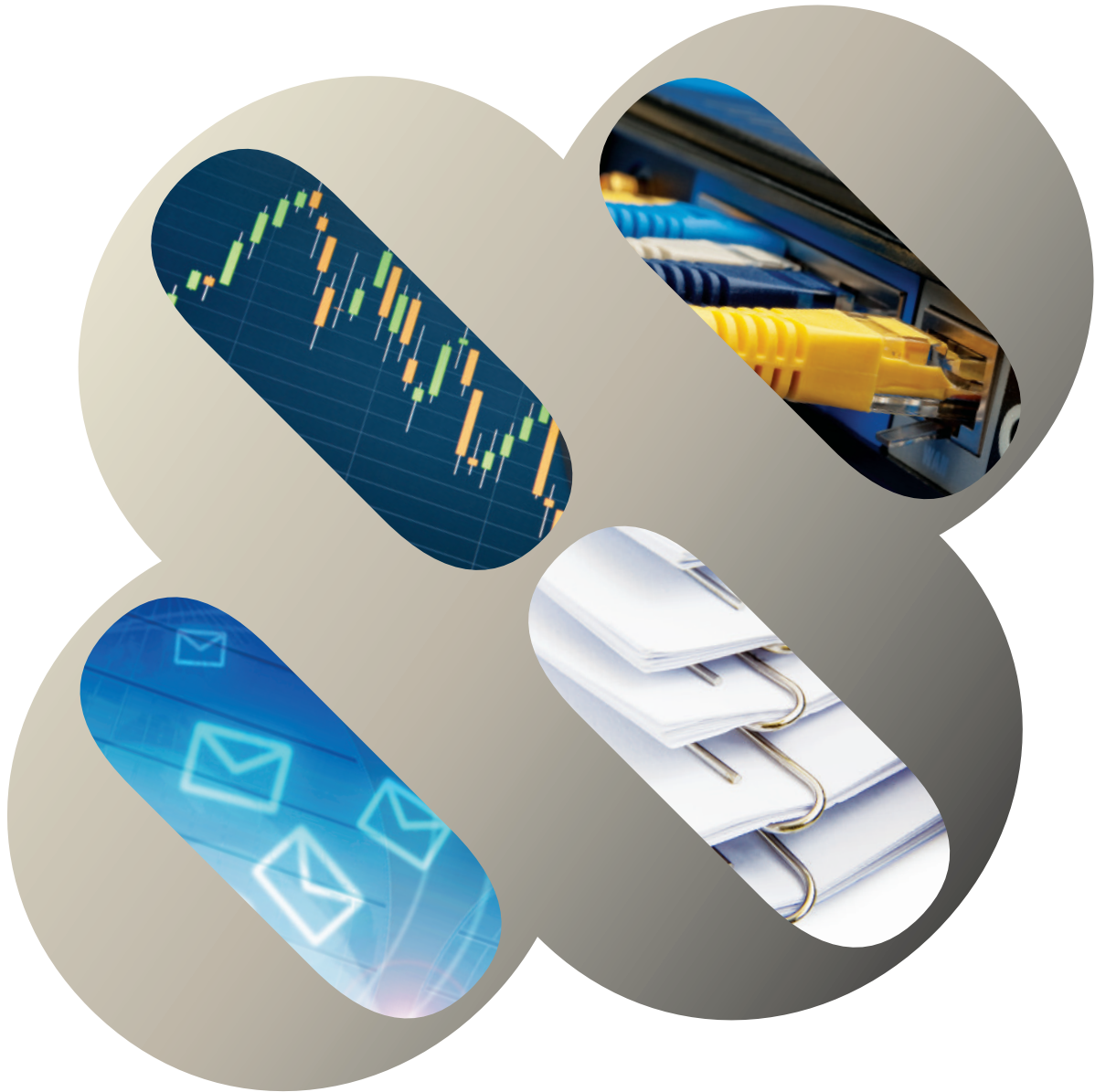




Punter Southall

PENSIONS ADMINISTRATION



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

August 2011

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Appendix A – Letter of engagement

## Important note addressed to all parties other than pensions administration clients of Punter Southall

BDO LLP (BDO), the author of the report at section 4 of this report has, on certain conditions below, allowed customers and potential customers (together 'Customers') to have access to the report ('the report').

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

- 1. The work performed by BDO was performed in accordance with instructions provided by the directors of Punter Southall and was performed for their sole benefit and use. The report was not prepared for the benefit of any Customers or third parties.
- 2. The report was prepared at the direction of the directors of Punter Southall and may not include all procedures deemed necessary for the purposes of the Customers or third parties.
- 3. BDO, its partners, employees and agents neither owe nor accept any duty or responsibility to Customers or third parties, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), or howsoever otherwise arising. BDO 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. BDO shall not be liable, and Customers 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 Customers 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 Customers or third parties will or should be undertaking for the purposes of satisfying themselves regarding Punter Southall’s administration procedures or for any matter arising out of the report.
- 5. This report is not to be referred to or quoted, in whole or in part, in any document and may not be distributed without BDO’s prior written consent.

# 1. Introduction

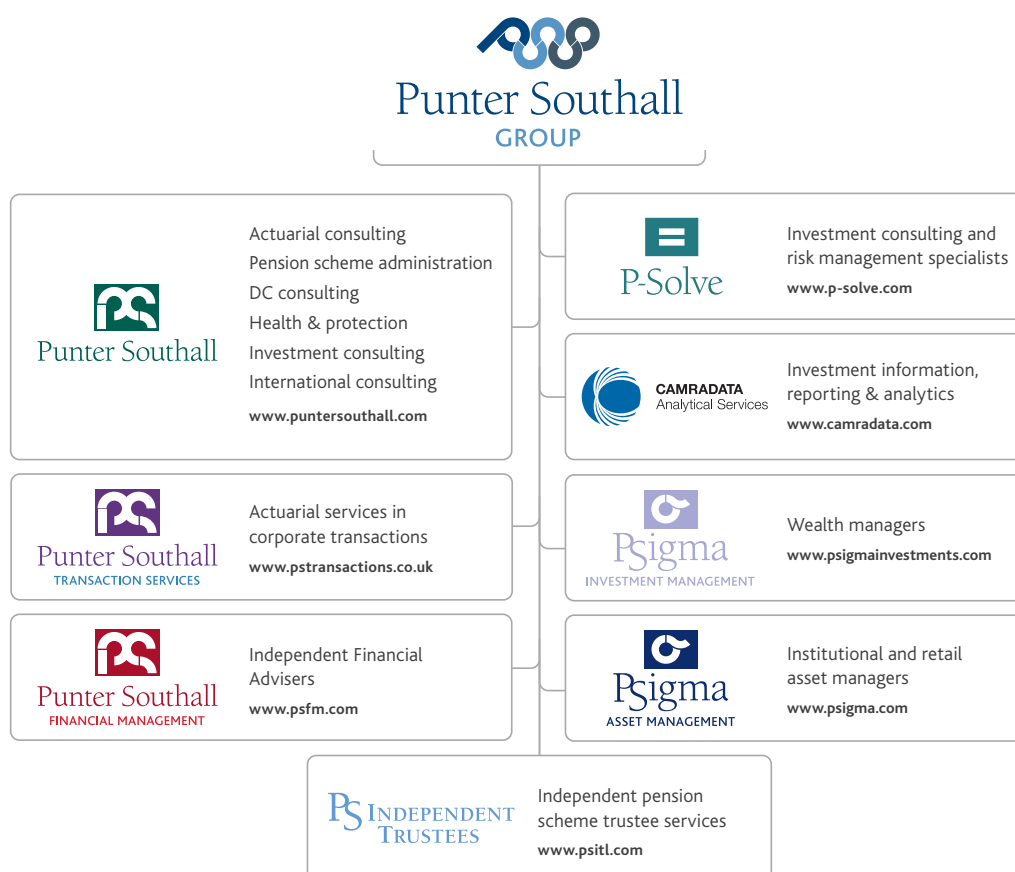
Punter Southall is the administration, actuarial and consulting company within the Punter Southall Group, and is the original company from which the Group has grown. The Group has 12 offices in the UK and one in the United States, and approximately 700 employees overall. Punter Southall employs 300 people and is the largest company in the Group. We work with trustees and companies from over 350 pension schemes. Our clients range from small organisations with only a few employees and small pension schemes up to those with schemes with assets of several billions of pounds.

