

Case Study – Audit Trail

Presenters:

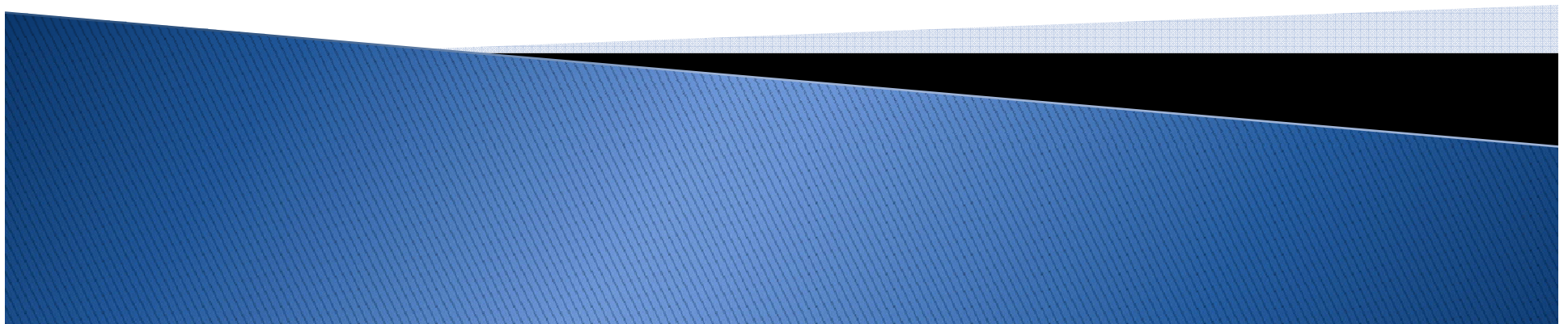
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India Fellowship Seminar

Mumbai, India
13 June 2013



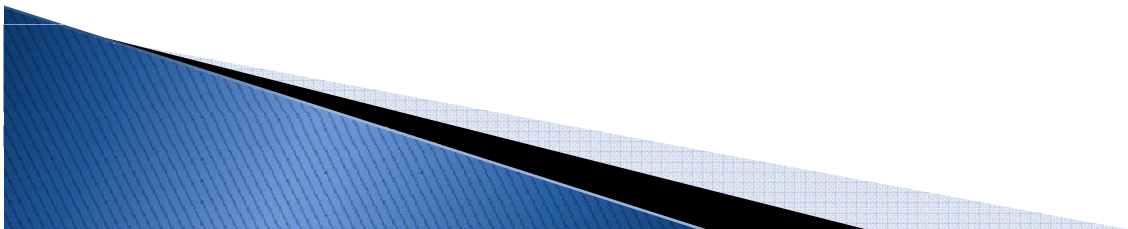
Agenda

- ▶ Case study – background
- ▶ Identities & Conflicts
- ▶ Issues
- ▶ Recommended Audit Trail
- ▶ Conclusion



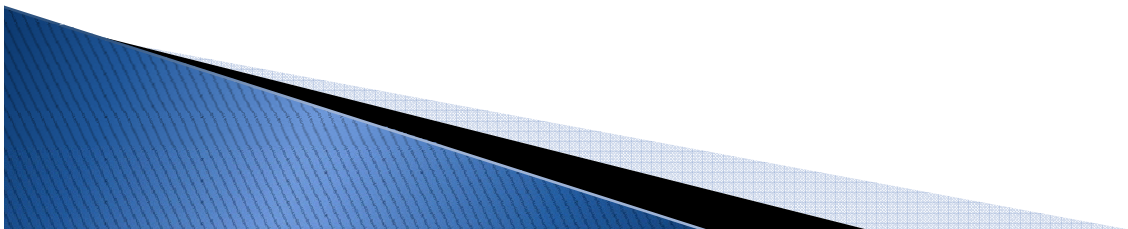
The background

- ▶ We are new investment consultant to Trust of a UK pension scheme.
- ▶ Our contract is with the trust and not with the sponsoring company.
- ▶ Finance Director (FD) of sponsoring company is trustee as well.



