

To All Members

December 2004

Dear Member

GN48: Compliance Review: Pensions

Introduction

GN48 is being introduced to ensure that advice given by Scheme Actuaries under Practice Standard Guidance Notes is subject to a process of review. It is being issued as Recommended Practice with effect from 31 December 2004, the intention being that it becomes a Practice Standard on 1 January 2007.

Because this is the first Guidance Note issued by the Actuarial Profession to cover compliance review, it has been the subject of lengthy consultation. There was initial consultation with a large number of organisations that employ Scheme Actuaries. An Exposure Draft (EXD52) was then issued under Due Process and many firms and individuals provided comments in writing or at the consultation meetings held in London and Edinburgh. Many of the suggestions made are reflected in the final Guidance Note.

Detail

The profession believes that having work reviewed can enhance the quality of advice. Review is also a practice already undertaken by many members and required by many employers. GN48 makes transparent the profession's support for this practice, most recently made public in its response to the Morris Review.

GN48 is concerned with the work of the Scheme Actuary. Over the longer-term the intention is to extend the scrutiny further, at least to all areas of pension work for which there is an actuarial standard in place and possibly to all pension advice. Any extension of scrutiny beyond matters covered by actuarial standards will be subject to further consultation and will depend upon, among other things, finding a basis against which to test the advice being reviewed.

Evidence of compliance with GN48 will be achieved through self-certification provided as part of the scheme actuary certification process. Until GN48 becomes a Practice Standard, Scheme Actuaries will not be required to sign an attestation. However the attestation process means that, in effect, GN48 will be Recommended Practice for only one year, because on renewal of a Scheme Actuary Certificate, there will have to be an attestation that covers the previous year's work.

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Restrictions on scope

During consultation, questions were raised about the scope and level of detail within the Guidance Note. These issues are best addressed by listing areas that the Guidance Note does not aim to cover:

- GN48 is not a general description of how to conduct an effective review. The Guidance Note does, however, indicate aspects of a broader review that are not covered by compliance review, such as checking the underlying calculation routines or carrying out an inspection of all the supporting files.
- Compliance review, as described in the Guidance Note, is not intended to represent a complete or sufficient review process. Compliance review is concerned only with those matters covered by Practice Standard guidance. In addition, under Type 2 review the review process may not lead to the entire relevant work product being reviewed and is carried out some time after the advice is delivered. For these reasons Type 1 review is considered preferable and it is the profession's intention that Type 2 review will at some stage be withdrawn as an option.
- The Guidance Note does not impose detailed rules concerning the contractual relationship between Scheme Actuaries and Reviewers. For example, confidentiality and liability to each other and the client are matters that both parties may wish to consider. Legal advice has been obtained concerning certain aspects of GN48 and a summary of that advice will be made available on the profession's website.
- The Guidance Note does not expand on the requirements of the Professional Conduct Standards (PCS). For example, the PCS governs professional behaviour in the event that either the Scheme Actuary or Reviewer is concerned about the professional standards of the other party. The Guidance Note also does not mandate that the Reviewer is a Scheme Actuary and relies on the PCS requirements that the Reviewer considers him or herself competent for the role.

In summary, the Guidance Note ensures only that, in certain aspects of a Scheme Actuary's role, the Scheme Actuary is required to obtain input from a third party. The Scheme Actuary remains accountable for the advice delivered to the client.

The Pensions Board recognises the importance of broader issues of quality and enhancing confidence in the profession. Education (including CPD), communication and guidance on key issues to practitioners are all necessary, and complementary, to compliance review, in achieving this goal.

Manual of Actuarial Practice

Supplements to the Manual of Actuarial Practice are only sent to those members who have requested them. If you have requested a hard copy of Guidance Notes, Version 1.0 of GN48 will be attached to this letter.

Covering letters are also only being sent to those members who have requested them. Should you wish to stop receiving these letters in hard copy and receive an e-alert instead, please alter your despatch preferences in the members' only part of the profession's website, or contact the MAP Editor, Sarah Gander (sarahg@actuaries.org.uk).

GN48 will be found, from its effective date, on the profession's website at:

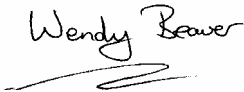
<http://www.actuaries.org.uk/files/pdf/map/Contents.pdf>.

Before then, it can be found at: http://www.actuaries.org.uk/link/board_area/pensions.html.

A copy of GN48 that tracks the changes that have been made from EXD52 can be found at:

http://www.actuaries.org.uk/link/pensions/pensions_gns_track.xml.

Yours sincerely



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