Punter Southall pensions administration provides client focused administration solutions for occupational pension schemes, and have done so for over 20 years. We provide the full range of pension administration services within a structured and quality controlled environment. We seek to provide the highest levels of quality, and continuously strive to find ways of improving the level of service delivered to our clients.

We provide pensions administration services to over 150 schemes including defined benefit, defined contribution, hybrid and career average revalued earnings (CARE) schemes from 6 offices around the UK. We use an individual scheme-based approach to administration, with one client team responsible for all aspects of our service. This ensures we focus on the needs of our clients and their scheme members, and that the quality controls we apply remain relevant and robust. Our structure enables us to react swiftly to regulatory change and stay at the forefront of developments in the industry.

During the last year our administration business has continued to grow in the marketplace and we have won a further 13 new administration clients. In early 2011 we were named as 'runner up' for the Third-Party Administrator of the Year at The Financial Times' Pension & Investment Provider Awards for the second year running. In 2010, the judges commended Punter Southall administration for our "honesty and integrity"; in 2011 "Punter Southall was highly commended for its commitment, having put in place building blocks to deliver high performance in the future".

The directors of Punter Southall appointed BDO Stoy Hayward LLP in 1997 to audit the operation of our procedures and controls in line with the AAF 01/06 requirements. This fifth such annual report covers the period 1 April 2010 to 31 March 2011 and provides information and assurance to our clients and their auditors with regard to the controlled environment within which we work.



## 2. Report of the directors of Punter Southall

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

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

We have evaluated the effectiveness of Punter Southall's control procedures having regard to the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06 and the criteria for pension administration.

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:

- i) the report describes fairly the control procedures that relate to the control objectives referred to above which were in place during the specified period;
- ii) 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;
- iii) 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 directors remain fully committed to our administration business and wish to offer our clients assurance that we operate within a framework of mandatory verification procedures by publishing the results of this formal audit.



**Richard Thomas**  
**Director**

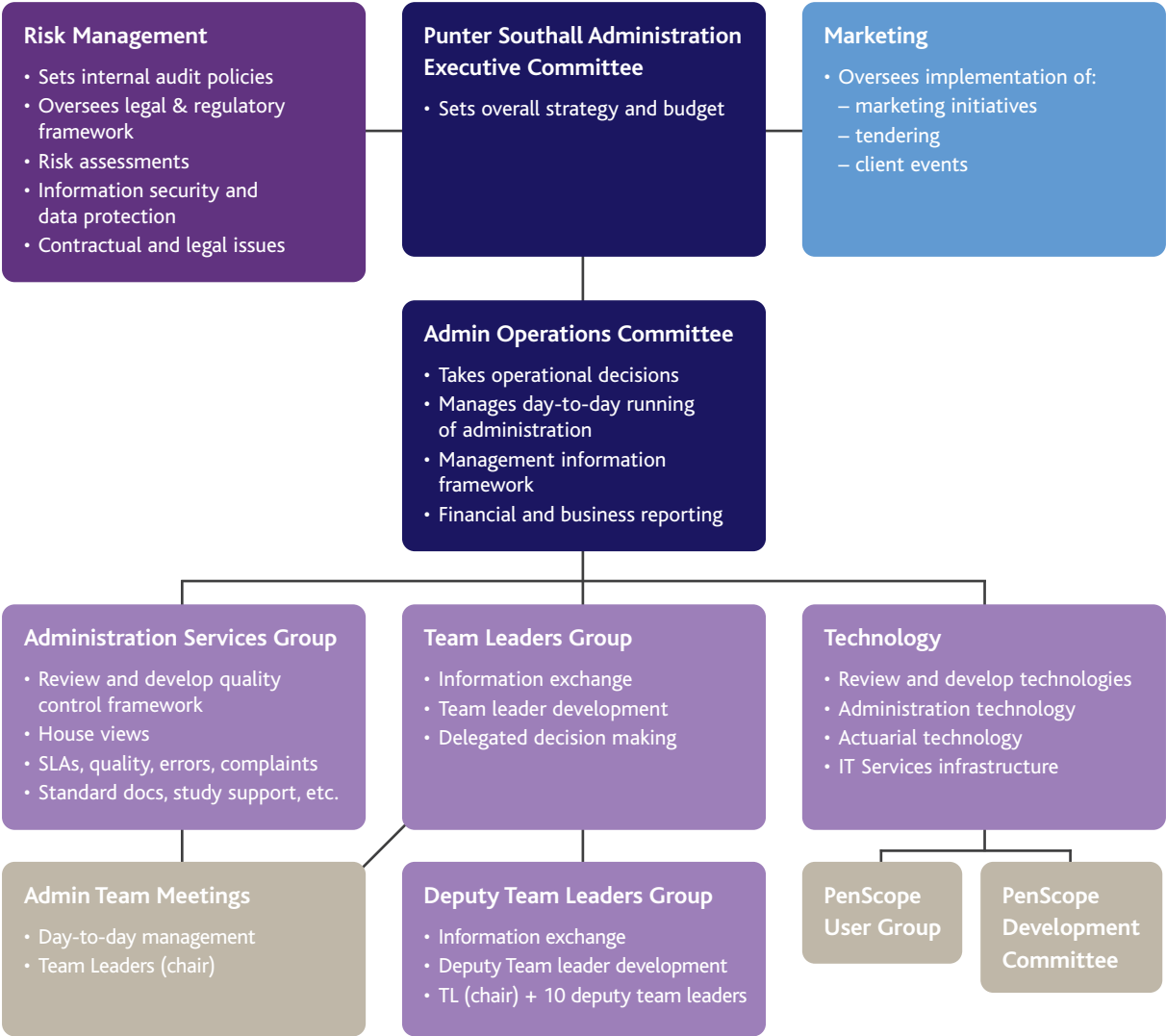
**August 2011**

Signed on behalf of the Board of Directors  
Punter Southall Limited

# 3. Our administration business

## Governance structure

In support of our requirement to manage a quality controlled administration business we operate within a governance structure which ensures the clear flow of information and the decision making processes, as shown below.



### Information technology developments

During 2010-11 there have been significant developments to the IT systems and software we use at both a corporate level and within our administration business.

#### Infrastructure and resilience

Robust IT infrastructure is a necessary foundation for a sustainable administration service. Our IT infrastructure is provided by the central IT services of the Punter Southall Group under a structure created for us by the consultants Cap Gemini during 2008-09.

The Punter Southall Group contains FSA regulated businesses, and additionally some of our clients require central government levels of security. Consequently our entire IT infrastructure now meets very high levels of requirements on encryption, data protection, information security, disaster recovery, and multiple redundancy. Examples of recent initiatives include:

- migration of all servers and data to a high security external server farm;
- installation of dual point entry high bandwidth Wide Area Network links between all our offices;
- mandatory information security and data protection training for all staff in the group; and
- penetration testing of our systems by QinetiQ and the installation of intruder detection and other security systems.

### Outsourced systems development and support

Pension administration systems are a critical ingredient in the ability to provide a quality service. Our administration platform is PenScope. We developed this leading system in-house and subsequently entered into an innovative outsourcing contract with the pension software and database company, Independent Transition Management (ITM). Accordingly, ITM now own the rights to PenScope and provide support and further development to us under contract, whilst we took a minority ownership stake in ITM and have a non-executive director on their Board.

### Systems integration

Throughout 2010-11 we have been undertaking an ambitious technology upgrade programme to create a high level of systems integration and automation centred around our pensions administration database, PenScope, and our Electronic Document Management and Workflow system, based on market leading IBM FileNet software. Extending from the core system are a number of interfaces to third party software solutions such as Altus' Straight Through Processing Gateway and CashFac Virtual Banking Technology.