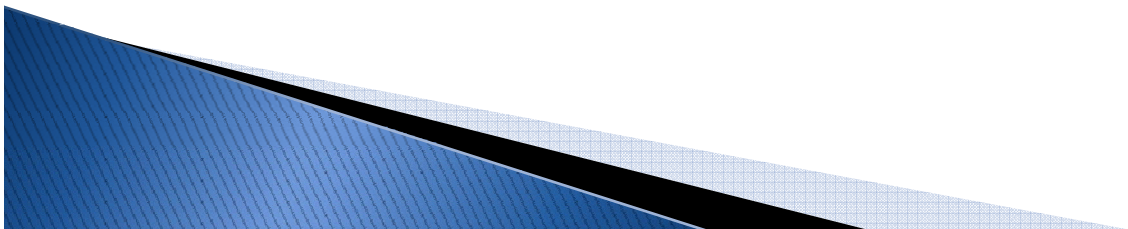
The background

- ▶ FD is now retired and a new FD is appointed.
- ▶ New FD has chosen not to be trustee as well like predecessor to avoid conflict of interest.
- ▶ New FD has reviewed past pension scheme files.



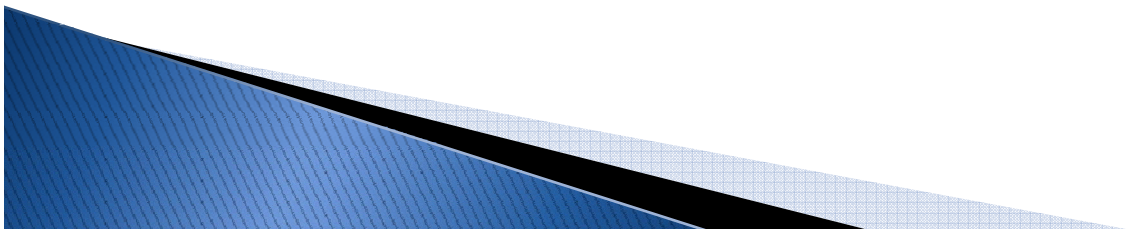
The background

- ▶ New FD noted that audit trail was not adequately documented.
- ▶ He highlighted a recommendation of previous investment consultant which was changed from draft to final report without any audit trail.
- ▶ The recommendation was related to equity allocation.
- ▶ In draft report, the allocation recommended was 45% (from actual 80%) but in final report it was 60%.



The background

- ▶ New FD doubts that previous FD influenced the change in recommendation.
- ▶ He also questioned the integrity of previous investment consultant.
- ▶ Pension scheme would have been in much healthier state if draft recommendation (45%) would have been followed.



Identities & Conflicts

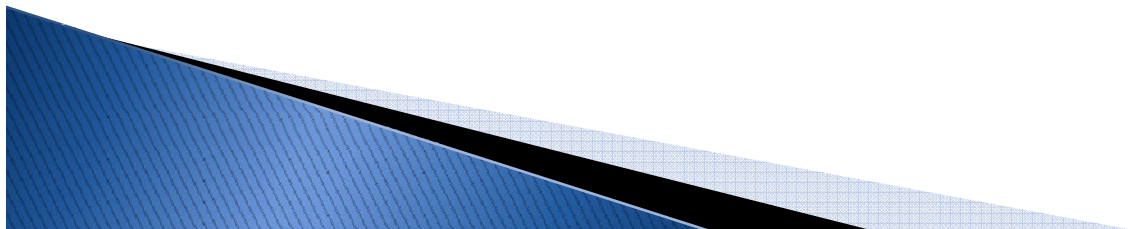
- ▶ “Trustee” and “Sponsor” are theoretically two independent identities.
- ▶ In real world, Sponsor has influence over Trustee (hence on advisors appointed by Trustee).
- ▶ Trustee and Sponsor can be same person however conflict of interest arises.