#### IBM FileNet P8

We have been using the market leading electronic document management system IBM FileNet since 2006 and have recently upgraded to their latest version, P8. All client files and correspondence are scanned and available for digital search and retrieval.

IBM FileNet allows instant electronic access to member files, and provides workflow management. Additional functions ensure work processes comply with audit requirements and quality controls. This software has also allowed us to deal with peaks and troughs of work between offices by providing remote support for client project teams from other offices when required, and forms a key part of our business continuity procedures.

#### CashFac – Virtual Banking Technology

We have recently introduced CashFac virtual banking software to support our accounting and treasury services allowing us to adopt full electronic banking and payment functionality. CashFac links to our banking partners to deliver up-to-date transactional information by 8am each day.

#### Altus Investment Gateway (STP)

We have also introduced the Altus Investment Gateway into our technology framework to enable 'Straight Through Processing' (STP) for both defined benefit and defined contribution investments wherever possible.

STP is the end to end management of investment transactions, utilising technology and automated system controls, to minimise manual intervention and thus reduce risks. The system is now fully integrated with our PenScope administration system.

## PS Planner

We have developed and launched a multimedia DC projection tool, offering the following benefits for scheme members:

- fully interactive modelling of DC pension projection, consistent with SMPI approach;
- the ability to see the effect of changing investment strategy, contributions, retirement age, and pension options;
- full graphical reports that can be downloaded and printed;
- the ability to access the tool from work or home.

## SharePoint

We now have a permanent SharePoint development capability that can be used to assist in the management of scheme documentation, for the benefit of trustees, HR and Pensions Managers, as well as the Administrators.

As a result of the above developments it is our view that the pace of technology development will reduce over the course of 2012, with our main focus being on the continued development of our web based capabilities and changes to the PenScope system needed to fully support auto enrolment, employer duties and other legislative changes.

## Investment in People



Our services are delivered by our people, and the technology is merely a means to help them do their job well. We use technology to support our staff, and to reduce the risk of human error. Our intention is that the use of technology should not result in a reduction of knowledge and skill but should allow staff to focus on dealing with the needs of the customer by reducing the time they spend on complex and time consuming calculations.

It is extremely important that administrators are well trained and supported and therefore we also place a huge emphasis on the importance of training and good management. We have recently arranged external training sessions for our team leaders and deputy team leaders. This motivational training is aimed at the challenges of building and maintaining a service environment of excellence.

This is borne out by our re-accreditation with the Investor in People award in 2009. In the Executive Summary the assessor said: Despite the recession, the senior team has been determined to protect people's jobs and to continue the extensive support it provides for people to attain professional qualifications. It has achieved this by pursuing strategies designed to: attract new business; improve efficiency and develop the capability to provide high quality and cost effective actuarial and pension administration services. All of this whilst wanting to retain all that is best about the culture which people describe as: "supportive, friendly, encouraging; a great place to work and encouraging of work life balance".

Our 12 administration teams are supported by the Admin Support Group (ASG) with centralised resources and access to a wider pool of specialist skills from across the business. ASG provides guidance and instruction with regards to process, quality controls, compliance and the practical application of regulatory and legislative change. ASG has developed an administration intranet that captures centrally all the guidance and technical support needed by the administration teams.

## Focus on members

Finally, our quality control process focuses on making sure members get a good service. Our key metric is the measure of member satisfaction through questionnaires sent to members – currently running at 97% of members reporting positively on our services.

A sample of recent comments on member questionnaires includes:

**"Overall I am one hundred percent satisfied with the service I have received from Punter Southall."**

**"Everyone of your staff was so kind and helpful to me. All very professional people."**

**"As someone who knows very little about pensions, I have found your system to be efficient and informative."**

## 4. Report by the reporting accountants



BDO LLP  
Chartered Accountants

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Facsimile: +44 (0)20 7487 3686  
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### **Reporting accountants' assurance report on internal controls to the directors of Punter Southall Limited**

#### **Use of report**

This report is made solely for the use of the directors, as a body, of Punter Southall Limited (Punter Southall), and solely for the purpose of reporting on the internal controls of Punter Southall, in accordance with the terms of our engagement letter dated 30 March 2011 and attached as Appendix A of your report.

Our work has been undertaken so that we might report to the directors 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 customers and potential customers (together 'Customers') of Punter Southall using Punter Southall's pension administration services (as defined in the appendix to this letter), and to the auditors of such Customers, to enable Customers and their auditors to verify that a report by reporting accountants has been commissioned by the Directors of Punter Southall and issued in connection with the internal controls of Punter Southall without assuming or accepting any responsibility or liability to them on our part, and on the condition that the Directors provide all such Customers a written statement at the commencement of the Punter Southall 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 directors as a body and Punter Southall for our work, for this report or for the conclusions we have formed.

#### **Subject matter**

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

#### **Respective responsibilities**

The directors' responsibilities and assertions are set out on page 2 of your report. Our responsibility is to form an independent conclusion, based on the work carried out in relation to the control procedures of Punter Southall's pension administration function carried out at the offices of Punter Southall as described in the directors' report and report this to the directors of Punter Southall.

#### **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 directors as relevant control objectives relating to the level of control over customers' 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 pages 10 to 25 in the report by the directors, and evaluating the directors' assertions as described on page 2 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 10 to 25.

Our tests are related to Punter Southall as a whole rather than performed to meet the needs of any particular customer.

#### **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 directors 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 10 to 25 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.

*BDO LLP*

**BDO LLP**  
Chartered Accountants  
London  
21 July 2011

## 5. Summary of control objectives and audit findings

<b>Control objectives</b>	<b>Audit findings</b>
<p><b>1 Accepting clients</b></p> <ul style="list-style-type: none"> <li>• Accounts are set up and administered in accordance with client agreements and applicable regulations.</li> <li>• Complete and authorised client agreements in place prior to starting administration.</li> <li>• Pension schemes taken on are properly established on the system in accordance with the scheme rules and individual elections.</li> </ul>	<b>No exceptions were noted</b>
<p><b>2 Authorisation and processing transactions</b></p> <ul style="list-style-type: none"> <li>• Contributions (to DB &amp; DC plans) and transfers of members' funds between investment options are processed accurately in a timely manner.</li> <li>• Benefits payable and transfer values are calculated in accordance with scheme rules &amp; relevant legislation and are paid on a timely basis.</li> </ul>	<b>No exceptions were noted</b>
<p><b>3 Maintaining financial and other records</b></p> <ul style="list-style-type: none"> <li>• Member records consist of up to date and accurate information and are updated and reconciled regularly.</li> <li>• Contributions and benefit payments are completely and accurately recorded in the proper period.</li> <li>• Investment transactions, balances and related income are accurately recorded in the proper period.</li> <li>• Scheme documents (deeds, policies, contracts, booklets etc.) are complete, up to date and securely held.</li> </ul>	<b>No exceptions were noted</b>
<p><b>4 Safeguarding assets</b></p> <ul style="list-style-type: none"> <li>• Member and scheme data is appropriately stored to ensure security and protection from unauthorised use.</li> <li>• Cash is safeguarded and payments are suitably authorised and controlled.</li> </ul>	<b>No exceptions were noted</b>
<p><b>5 Monitoring compliance</b></p> <ul style="list-style-type: none"> <li>• Contributions received in accordance with scheme rules and relevant legislation.</li> <li>• Services are supplied to pension schemes in line with service level agreements.</li> <li>• Transaction errors are rectified promptly and clients treated fairly.</li> </ul>	<b>No exceptions were noted</b>
<p><b>6 Reporting to clients</b></p> <ul style="list-style-type: none"> <li>• Periodic reports to participants and scheme sponsors are accurate and complete and provided within required timescales.</li> <li>• Annual report and accounts are prepared in accordance with applicable law and regulations.</li> <li>• Regulatory reports are made if necessary.</li> </ul>	<b>No exceptions were noted</b>

## Control objectives

### 7 Information Technology

#### Restricting access to systems and data

- Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.
- 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.
- Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

#### Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats.

- IT processing is authorised and scheduled appropriately and exceptions identified and resolved in a timely manner.
- Data transmissions between the service organisation and its counterparties are complete, accurate, timely and secure.
- Appropriate measures are implemented to counter the threat from malicious electronic attack (e.g. Firewalls, anti-virus etc).
- The physical IT equipment is maintained in a controlled environment.

#### 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.
- Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.

#### Recovering from processing interruptions

- Data and systems are backed up regularly, retained offsite and regularly tested for recoverability.
- IT software and hardware issues are monitored and resolved in a timely manner.
- Business and information systems recovery plans are documented, approved, tested and maintained.

#### Monitoring compliance

- Outsourcing activities are properly managed and monitored.

## Audit findings

No exceptions were noted

No exceptions were noted

No exceptions were noted

No exceptions were noted

No exceptions were noted

## 6. Control procedures and Reporting Accountants' tests

### 1. Accepting clients

Accounts are set up and administered in accordance with client agreements and applicable regulations.

#### Control Procedures

- 1.1 Following appointment a 'handover period' is agreed with a date when full administration will commence. All scheme data and documentation is requested from the current administrator. An installation checklist and a standard data request letter is used to ensure that all relevant data and information is requested and received.

When information is received a basic check is conducted to ensure that the correct information has been received. Items received are checked off against the letter issued and the installation checklist which is reviewed and signed off by a supervisor.

- 1.2 A client team manage the client take on process. Any issues identified during the process are resolved with the previous administrator or the sponsoring employer.

Once the supervisor is satisfied that the data is complete and valid it is loaded on to PenScope. Completion of the transfer of data is evidenced by a formal sign off from the supervisor. The migration to PenScope is confirmed by the Admin Support Team once the system is released to live.

- 1.3 An application to set up new scheme bank accounts is completed by the administrator or cashier if required by the terms and conditions agreed with the client.

The application is signed by the trustees with a mandate granting signing rights to authorised signatories within Punter Southall. The cashier team will process payments in accordance with the bank mandate which has been authorised by the Trustees.

#### Tests performed by BDO LLP

Verified that, for the selected samples, the installation checklists had been fully completed and signed off.

**No exceptions were noted**

Verified that, for the selected samples, the client take on process was managed, and the data transfer was signed off by the supervisor and confirmed by the Admin Support Team.

**No exceptions were noted**

Verified that bank application forms were generated and include a mandate specifying signing rights to authorised signatories within Punter Southall.

For the selected samples, verified that the applications had been signed by scheme trustees.

Verified the existence of an authorised signatories list within Punter Southall.

**No exceptions were noted**

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

**Control Procedures**

- 1.4 A tailored, client-specific administration agreement which includes an administration and data protection agreement is drawn up, reviewed and amended as required.

Work only commences once the appointment documentation has been acknowledged by the trustees in writing.

**Tests performed by BDO LLP**

Verified that, for the selected new scheme samples, an agreement was generated and provided to the scheme trustees.

For the selected samples verified that the agreements had been acknowledged and signed by the trustees.

Verified that no client work had commenced on the scheme until the receipt of these signed documents by Punter Southall.

**No exceptions were noted**

**Pension schemes taken on are properly established in the system in accordance with the scheme rules and individual elections.**

**Control Procedures**

- 1.5 The client service team ensure benefit calculations are defined at the initial stage based on scheme rules. Appropriate sections are set up on PenScope to reflect the scheme rules and individual elections. DB calculations are specified and set up on PenScope.

A sample of calculations are manually recalculated in accordance with the scheme rules and checked by the supervisor to confirm that the results match.

DB benefit calculations for each section (either on the system or manual) are signed off by the supervisor once the actuary / client principal has advised that they are ready to proceed. Where Punter Southall are not appointed as scheme actuary the trustees must confirm whether sign off is required from the relevant scheme actuary.

Calculations are specified by the client team and signed off by the supervisor, approval is then given for the calculations to be programmed. ITM Ltd programme the calculations to the specifications and test cases provided. Once the client team have completed testing and resolved any issues with ITM formal sign off is required before the calculations are released.

- 1.6 DC records are set up to mirror totals held by the previous administrator in accordance with individual elections.

Totals are reconciled to the previous administrators' totals for each investment fund, and individual records spot-checked by the supervisor. Any differences or anomalies are identified and corrective action is taken as necessary and transfers are signed off as complete by both the supervisor and the admin support team.

**Tests performed by BDO LLP**

Verified that, for the selected new DB scheme samples, calculations were manually recalculated and a calculation checklist was completed.

For the selected samples, verified that ITM had performed testing prior to release of calculations and that the results had been signed off by both the supervisor and the scheme actuary.

**No exceptions were noted**

Verified that, for the selected new DC scheme samples, spot checks took place on selected individual records, and that identified differences had been subject to corrective action.

Verified that the transfer was signed off by administration and admin support teams.

**No exceptions were noted**

## 2. Authorising and processing transactions

**Contributions to defined contribution plans, defined benefit schemes, or both, and transfers of members' funds between investment options are processed accurately and in a timely manner.**

### Control Procedures

- 2.1 DC contributions are allocated in accordance with members' choices as advised on client monthly schedules. The total amount allocated is reconciled to the total on the client schedule by an administrator and signed off by the supervisor. Investment instructions are sent to the investment manager. The investment manager sends a transaction note from which the system price is updated.

System units are reconciled to manager units monthly by an administrator and signed off by the supervisor. Unallocated balances are reviewed and investigated with remedial action being taken as necessary.

- 2.2 Lifestyle switches can be activated by the DC administration system. Instructions to disinvest and invest member and lifestyle switches are sent to investment managers.

The relevant checklist is completed by an administrator and signed off by the supervisor. Lifestyling is triggered in accordance with the lifestyling matrix. System units for lifestyle switches are reconciled to manager units by an administrator and signed off. Any differences or anomalies are identified and corrective action is taken as necessary.

- 2.3 DB contributions are received. A cashflow forecast is completed by an administrator, checked and signed off in accordance with the specific procedure for each scheme by the supervisor. Funds are invested/disinvested as per the cashflow results.

The cashflow forecast is checked and any errors are corrected before investment/disinvestment.

Where subsequent changes are required to allow for any cash movements between date of forecast and actual investment/disinvestment this must be clearly authorised by the supervisor. Cashflow reports are issued to clients where agreed.

### Tests performed by BDO LLP

Verified that, for the selected DC schemes sample, monthly reconciliations were performed between the amount allocated and the client schedule and signed off by members of the administration team.

For the selected months, verified that underlying documentation existed to support the investment instructions.

**No exceptions were noted**

Verified that, for the selected DC schemes sample, a lifestyling matrix was in place and lifestyling was activated in accordance with it.

For the selected sample members, within the selected DC schemes sampled months, verified that the investment instruction percentages matched those set out in the lifestyling matrix and the checklist had been signed off by the team leader.

**No exceptions were noted**

Verified that, for the selected DB schemes sampled months, a cashflow forecast was completed by an administrator and checked by the team leader prior to investment/disinvestment. Verified that for the sample selected, subsequent changes to the forecast amounts were authorised by the admin team.

**No exceptions were noted**

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

#### Control Procedures

- 2.4 Benefit calculations are either generated automatically by the system, as programmed, or manually by reference to the rules. The workflow system Filenet ensures that each case is done and independently checked. The process is checked by a supervisor using the checklist to identify any errors/omissions. Remedial action is then taken as necessary.

A checklist is used and signed off to ensure that all the necessary steps in the process of settling benefits and calculating transfer values is completed accurately by the administrator doing the calculation. The workflow ensures work is independently checked by the supervisor. The process is only authorised once all steps have been completed.