Identities & Conflicts

Conflict of interest can be in areas of:

- ▶ Level of Funding
- ▶ Investment composition
- ▶ Appointment of Advisors, Scheme Actuary
- ▶ Overall Governance



Key Issues



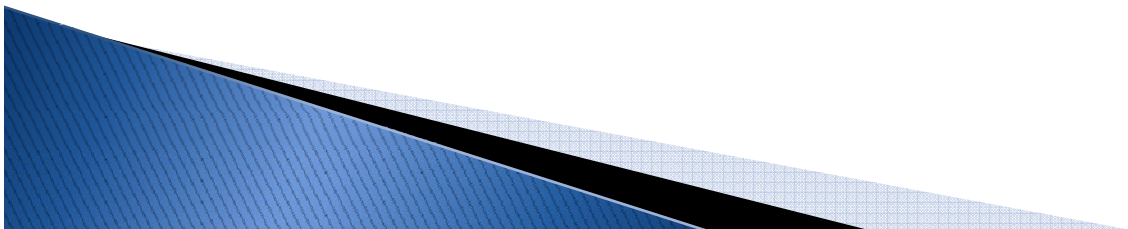
Issue 1: – How would you deal with the situation you find yourself in?

- Practically difficult to say NO to invite of FD.
- Inform Trustee about the meeting and the agenda (via email).
- Not to agree/disagree with the opinion of FD in regard to Audit trail of previous consultant's work files.
- Not to criticise work of other professionals' – Maintain Independence.
- Explain FD that there can be other reasons (than the recommendation) for poor funding position which can be explored.
- Scheme Actuary can be different from Investment Actuary.

Key Issues

Issue 2: – What professional issues arise?

- Identities and Conflicts
- Adherence to Terms of Reference of the engagement with the client.
- Compliance of APS P1: Duties and Responsibilities of Members Undertaking Work In Relation to Pension Schemes.
- Communication with previous advisor at the time of appointment.
- Conflict of Interest
- Respect to other professional's work



Key Issues

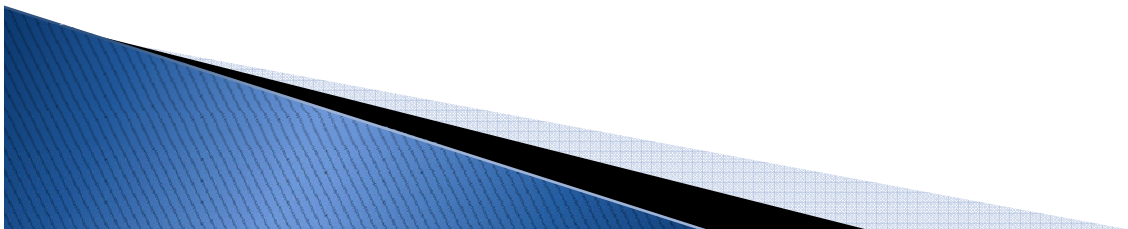
Issue 3: – If you found yourself in the position of the previous investment consultant being pressurized to change your advice, how would you deal with the situation?

- Don't change the recommendation however document the management comments in addition to the recommendation.
- It is ok if management comments are not in sync with the recommendation.
- Document the risks/implications of management response.
- Inform in writing to Trust and document it in working file.
- Maintain proper Audit Trail.
- Trustee has option to decline recommendation.

Key Issues

Issue 4: – Does it matter where the pressure is coming from i.e. company or Trustee?

- No



Recommended Audit Trail

- ▶ Management response to recommendations in report (it should be visible!).
- ▶ Communication (e.g. emails, memos) to trust in case recommendation is changed. It should also include reason of change and the implications of new recommendation.
- ▶ Meeting Minutes of discussions
- ▶ Basis of recommendation(s).



Conclusion



- ▶ Importance of Audit trail in professional work;
- ▶ Importance of understanding roles and responsibilities;
- ▶ Importance of Professional Standards.