Calculation details are only issued once the workflow has been fully authorised. The supervisor will also use the checklist to ensure that all stages have been completed and are accurate. A monthly timetable is used to monitor the processing of each scheme's payroll. The timetable is monitored and maintained by the payroll supervisor to ensure the deadlines are met.

- 2.5 After a payroll is processed an exceptions report is printed and reviewed by the supervisor. This report highlights any new starters, deaths and tax refunds being processed that month.

Differences from one month to the next are reconciled by a payroll administrator, checked and signed off by another payroll team member. Any discrepancies are resolved before payment is made. The payroll is approved by two appropriate signatories for transmission by our internal BACS bureau.

#### Tests performed by BDO LLP

Verified that, for the selected sample of benefit calculations and transfer values, the appropriate checklist was used and had been reviewed and signed off by a second member of the administration team.

For each sample verified that the workflow system contains approvals for all transfers.

#### No exceptions were noted

Verified that, for the selected schemes sample months, the payroll was processed with an exceptions report being generated.

For each sampled month verified that the payroll was approved by two authorised signatories.

#### No exceptions were noted

### 3. Maintaining financial and other records

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

#### Control Procedures

- 3.1 Scheme data is amended on an ad-hoc basis. New member records are created from data received from the client. Modifications to membership data are processed in accordance with mail, fax or email requests from members or scheme-authorized personnel. The workflow system ensures that each case is done and checked independently.

For those processes where the workflow system is in place, Filenet ensures that each process is completed by an administrator and independently checked by an authorized person. The process can only be authorized once all of the required steps have been completed. The authorized person reviews the checklist to ensure that all necessary steps have been completed.

- 3.2 Scheme data is kept up to date through periodic (usually annual) data loads from the employer's payroll and HR data records.

Renewal checks are conducted to highlight possible errors such as significant changes in salary. These are investigated and resolved by administrators prior to data being loaded. A year end checklist is prepared by an administrator and signed off by the supervisor to confirm the completeness and accuracy of the data loaded.

#### Tests performed by BDO LLP

Verified that, for the selected schemes sample of new members, scheme data was created in line with the data received from the clients.

For each sample new member, verified the existence of a checklist covering the process and that this had been signed off by another member of the administration team.

Filenet is not used for the creation of new scheme members. Verified that, for the selected schemes sample of members who had changes, Filenet showed authorisation.

**No exceptions were noted**

Verified that, for the selected schemes sample, a year end checklist was used to manage the annual data check process and had been completed appropriately.

Where potential errors had been identified, it was verified that these had been addressed and action had been taken to correct them.

**No exceptions were noted**

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

#### Control Procedures

- 3.3 Contributions, receipts and payments are accounted for in the nominal ledger by posting from the bank statement or source documentation.

All cash movements are recorded promptly and reconciled to the bank each month by the cashier. This is reviewed and signed off by the supervisor. Any necessary amendments are made and authorized. Accounting and administration records are reconciled to one another annually by the accountant. This is reviewed and signed off by the supervisor. Any discrepancies are identified and corrected as necessary. Uncashed cheques are monitored on a monthly basis by the cashier and reviewed by the supervisor.

#### Tests performed by BDO LLP

Verified that cash movements, within sample months for selected schemes, were reconciled to the bank statements and signed off by another team member.

For each sample scheme, verified that an annual reconciliation was performed between the accounting and administration records by the accountant.

**No exceptions were noted**

**Investment transactions, balances and related income are completely and accurately recorded in the proper period.**

#### Control Procedures

- 3.4 All movements to and from the investment managers and transactions made by the investment managers are recorded.

These transactions are reconciled at least annually.

#### Tests performed by BDO LLP

Verified that, for the selected sample schemes investment managers' records are maintained of transactions made by the investment managers and that an annual reconciliation was performed by the accounts team.

**No exceptions were noted**

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

#### Control Procedures

- 3.5 Original deeds, policies and contracts are generally held by our clients, but we undertake to maintain copies of all the documents supplied by our clients. These are securely held electronically or in paper files on site.

Copies are held of any new documents issued by the client. These are checked with the client's consultant or the client annually.

#### Tests performed by BDO LLP

Verified that, for the selected schemes sample, documents supplied by clients are maintained in paper and electronic format and that an annual process is in place to check the documents held by Punter Southall against the client's records.

For the sample schemes verified that the security in place to protect the paper and electronic files was appropriate.

**No exceptions were noted**

## 4. Safeguarding assets

**Member and scheme data is appropriately stored to ensure security and protection from unauthorised use.**

#### Control Procedures

- 4.1 Physical access to buildings is restricted, ensuring only Punter Southall personnel, or authorised visitors gain access to work stations. All computer records and data held for member and schemes are password protected and have restricted access controls for authorised staff only. Member and scheme data is retained in a combination of electronic media and paper files.

Punter Southall have archived paper filing off-site to a specialist organisation thereby ensuring only current cases are required and retained within the work area. Punter Southall also utilise scanning of inbound and outbound mail using Filenet, an electronic document management system.

#### Tests performed by BDO LLP

Verified the security in place at three Punter Southall locations and confirmed that physical access controls are in place to prevent unauthorised access.

For a selected scheme, verified the electronic access security in place and confirmed that user groups are used to restrict access to scheme data. Only authorised staff had access to electronic files.

Verified the existence of contracts between Punter Southall and third party archiving specialists.

**No exceptions were noted**

### Control Procedures

- 4.2 Cash movements are recorded on a daily basis. Cheques received are logged upon receipt by a member of the receptionist team and banked promptly by a member of the cashier team unless subject to any query. Payment request forms for cheques and BACS transfers are supplied by the administrators to the cashier's team. Scheme expenses are submitted to the cashier department with a payment request form.

Forms are checked and authorised by a supervisor. Payment instructions are signed or authorised electronically by two authorised signatories in accordance with the bank mandate. The cashier checks against client specific limits and authorised signatories shown on customised forms. Where CashFac is in place, only authorised signatories have the ability to sign electronically. The cashier arranges the signature of cheques and electronic transfers in accordance with the bank mandate for each scheme. Payment of expenses is authorised only if the payment form is authorised by a scheme officer or trustee.

### Tests performed by BDO LLP

Verified that, for the selected sample of schemes receipts, cash receipts were logged in the scheme cash book and the details matched the bank statements.

For the selected sample of scheme payments, verified that payment request forms were filled in by a member of the administration team, authorised by a supervisor and payment instructions were signed by authorised signatories.

**No exceptions were noted**

## 5. Monitoring compliance

**Contributions are received in accordance with scheme rules and relevant legislation.**

### Control Procedures

- 5.1 The cashiers record receipt of contributions. The cashier advises administrator when payment is outstanding. Checks are run in accordance with the requirements under the Pensions Act 1995 and trustee practise for each scheme e.g. for most schemes the cashier checks payments have been received by 12th of the month, with a final check for the rest of the schemes on 20th of the month.

Administrators are advised which contributions are outstanding and follow up action is taken if necessary by the administrator. The administrator will pursue the employer for payment.

### Tests performed by BDO LLP

Verified that, for the selected sample schemes, contributions were received prior to the 20th of the month and were recorded appropriately.

**No exceptions were noted**

**Services provided to pension schemes are in line with service level agreements.**

### Control Procedures

- 5.2 Day to day work is logged on to the workflow management system, Virtual Office, and logged off whenever completed.

Daily deadlines are monitored by the administrators to ensure they are met. Regular reports are produced at both a team and management level in order to ensure that standards are being maintained.

### Tests performed by BDO LLP

Verified the existence of the workflow management system in use at Punter Southall offices.

For the selected sample schemes verified that weekly reports are generated and include deadlines in line with the scheme SLA. Further verified that monthly reports are generated and reviewed against the deadlines.

**No exceptions were noted**

**Transaction errors are rectified promptly and clients treated fairly.**

#### Control Procedures

- 5.3 The administrator checks transactions to ensure that they are in accordance with relevant instructions. The administrator will ask the manager to rectify any transaction issues in a timely manner. If an error is discovered during the course of an internal audit this must be raised with the client Principal.

For DC schemes the PenScope reconciliation report will highlight any issues. Once any issues have been resolved the reconciliation report is re-run by the administrator and checked to ensure it agrees. The client Principal will ascertain whether there has been any material loss to the client and authorise payment if required.

#### Tests performed by BDO LLP

Verified that, for the selected schemes sampled months, periodic contributions update checklists are used to process transactions in an appropriate manner, and that these are reviewed and signed off by a supervisor.

For each sample month, verified that a PenScope reconciliation report had been run and that any issues identified were recognised and signed off by the administrator.

**No exceptions were noted**

## 6. Reporting to clients

**Periodic reports to participants and scheme sponsors are accurate and complete and provided within required timescales.**

#### Control Procedures

- 6.1 Administration reports, which may include membership movement analysis and reconciliations, are produced as agreed with the scheme trustees. Where requested by the trustees quarterly administration reports are produced and distributed to scheme trustees.

The reports are checked for completeness and accuracy with the supervisor before being issued. Scheme annual events are monitored on a monthly basis by the administrator.

#### Tests performed by BDO LLP

Verified that, for the selected sample schemes, quarterly reports are generated, checked by the supervisor to confirm their completeness and accuracy and provided to the scheme trustees.

For the selected sample schemes, verified the existence of monitoring activities around the scheme annual events.

**No exceptions were noted**

- 6.2 Benefit statements are produced annually based on data held on the administration system and are despatched within timescales agreed with trustees.

Checks are conducted in accordance with the benefit statement procedure and signed off by a supervisor.

Verified that, for the selected sample schemes, annual benefit statements were created based on underlying documentation, checked by a supervisor and dispatched to members within a mutually acceptable timescale.

**No exceptions were noted**

**Annual reports and accounts are prepared in accordance with applicable law and regulations.**

**Control Procedures**

6.3 Annual reports and accounts are prepared in compliance with the latest Statement of Recommended Practice (SORP) for pension schemes based on a standard reporting format.

The accountant updates the standard reporting format to take into account any changes in legislation. Annual accounts are prepared and then checked by a supervisor prior to audit. Audited accounts once approved are signed off by the trustees.

6.4 Deadlines for the finalisation and approval of audited accounts are monitored by administrative and accounting staff on a regular basis.

A control sheet detailing progress and accounts deadlines is monitored regularly by the accounts manager and any necessary action is taken. The report is circulated to the Team Leaders and Principals monthly for information.

**Regulatory reports are made if necessary.**

**Control Procedures**

6.5 Documented internal procedures are followed by administrators who log all breaches in the breaches log and copy the client principal / scheme actuary.

Reports are made as necessary under a traffic light reporting system. The client principal / scheme actuary will assess and refer where necessary to another principal. All 'amber' or 'red reports' made to the Regulator by the principal / scheme actuary are copied to the Professional Affairs Sub-committee which monitors reports across the company.

**Tests performed by BDO LLP**

Verified that a standard reporting format was in place for the creation of annual reports and accounts and that this format had been updated as a result of the most recent change to the SORP.

For a sample of schemes, verified that the annual accounts had been prepared and checked by a supervisor and that the audited accounts had been signed off by the trustees.

**No exceptions were noted**

Verified that, for a sample of months, a control sheet exists and is monitored by the accounts manager as well as being circulated to team leaders and principals.

**Testing verified the existence of the process described**

**Tests performed by BDO LLP**

Verified the existence of documented internal procedures for the logging of breaches and confirmed these are communicated to all administrators.

For a sample of locations, verified that a breaches log is used to monitor and record all breaches. Verified that there were no administration red or amber breaches during the period.

**No exceptions were noted**

## 7. Restricting access to systems and data

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

### Control Procedures

- 7.1a Critical IT infrastructure is located in a data centre.
- (i) Access is approved to a limited number of IT Infrastructure staff only and there are a number of physical and logical controls in place to prevent unauthorised access. On-premise server and network equipment to support any local services are located in secure server rooms accessed by pass key wherever office space allows. Keys and key codes are authorised by the IT Infrastructure Manager and restricted to authorised individuals. Only key holders can admit others (e.g. engineers) but must log them. Where office space does not allow this, the entire office is secured to the same level using key codes for the small numbers of staff involved.

The Bristol office is secured by traditional keys and a log is kept of staff with keys – visitor meeting areas are all outside this secure office space. Logs are also kept of visitors allowed temporary access in the London, Wokingham and Guildford sites.

- 7.1a Laptops are encrypted as standard and configured by an automated build to have password protections and security policies set.
- (ii)

Quarterly reports on all laptops docked to the network are run to identify those staff who have been provided with local administration permissions, and the results are reviewed by the IT Security Manager with exceptions reported to the Business Support Manager. User access reviews occur on a quarterly basis to confirm that access to member files are appropriate.

- 7.1a Documentation is either stored electronically under password control or if temporarily in paper form it remains under the control of the individual until they destroy the paper copy.
- (iii)

The IT Security Manager checks quarterly that key documentation is up to date and stored in the correct network location and that only domain users with appropriate permissions can access them.

### Tests performed by BDO LLP

Verified that a service auditor report for the data centre is in place and covers physical access. Verified that, for a sample of Punter Southall locations, secure server rooms are in place and make use of a visitor's log.

**No exceptions were noted**

Verified that, for a sample of periods, quarterly reports of laptops docked to the network had been performed, identifying staff with local administrator permissions.

For each of the reports verified these had been reported to the Business Support Manager, and the changes identified as required had been actioned.

**No exceptions were noted**

Verified that the IT manager performed a documentation check during the period.

**No exceptions were noted**

**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.**

**Control Procedures**

- 7.1b All access to computer equipment and systems is protected by alpha numeric passwords. Passwords are changed on a regular basis and only issued to authorised personnel. The domain security policy requires that passwords must be 'complex', a minimum of 8 characters and rotated in line with security best practices. In addition, access to network data is strictly controlled through NTFS permissions and Windows security groups

Files can only be created on the NTFS file system, and the system is configured so that appropriate administration team group based permissions are always inherited when new files are created. The administration supervisors have control of the membership of each of their team security groups and keep them up to date. The group membership is checked quarterly by the Business Support Manager and signed off or amendments requested from the IT Security Manager.

**Tests performed by BDO LLP**

Verified the use of the NTFS file system, and confirmed that this system is configured to ensure group based permissions are inherited.

Obtained copies of the password policies for all domains used by Punter Southall and compared their settings to the control.

Verified that a quarterly review of group membership had been performed in Q1 2010 and that amendments have been requested and actioned appropriately.

**No exceptions were noted**

**Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.**

**Control Procedures**

- 7.1c The Business Support and Administration Support teams are given full job descriptions which are signed as part of the recruitment process.

Checks are carried out as part of the annual performance review to ensure that any job descriptions are up to date. Business Support and Administration Support teams have clearly defined roles and responsibilities. Access to different systems being restricted as appropriate.

**Tests performed by BDO LLP**

Verified the existence of job descriptions for staff within Business and Administration Support teams.

**No exceptions were noted**

## Providing integrity and resilience to the information processing environment, commensurate with the value of the information held, information processing performed and external threats.

IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.

### Control Procedures

- 7.2a Data transmission of financial data such as payroll uses secure encryption algorithms.
- (i) APT software encrypts BACS transmissions.
- 7.2a Core systems have documented operating procedures. Documentation is reviewed following each release of Filenet and PenScope. Key processing is logged on all our core systems (PenScope, Filenet and SAGE Payroll) via a built-in audit trail and is available for review in the event of any incidents.
- (ii)

### Tests performed by BDO LLP

Verified the use of APT software to encrypt BACS transmissions.

#### No exceptions were noted

Verified the existence of documented operating procedures for the internally developed Papyrus and PenScope systems.

Verified release notes in place following a sample change to the systems which documented new operating procedures.

Verified that audit logging is enabled on Papyrus, Sage and PenScope and is available for review as required.

#### No exceptions were noted

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

### Control Procedures

- 7.2b Data transmission of payroll financial data uses secure encryption algorithms. Only authorised personnel can handle financially sensitive data.
- (i) In-house BACS Bureau facilities are used to process and transmit payments. Designated senior employees are vetted by our sponsoring bank and issued with smart cards which are held in a secure area. Reviews of the system and passwords are carried out by an external agency triennially.

### Tests performed by BDO LLP

Verified that payroll transmissions are performed using BACS and encrypted by APT software.

Smart cards were verified as being held in a secure area.

Verified that an external agency had reviewed the system within the period, and that they raised no significant issues.

#### Testing verified the existence of the process described

- 7.2b Transmissions of data to and from clients are made via a secure website facility. Access to the facility is made using individual logon accounts with complex passwords of 14 characters. Email alerts are generated when any data is uploaded to the site.
- (ii)

Verified that the secure website was using an up to date security certificate and required complex passwords with characters.

#### No exceptions were noted

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

**Control Procedures**

7.2c All external access to the network is strictly controlled. Remote access permissions must be explicitly granted to a user, and connections can only be made through VPN software authenticating via an appropriate remote access profile and Windows Radius services.

Perimeter Firewalls and Endpoint software are in place, with Anti-Virus updates disseminated to all computers operating on the Punter Southall Group networks.

Service Desk requests have to be sent to obtain access and these are permanently recorded. Logs of (a) which users have been granted external access and (b) which users have actually accessed in a given period, are reviewed quarterly by the IT Security Manager and made available to the Business Support Manager, exceptions reported to a Punter Southall Director.

**Tests performed by BDO LLP**

Verified the existence of firewalls and antivirus applications in place and confirmed that protection is up to date.

Verified that a quarterly review of remote access logs was produced in Q1 2010. This had been reviewed by the Business Support Manager and access had been changed for some users in line with the findings.

**No exceptions were noted**

**The physical IT equipment is maintained in a controlled environment.**

**Control Procedures**

7.2d Critical IT infrastructure is located in a data centre. Access is approved to a limited number of IT Infrastructure staff only by the Infrastructure manager. On-site server and network equipment are located in secure server rooms accessed by pass key wherever office space allows. The data centre is equipped with minimum N+1 redundancy on the cooling system, with temperature and humidity maintained within defined thresholds. There is also a VESDA system installed in all plant and data centre areas. All server rooms are equipped with air-conditioning systems, maintained on a regular basis by third-party suppliers. Temperature levels are reviewed daily at the main server room.

Keys and key codes are authorised by the IT Infrastructure Team Leader and restricted to authorised individuals only. Where office space does not allow this, the entire office is secured to the same level using key codes for the small numbers of staff involved. Logs are kept of all visitors.

**Tests performed by BDO LLP**

Verified a service auditor report was in place for the data centre used.

Verified that, for a sample of Punter Southall locations, critical servers and network equipment was located in secure server rooms and subject to environmental controls.

For each sampled location, verified the members of staff provided with access, and confirmed that these staff members were appropriate.

**No exceptions were noted**

## 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 Procedures

- 7.3a (i) Formal project management and change management methodologies are used to implement new or revised infrastructure and system application developments, documentation of which is held and maintained in the central project documentation. The Business Support and Administration Support teams are responsible for defined systems. The Administration Support Team for all Punter Southall Administration databases and Business Support Team for all other application and tools.

Project documentation is maintained by the Administration Support and the Business Support team members which is signed off / approved by the business representative and reviewed / audited by the Administration Support or Business Support manager.

- 7.3a (ii) Formal project management and change management methodologies are used to implement new or revised infrastructure and system application developments.

The Business Support and Administration Support "project development lifecycle" has to be specified for every new project – this ensures that our project, development and change methodologies are followed.

### Tests performed by BDO LLP

Verified the existence of formal project management and change management methodologies within Punter Southall.

Verified for a sample of projects that documentation is maintained. For the sampled documentation, sign off and review were completed.

**No exceptions were noted**

Verified the existence of formal project management and change management methodologies within Punter Southall.

Verified for a sample of projects that the project development lifecycle was specified and followed.

**No activity during the period – no testing performed**

**Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.**

### Control Procedures

- 7.3b The Administration Support Manager and the ITM Ltd (ITM) Project Manager are responsible for data migration projects. The Administration Support Team follow a detailed testing procedure for data migrations. This includes sample data checks and full reconciliation back to the source data. All issues are captured during migration.

Final sign off is required from the client team before the scheme can be released to live. The Administration Support Team followed a detailed procedure in order to release a scheme to Live.

Authorisation to proceed with a migration comes from the Administration Support Manager in the form of an email. Issue logs are used to capture all issues and eventual resolution of any issues. The results of sample data checks and the reconciliation are reviewed by the Administration Support Team to ensure procedures have been followed before passing to the administration teams in the form of a Test Pack. Final sign off is in the form of a scanned document. System reconciliations are carried out to ensure data has migrated properly.

### Tests performed by BDO LLP

Verified that, for a sample of data migration projects, a formal process was followed, including detailed testing, sample data checks and reconciliation back to source.

For the sample of data migration projects, verified that sign off was provided by the client team before the scheme was released to live.

**No exceptions were noted**

Recovering from processing interruptions

Data and systems are backed up regularly, retained offsite and regularly tested for recoverability.

Control Procedures

7.4a (i) System backups are performed Monday to Friday each week, with a full backup on Friday and either full or differentials jobs performed Monday to Thursday dependent on the system being backed up.

Data is backed up using industry standard software. All backups are automatically logged and this indicates successful or unsuccessful completion. Logs are checked daily by the backup operators and any exceptions are noted. Test restores of key specified files are performed every 2 weeks. All backups are archived offsite at our offsite tape storage company.

7.4a (ii) All data is saved to virtual servers with mirrored SAN RAID disk systems which helps ensure no loss of data through media failure. Virtual server backups are replicated to offsite storage, and Windows Shadow Copy is enabled across all storage servers allowing instant restoration of deleted or corrupted files from snapshots taken not less than one time per day.

Virtual environment is monitored daily to ensure that it is functioning correctly with new, known and resolved issues reported. Backup logs are emailed daily with exceptions recorded.

Tests performed by BDO LLP

Verified that backup software was configured to back-up critical data run on all Punter Southall servers. For a sample of days confirmed that logs were checked on a daily basis.

Verified for a sample period that backup restores are performed at least every 2 weeks.

For a sample of days, verified that tapes had been taken offsite by a tape storage company.

No exceptions were noted

Verified that a RAID disk system was installed at the point in time of our review.

Verified that mirroring software was in place at Punter Southall and that this was monitored on a sample of days.

Verified that Shadow Copy was installed at the point in time of our review.

No exceptions were noted

IT hardware and software issues are monitored and resolved in a timely manner.

Control Procedures

7.4b All hardware and system problems are recorded via a dedicated Service Desk procedure.

'Problems' are only defined once they have reached the helpdesk system – any other adhoc requests for assistance are not classified as problems. In addition, Microsoft Systems Centre Operations Manager 2007 is used to proactively monitor the network and server environment.

Tests performed by BDO LLP

Verified that a help desk system is in place, and that problems are defined once they reach the helpdesk system.

Verified that SCOM was in place on the network during the period and configured to produce alerts in the event of issues.

Testing verified the existence of the process described

**Business and information systems recovery plans are documented, approved, tested and maintained.**

**Control Procedures**

7.4c A Recovery Plan which provides for recovery of all key computer data is in place.

Recovery plans exist and are maintained for key applications, Papyrus, PenScope and SAGE Payroll as well as other core services. All plans are based around a recovery point, time and capacity objectives that have been agreed with the Punter Southall business. Maintenance of the plans is controlled as part of the evaluation of each disaster recovery test.

Punter Southall's Business Continuity Committee specifies and schedules disaster recovery tests to take place at least annually. Test results are reviewed by the Business Support Team and reported on to the Executive Committee.

**Tests performed by BDO LLP**

Verified the existence of the Punter Southall recovery plan and confirmed that this covers all key applications within Punter Southall. This plan was tested during the period and it was verified that issues identified had been resolved.

**No exceptions were noted**

**Monitoring compliance**

**Outsourced activities are properly managed and monitored.**

**Control Procedures**

7.5a Punter Southall IT outsource some network monitoring and management tasks to a third party network solutions provider. In addition, the IPVPN network is monitored and managed by NTL business. Administration system maintenance development has been outsourced to ITM Ltd with effect from 1/7/09.

Punter Southall have a Service Level Agreements in place with both ABS and NTL Business, covered by appropriate contracts and monitored by the central infrastructure team. A contract is in place with ITM Ltd detailing services being supplied together with appropriate Service Level Agreements. Monthly governance and service review meetings are held.

**Tests performed by BDO LLP**

Verified the existence of contracts in place between Punter Southall and their outsourced service providers and that service levels are monitored against agreed standards as stated.

**No exceptions were noted**

## Appendix A – Letter of engagement



BDO LLP  
Chartered Accountants

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The Directors  
Punter Southall Limited  
Tempus Court  
Onslow Street  
Guildford  
Surrey GU1 4SS

30 March 2011

Our ref: 2548/RJH/engagement

Dear Sirs

### Assurance Report on Internal Controls

#### 1 Introduction

- 1.1 This engagement letter, together with the attachments (the 'Engagement Letter'), sets out the basis on which we are to provide professional services to the board of directors ('the Directors') of Punter Southall Limited (the 'Organisation') in respect of an Assurance Report on Internal Controls (the 'Engagement') for the pension administration services operated by the Organisation.
- 1.2 Responsibilities of directors
- 1.2.1 The board of directors ('the Directors') of the Organisation in relation to which the Reporting Accountants' Report is to be provided shall be responsible for the establishment of control objectives and the design, implementation and operation of control procedures that provide adequate level of control over or protection for customers' assets, liabilities and related transactions. The Directors' responsibilities are and shall include:
- Acceptance of responsibility for internal control;
  - Evaluation of the effectiveness of the service organisation'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 the service organisation's internal controls for the relevant period (01/04/2010-31/03/2011).
- 1.3 The Directors shall, in writing their report, at least meet the requirements of 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.
- 1.4 Responsibilities of reporting accountants
- 1.4.1 It is our responsibility to form an independent conclusion, based on the work carried out in relation to the control procedures of the Organisation's pension administration services carried out across your business units as described in the Directors' report and report this to the Directors.

- 1.5 Scope of the reporting accountants' work
- 1.5.1 We conduct our work in accordance with the procedures and guidance 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 AAF 01/06. Any work already performed in connection with this engagement before the date of this letter will 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.
- 1.6 Inherent limitations
- 1.6.1 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.
- 1.6.2 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.

## **2 Use of our assurance report on internal controls**

- 2.1 Our report will, subject to the permitted disclosures set out in paragraphs 2.3, 2.4 and 2.5 below, be made solely for the confidential use of the Directors, and solely for the purpose of reporting on the internal control of the Organisation, in accordance with these terms of our engagement.
- 2.2 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.
- 2.3 Subject to the permitted disclosures set out in paragraphs 2.4 and 2.5 below our report will be issued on the basis that it must not be recited or referred to or disclosed, in whole or in part, in any other external document or to any other party, without our express prior written permission.
- 2.4 We permit the disclosure of our report (in full only) to customers and potential customers (together 'Customers') of the Organisation using the Organisation's pension administration services (as defined in the appendix to this letter), and to the auditors of such Customers, to enable Customers and their auditors to verify that a report by reporting accountants has been commissioned by the Directors and issued in connection with the internal controls of the Organisation without assuming or accepting any responsibility or liability to them on our part, and on the condition that the Directors provide all such Customers a written statement at the commencement of the Punter Southall report in the form set out in the appendix to this letter.
- 2.5 To the fullest extent permitted by law, we do not and will not accept or assume responsibility to anyone other than the Directors as a body and the Organisation for our work, for our report or for the opinions we will have formed.




### 3 Liability

- 3.1 We will perform the Services with reasonable skill and care and acknowledge that we will be liable to you for Loss (as defined in the attached Terms of Business), caused by our negligence, breach of contract, fraud or wilful default, subject to the liability provisions that follow.
- 3.2 We will not be liable if such Loss is due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than us.
- 3.3 Our aggregate liability, whether to you or any third party, of whatever nature, whether in contract, tort or otherwise, for any Loss whatsoever and howsoever caused by or arising from this Engagement, shall not (including interest) exceed the level of the Loss up to an amount of £500,000 or, if greater, 10 times the total of fees invoiced under this Engagement Letter.
- 3.4 Where any Loss is suffered by you for which we would otherwise be jointly and severally liable with any third parties, the extent to which such Loss shall be recoverable by you from us, as opposed to the third party, shall be limited so as to be in proportion to our contribution to the overall fault for such damage or Loss, as agreed between the parties, or in the absence of agreement, as finally determined by an English Court.
- 3.5 Nothing in this section shall exclude or restrict our liability for fraud or dishonesty or otherwise to the extent that it cannot do so by law.
- 3.6 Our report was created for the sole purpose of assurance on internal controls to the Organisation. The report was not created for any other purpose and consequently, by permitting disclosure to Customers we require the Organisation and its Directors to agree to the following conditions:
- 3.6.1 They accept the risk, and do not and will not hold this firm responsible, if the Customers' review of the report:
- results in or contributes to the termination or reduction of the interest of the Customer; or
  - causes an action or proceeding to be brought at any time against the Organisation or its Directors respectively; or
  - results in the Customer, or any other person or entity using any confidential information obtained from a review of the report.
- 3.6.2 They each accept that, to the fullest extent permitted by law, this firm owes them no duty of care or other obligation and has no liability to them, in relation to or in connection with the disclosure of the report to the customers.
- 3.6.3 To the fullest extent permitted by law, the Organisation agrees to indemnify and hold harmless this firm, its partners and staff against all actions, proceedings and claims brought or threatened against this firm or against any of its partners and staff by any persons other than the Directors as a body and the Organisation, and all loss, damage and expense (including legal expenses) relating thereto, where any such action, proceeding or claim in any way relates to or concerns or is connected with any of this firm's work under this engagement letter.
- 3.6.4 This engagement is separate from, and unrelated to, our audit work on the financial statements of the Organisation for the purposes of the Companies Act 1985 (or its successor) or other legislation and nothing herein creates obligations or liabilities regarding our statutory audit work, which would not otherwise exist.

#### 4 Terms

- 4.1 A copy of our Terms of Business is attached. You should ensure that you read and understand our Terms of Business which contain important terms including those in connection with the scope of the Engagement, your responsibilities, fees, use of our advice and our liability. The Terms of Business, together with the other schedules referred to in this letter, form part of the Engagement Letter. Should any of the terms included in the Terms of Business conflict with any of the other terms in this engagement letter, the latter will prevail. This engagement letter will take precedence over any of its schedules.
- 4.2 You expressly agree and understand that the terms in the Engagement Letter apply to all services provided by BDO LLP pursuant to the Engagement, whether such services were performed or provided before or after the signing of the Engagement Letter. The Engagement Letter will remain in place and fully effective until varied or replaced by written agreement between us.
- 4.3 We would be grateful if you could confirm your agreement to the terms in this Engagement Letter by signing and returning to us the attached copy. In any event, your continuing instructions will amount to an acceptance of those terms.

Yours faithfully



**BDO LLP**

Enc

To BDO Stoy Hayward LLP:

I hereby confirm that BDO Stoy Hayward LLP is appointed to carry out the Engagement in accordance with the terms set out in this Engagement Letter.



.....  
Signed on behalf of Punter Southall Limited

**Name:** Gillian Graham

**Date:** 8 April 2011



Punter Southall

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We also have a sister business in Boston, USA.

For further information, visit our website at [www.puntersouthall.com](http://www.puntersouthall.com)